

The Affectance of Crude Oil During the Gulf War

By

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“The company was in an extremely large amount of uncertainty. Nobody really knew what was going to happen in the middle east,” Michael DeBerdine recalled, regarding how his company was affected by the Gulf War. DeBerdine is the CEO<sup>1</sup> of a business named Rhoads Energy<sup>2</sup>. The corporation provides energy needs, but the company basically runs on crude oil<sup>3</sup>. The Gulf War affected Rhoads Energy in a countless amount of ways. The pricing of the crude oil was changed significantly throughout the war. The source of where Rhoads Energy got their crude oil was also changed throughout the war. The Gulf War affected Rhoads Energy and Michael DeBerdine by changing the price of crude oil throughout the war and by changing the source of which Rhoads Energy got their crude oil from.

The beginning of the Gulf War, the company was doing very well with their profit of selling their products. “It may have even been one of our best years so far in the company’s history if we hadn’t gone through the Gulf War,” DeBerdine said, in remembrance to the time. In the early times of the war, here in America, everyone knew what was going on. DeBerdine comments to this statement by saying, “When the events were building up, it was front-page news everyday...”<sup>4</sup> Rhoads Energy knew that the disagreement between Kuwait and Iraq had to

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<sup>1</sup> Chief Executive Officer

<sup>2</sup> Rhoads Energy was founded in 1917 by Jerome H. Rhoads. Rhoads began the business by selling kerosene from the back of a rail car in Lancaster, PA. The company has grown a lot since then. Now, Rhoads Energy has more than four other companies that Rhoads Energy owns ranging from Lititz to Quarryville and Mount Joy to Downingtown under the names of Zeke's Oil Company, Boyertown Oil and Propane, EG Smith, and Snyder Petroleum.

<sup>3</sup> DeBerdine was born and raised in Quarryville and southern Pennsylvania. He attended Solanco High School and went onto Franklin and Marshall College. DeBerdine’s father once owned Rhoads Energy. DeBerdine worked under him as his first job as an assistant controller. He then took over the credit department and eventually became the general manager. Around 2000, DeBerdine became the CEO, or the Chief Executive Officer of the company.

<sup>4</sup> DeBerdine, Michael. Personal Interview with the author. Millersville, PA. October 17, 2015.

do with the overproduction of crude oil. Iraq<sup>5</sup> thought that Kuwait should not be making as much as they did, because it forced all other crude oil supplying countries to lower their costs. DeBerdine was in favor of what Kuwait was doing, though. “It increased our profit. We payed less to get the oil, and selled it for our regular price, so we made more money than usual,” DeBerdine says, regarding the subject<sup>6</sup>. Kuwait and Iraq were both two of Rhoads Energy’s main crude oil suppliers, but the war changed a lot of that.

In July of 1990, Iraq had accused Kuwait of stealing crude oil from an Iraq oil field near the Iraqi-Kuwaiti border. In 1990, crude oil prices were from \$10.56 to \$21.44<sup>7</sup> per barrel<sup>8</sup>. Kuwait was producing 1,175 barrels<sup>9</sup>, per day. Iraq believed that Kuwait had stolen oil from a nearby field on the shared border of Iraq and Kuwait. Iraq told Kuwait that they must pay them thirty billion dollars of Iraq’s foreign debt, while Iraq accused Kuwait of keeping their oil prices low for selfish reasons.<sup>10</sup> Iraq then brought upon Iraq military forces to Kuwait’s border. Very soon, the Iraqi leader ordered the invasion of Kuwait. Iraqi forces set fire to more than 700 Kuwaiti oil wells and opened pipelines to let pour into the Gulf.<sup>11</sup>

Because of this invasion, crude oil prices jumped from an average of \$15 per barrel to as high as \$25 per barrel. DeBerdine was in total shock:

*“We had no idea it could get this bad,” he said, “It was a scary day, we had no idea what would happen from then on. If those prices continued, we would go out of*

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<sup>5</sup> Iraq’s dictator was Saddam Hussein. He made the order for the Iraqi soldiers to invade Kuwait and all of the orders for the Iraqi military during the entire Gulf War.

<sup>6</sup> DeBerdine, Michael. Personal Interview with the author. Millersville, PA. October 17, 2015.

<sup>7</sup> Lee, Patrick. *Impact of the Gulf War*. Newspaper Edition. (Los Angeles, 1991).

<sup>8</sup> An oil barrel can be defined as 42 gallons of crude oil.

<sup>9</sup> Index Mundi. *Kuwait Crude Oil Production*. 2015.

<sup>10</sup> History. *Persian Gulf War*. 2015.

<sup>11</sup> Johns, Dave. *The Invasion of Kuwait*. 2002.

*business, so would almost every oil company. There were no customers who would be able to afford those prices on a regular basis.*"<sup>12</sup>

Until the United Nations approved other countries the right to use force against Iraq<sup>13</sup>, crude oil prices kept escalating to a high of about \$36 per barrel. Once the United Nations made their approval<sup>14</sup>, crude oil prices dropped almost instantly. Although 4.3 million barrels per day were not in the equation because Kuwait and Iraq were out of the picture for the time being, other countries in the middle east made up for their lack of crude oil in the market.<sup>15</sup>

Once the United States Army reached Kuwait to start an air attack<sup>1617</sup> against the Iraqi Army<sup>18</sup>, crude oil prices drop about nine to ten dollars per barrel<sup>19</sup>. During the month of January, oil prices have increased about four dollars per barrel, so this was a very large decrease. By

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<sup>12</sup> Direct quote from Michael DeBerdine

DeBerdine, Michael. Personal Interview with the author. Millersville, PA. October 17,2015.

<sup>13</sup>One threat that Iraq had against all other countries was the fact that they had the ability to take over Saudi Arabia. If Saudi Arabia fell to Iraq, then Iraq would have control over one fifth of the world's oil supply.

<sup>14</sup> The United Nations made their approval two months after the war had began.

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[http://www.eia.gov/pub/oil\\_gas/petroleum/analysis\\_publications/chronology/petroleumchronology2000.htm](http://www.eia.gov/pub/oil_gas/petroleum/analysis_publications/chronology/petroleumchronology2000.htm)

<sup>16</sup> DeBerdine explains watching this air attack on the television while sitting at home after work one day as "terrifying" and "impossible to keep watching." DeBerdine knew and saw how many people were being killed every second.

<sup>17</sup> This attack was codenamed "Operation Desert Storm." This air attack shot a total of 2,500 missiles meant to bomb certain Iraq military targets. Iraq responded to the bombing by launching scud missiles. The bombing lasted for weeks, and on February 24, the ground war began. The United States called Kuwait "liberated" just 100 hours before the ground war began. American soldiers went through Kuwait to enter southern Iraq. Very quickly, Iraq agreed to a ceasefire. On Iraq's way out of Kuwait, Iraqi soldiers set fire to many of Kuwait's oil fields, leaving the country damaged.

<sup>18</sup> This attack was led by George H. W. Bush, the president of the United States of America at the time.

<sup>19</sup> <http://www.ushistory.org/us/60a.asp>

January 22, Kuwaiti oil facilities were destroyed by Iraqi forces.<sup>20</sup> Towards the end of the war in February, 1991, Iraqi soldiers take their exit out of Kuwait by setting their oil fields on fire, officially taking Kuwait out of the crude oil market for a very long time to come. It took Kuwait years and years to get back into the crude oil market. 1991 was one of the worst years that Kuwait has ever had in the crude oil market, selling nearly nothing compared to what they had before.

The actions of Iraq, Kuwait, and the United States affected hundreds of countries. For example, when the Iraqi army invaded Kuwait and destroyed their oil fields, Kuwait was unable to produce crude oil to put on the market, which impacted every country who purchased crude oil from the middle east, which was almost every country that was not a country already producing it. Considering that Kuwait was one of the leaders in the production of crude oil<sup>21</sup>, Iraq's actions didn't just affect the wellbeing of Kuwait, but the wellbeing of millions of people. As stated earlier, regular people could not keep up with the high pricing of crude oil after the disaster in Kuwait struck. There were many countries that stepped up during the Gulf War that started to produce more crude oil to make up for the lack of Kuwait and Iraq's<sup>22</sup> production.<sup>23</sup>

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<sup>20</sup> Wikipedia. *1991 World Oil Market Chronology*. 2012.

<sup>21</sup> Aarts, Paul and Renner, Michael. *Oil and the Gulf War*. 2015.

<sup>22</sup> Putting aside the fact that Iraq went to war with Kuwait for crude oil reasons, it would seem that Iraq was not a leader of the production of crude oil in the middle east. This is not true, because Iraq was almost as high as Kuwait on the list. Because of their involvement with Kuwait, Iraq could not produce as much crude oil as usual, likewise Kuwait. So when Iraq did not produce as much crude oil as they usually have in the market, their lack of crude oil affected almost as much as Kuwait's lack did.

<sup>23</sup> One country that specifically stepped up was Saudi Arabia. Saudi Arabia was in danger of being invaded by Iraq around the time the Iraqi forces invaded Kuwait. Operation Desert Storm was made to stop that specific from happening, because if Iraq did invade Kuwait, Iraq would have control over one fifth of the crude oil production.

They produced almost double what they had before in July of 1990 before Iraq invaded Kuwait. DeBerdine had positive feelings towards the countries that helped out:

I, and Rhoads Energy was incredibly grateful for the countries that helped out by producing and selling more crude oil to make up for the lack of Iraq and Kuwait's at the time. Although the prices went up for a while and scared us half to death, it really did help everybody in the end, because we never ran out of crude oil. We never ran out of a supply of crude oil thanks to those countries stepping up. They really did what they thought would be best for people everywhere in the long-run."<sup>24</sup>

Rhoads Energy was greatly affected by the disaster of the Gulf War. During the time period, Rhoads Energy lost thousands of dollars from buying crude oil at a much higher than they had ever before in the history of the business.<sup>25</sup> Thankfully, according to DeBerdine, Rhoads Energy had a very successful year selling its products the next year to come.<sup>26</sup> DeBerdine was very lucky and thankful that Rhoads Energy was able to recover from its loss during the Gulf War, because there was sadly many smaller businesses than Rhoads Energy who were never able to recover from the disaster. The changing of prices of crude oil throughout the war and the source of which Rhoads Energy got their crude oil from both affected Rhoads Energy during the Gulf War. DeBerdine closed his interview with the statement," We were very fortunate."

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<sup>24</sup> Direct quote from Michael DeBerdine

DeBerdine, Michael. Personal Interview with the author. Millersville, PA. October 17, 2015.

<sup>25</sup> Rhoads Energy Corporation. *Rhoads Energy- Heating and Air Conditioning*. 2015.

<sup>26</sup> Rhoads Energy had a very successful year in 1992. The company sold about twice as much of their products than they had the year before. The success of 1992 helped the company build their economic system back up again after losing thousands of dollars Rhoads Energy had lost the year before on the prices for crude oil.

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