

The Price of Oil

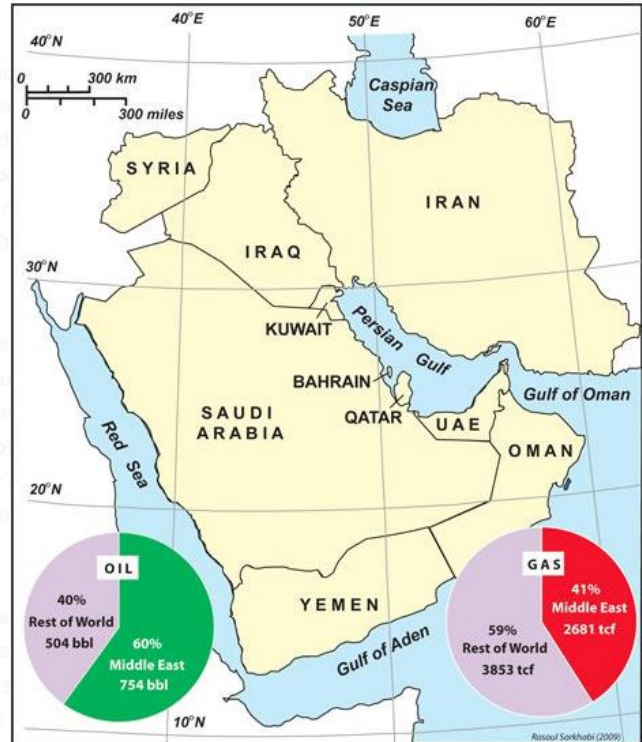
1. Beginnings of Oil

Hidden beneath the Middle East's desert regions are vast reserves of oil. Half of the world's proven **crude oil** reserves lie under the Middle East. *Proven crude oil*, are known deposits of oil that can be pumped to the surface at a reasonable cost.

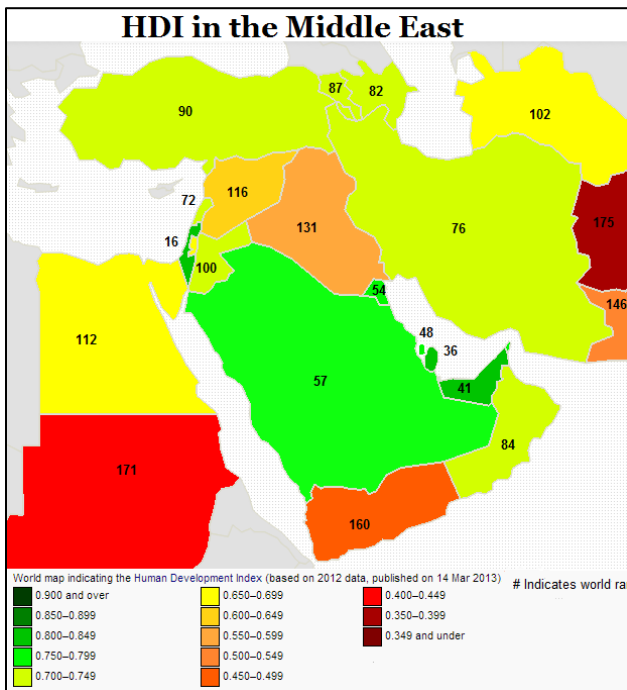
Developed nations depend on these fuels to meet most of their energy needs. Oil is a raw material for plastics, medicines, and many other types of goods. However, oil is a **non-renewable resource**, so there's a limited amount. When it's gone, it can't be replaced.

2. Diversity Of the Region

Most people in the Middle East are Arabs, or people who speak Arabic. Islam is the most important religion. Only one country, Israel, in the region does not have a Muslim majority. Although culturally these countries are similar, they have used their oil in vastly different ways to meet the needs of their people. In the image to the right, the 10 Oil Countries are: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, and Yemen. These 10 countries are all in the same region of the Middle East, but their **distribution** is very uneven. Saudi Arabia is the largest country in this region. It also has the most oil. About $\frac{1}{4}$ of the world's proven oil reserves lie under its desert sand.



Ten countries in the Middle East account for only 3.4% of the area but contain 48% of world's known oil reserves and 38% of natural gas reserves. Despite decades of exploration worldwide, we have not found 'another Middle East.' Source: Rasoul Sorkhabi



Kuwait in contrast is a tiny country ($\frac{1}{100}$ th of Saudi Arabia). But little Kuwait holds almost one tenth of the world's known oil reserves. Other countries of the region, such as Syria and Yemen, have less oil (but still much more than countries outside of the Middle East).

3. Improving Standards?

You probably can guess that some people living in oil countries have more wealth than others, and that these people are linked to the royal or governing families. Wealth is unevenly distributed in the Middle East, just as it is unevenly distributed in other areas around the world. But oil wealth hasn't only been bad.

In general, oil money has improved the lives of many people in the Middle East. **Life expectancy** has increased by 15 years. **Infant mortality** has also dropped by almost two thirds. Also, many countries **gross domestic product** (how much a country makes

as a whole) has increased for many oil countries. The United Arab Emirates and Kuwait, for

example, both have a high GDP from selling oil. Both also have small populations. So each has a per-capital GDP that is relatively high.

4. Oil Money

Oil money hasn't ended poverty in the Middle East. Yemen, for example is one of the 20 poorest countries of the world. The amount of oil produced in Yemen each year has not been enough to pull its people out of poverty. This is in part due to how funds and profits are spent in the country and the leaders of the country who decide how to spend and invest their oil money.

Other Middle Eastern countries have made a lot of money from oil. But they have not used the money to improve people's lives. Iraq for example, has the second largest oil reserves in the region. But from 1979 to 2003, dictator Saddam Hussein controlled Iraq's oil income. He spent most of the oil money building an army, buying weapons, and fighting wars. Very little money went to make life better for ordinary Iraqis.

5. The Flow of Oil

Oil countries rely on oil sales to support their economies. To ensure that the supply is regulated, several oil-exporting countries formed the **Organization of the Petroleum Exporting Countries (OPEC)** in 1960. OPEC has 11 members, and 6 are in the Middle East. To keep prices steady, OPEC members agree to regulate how much oil they will sell. OPEC cannot control all of the world's oil sales. Even OPEC members don't always act as a group. Sometimes some members refuse to follow OPEC decisions on how much oil to sell. The U.S.A., Japan, and many large countries are big oil importers.



They have a strong interest in protecting the flow of OPEC oil around the world.

Kuwait's oil fields were on fire. The year was 1991. Iraq invaded Kuwait, hoping to take over its oil reserves. The Iraqis torched some of Kuwait's oil fields. These conflicts affected both oil **exporting** and **importing** countries. America relied heavily on Kuwait's oil, so their war affected oil prices and supplies around the world. American troops were deployed. The U.S. and many other countries formed a **coalition**, or alliance, to drive Iraq out of Kuwait. They did not want their oil supplies threatened by Iraq. This coalition went to war in 1991 and was known as the *Persian Gulf War* or more commonly *Operation Desert Storm*, which only lasted a few weeks. The coalition victory sent the world a clear message. As long as oil is the world's main source of energy, countries that import oil will work to keep it flowing.

