Oil Nationalisation and Managerial Disclosure: The Case of Anglo-Iranian Oil Company, 1933-1951

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Summary of Thesis

The principal aim of this thesis is to contribute towards the understanding of the Anglo-Iranian Oil Company (AIOC, now British Petroleum) practices in Iran and thereby providing a clear picture of how nationalisation evolved on 1st May 1951 and how it was perceived by the stock market. Nationalisation brought into sharp focus issues affecting key AIOC stakeholder groups, including Iranian employees, Iranian government and UK investors which became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. As a consequence of these disputed claims, a propaganda battle became a crucial ingredient of the crisis, not least because a key objective of the AIOC management was to maintain investor confidence in the face of a major threat to its asset base but also reflecting the AIOC's ability to defend itself from the claims made by the Iranian government about unfairness in the sharing of proceeds, and discrimination against Iranians. In fact, this was crucial in absolving the company from any blame for the international crisis.

As a result, in considering the above effects, by using AIOC as a case study, contrasts are drawn between the AIOC's management's public view of the crisis and the actual events as documented in the literature, official papers, and financial records. It is worth noting that this research will examine the extent to which the company exploited and manifested Iranian rights by drawing on evidence from major neglected documents. Furthermore, this research will examine the degree to which imperialism has been applied to the Iranian society.

The study shows that the AIOC was not prepared to give up any of its control over the Iranian oil resources nor to improve the concession for the Iranians. With that rationale, the AIOC failed to fulfil its Corporate Social Responsibility (CSR) obligations towards the Iranian employees and the company's treatment of Iran was unfair in terms of profit sharing. The study also highlights that the AIOC management did a good job in maintaining the investors' confidence and in defending the company from the Iranian claims at a time of the nationalisation crisis.

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Last but not least, I am dedicating this piece of work to the soul of my parents and I am indebted to them for giving me a chance to acquire knowledge and education and for making me believe in my capabilities from a very early age.

Declaration

I declare that this thesis is all my own work and the sources of information and material I have used (including the internet) have been fully identified and properly acknowledged as required in the guidelines.

York, 24 September 2010

N.T.H. Abdelrehim

List of Abbreviations

AIOC	The Anglo-Iranian Oil Company
APOC	The Anglo-Persian Oil Company
AR	Abnormal Returns
BP	British Petroleum
BPP	British Parliamentary Papers
Burma Oil	The Burma Oil Company
BV	Book Value
CAPM	Capital Asset Pricing Model
CAR	Cumulative Abnormal Returns
CIA	Central Intelligence Agency
CSR	Corporate Social Responsibility
EMH	Efficient Market Hypothesis
EPS	Earnings Per Share
FO	Foreign Office
FT30	Financial Times Industrial Ordinary Shares Index
IID	Independently and Identically distributed
ILO	International Labour Organisation
MOC	The Majlis Oil Committee
MV	Market Value
NIOC	The National Iranian Oil Company
OLS	Ordinary Least Squares
OPEC	Organisation of the Petroleum Exporting Countries
PI	Price Index
RI	Return index

RWM	The Random Walk Model
SOA	Supplemental Oil Agreement
U.N Security Council	United Nation Security Council
US Foreign Policy	United States Foreign Policy
World War II	Second World War

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Chapter 1: Introduction

1.1 Introduction

The oil industry was vital to the British Empire after the Great War. By the 1950s no single raw material was as important to the global economy as oil. Britain was extremely conscious of its limited oil resources and was dependent on finding it in remote parts of the world. From the time of the Navy's first experiments with oil, Admiralty planners were concerned about securing oil reserves and maintaining foreign control of oil supplies[1]. Therefore, the British government's willingness to maintain control became more necessary and British firms were looking overseas and in particular to the Middle East.

Since oil was important for Britain in order to satisfy the whole range of consumer requirements and to generate a considerable source of government revenue, the Anglo Iranian Oil Company (AIOC)[2] was considered a suitable company upon which Britain could rely because it had significant political, strategic and economic power in Iran in the 20th century. The expansion of AIOC was influenced by the British government's desire to use oil in its vessels instead of coal[3]. More so than coal, the oil industry had been associated with government intervention, due to its importance in providing intermediate inputs to the modern economy. In 1914, British interests influenced the Iranian deposits according to its own requirements, where the British government controlled oil for its navy and acquired a majority shareholding (51%) stake in the AIOC[4].

Throughout the first half of the twentieth century, the AIOC had been heavily implicated in the political economy of the Middle East, and in particular, Iran. The company's operations in Iran had a significant impact on the Iranian economy developing important consequences for British and U.S foreign policy in the 1950s. Nationalism and democracy had become new features of the Iranian political

[1] Jones, *The State and the emergence of the British oil industry*, 86.
[2] Originally the Anglo-Persian Oil Company, in deference to the Shah it became the Anglo-Iranian Oil Company in 1935 and in 1954 took on the name of its former marketing subsidiary, British Petroleum; Elm, *Oil Power and Principle: Iran's oil nationalisation and its aftermath*, 36; Chandler, *Scale and Scope*, 303. For consistency 'Iran' as in AIOC, rather than 'Persia', is used throughout, except in direct quotations.
[3] Jones, *The State and the emergence of the British oil industry*, 7.
[4] Chandler, *Scale and Scope*, 300; Millward, *Business and the State*, 543.

landscape. At the top of the agenda for nationalist politicians was the renegotiation of previous concessions made by the Shah on better terms for Iran. Notwithstanding the economic and military importance of Iran, British politicians and the senior management of AIOC have been accused of arrogance in their dealings with successive Iranian governments[5]. A series of unsuccessful negotiations culminated in the assassination of one Prime Minister in March 1951 and the subsequent ratification of nationalisation of AIOC's Iranian assets by the Shah on 1st May 1951. The repercussions were serious, not just for the company, which lost a significant proportion of its assets, but for wider regional and indeed global geopolitics. The nationalisation therefore had major consequences for Anglo-Iranian relations and represented a blow to British imperial power which did not fully recover even after the Central Intelligence Agency (CIA) sponsored coup to remove Musaddiq in 1953. Different phases and aspects of the dispute have been researched extensively, including Anglo-American relations, British and American foreign policies international law, covert operations, Iranian nationalism, the development of the Iranian oil industry, and the impact on international oil companies, including the AIOC.

Whilst the Iranian Prime Minister Mohamed Musaddiq[6] was conscious of the strategic importance of Iranian oil to the AIOC and the British government, his political priorities were to address the poverty of the people by securing control over their natural resources and the right to greater revenues. In addition to taxation, the Iranian government became concerned about discrimination against Iranian employees and misadministration. The nationalisation crisis brought anti-Iranian discrimination and unfairness in the distribution of profits from oil production into sharp focus, and they became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. As a result, in considering the above effects, by using AIOC as a case study, contrasts are drawn between the AIOC's management's public view of the crisis and the actual events as documented in the literature, official papers, and financial records. Furthermore, the role of Sir William

[5] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath;* Heiss, *Empire and Nationhood.*

[6] Mohamed Musaddiq (1882-1967), led the National Front coalition from its formation in 1949 and became Prime Minister in April 1951; Bamberg, *The History of the British Petroleum Company*, pp. 605-6. For biographical details of other important figures, see appendix 2.

M. Fraser (1888-1970), the AIOC's chairman (1941-1956) is examined in detail because his actions had important consequences for key AIOC stakeholder groups, including domestic investors and Iranian employees and society. In these respects, consideration is also given to how AIOC's management attempted to influence the lobbying process and news agenda to counter the accusations of the Iranian nationalists.

Although a great deal has been written about the nationalisation crisis[7], there are nonetheless important gaps, and three of these are addressed by this research. First, there are unresolved questions about the extent to which the AIOC engaged with the corporate social responsibility (CSR) agenda, particularly with regard to the treatment of its Iranian employees. Second, the Iranian shares in oil revenues have not been fully investigated, notwithstanding their importance in the dispute between the AIOC and Iranian nationalist politicians. Third, the relative bargaining power of the AIOC's management and Musaddiq's government has not been assessed with reference to the stock market reaction to the nationalisation and other important political events. To address all gaps, the research uses accounting and financial evidence that has been ignored or only partially utilised by previous studies.

This chapter introduces the thesis, its research aims and the rationale for British imperialism managerial disclosure during the nationalisation crisis of AIOC. The chapter consists of six sections. Section 1.2 presents the background of the research by considering previous interpretations of the history of the company. Section 1.3 presents the research problem and the research questions associated with nationalisation of the company and its impact on the British and Iranian economies. Section 1.4 presents the research objectives in relation to the research gaps which the thesis endeavours to fill. Section 1.5 presents the motivation for undertaking this study. Section 1.6 addresses the conceptual framework used in the thesis. Section 1.7

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[7] Different phases and aspects of the dispute have been researched extensively, including Anglo-American relations, British and American foreign policies, international law, covert operations, Iranian nationalism, the development of the Iranian oil industry, and the impact on international oil companies, including the AIOC. For Anglo-American relations see Marsh, *Anglo-American Relations and Cold War Oil.* For American and British foreign policies see Gasiorowski, *US Foreign Policy and the shah;* Louis, *The British empire in the Middle East.* For covert operations see Gasiorowski, and Bryne, eds. *Mohammad Mosaddeq;* Marsh, *The US, Iran and Operation Ajax: 1-38;* Roosevelt, *Countercoup.* For the impact on Iran see Bill and Louis, eds. *Musaddiq, Iranian nationalism, and oil;* Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*. For the company perspective, see Bamberg, *The History of the British Petroleum Company;* Engler, *The Politics of oil;* Stern, *Who won the Oil wars.*

explains the methodology adopted in this research. Finally, section 1.8 outlines the structure of the thesis and the chapters that follow.

1.2 Background of the research

The British having political hegemony in the Persian Gulf would have preferred to reserve the exploitation of oil in to British companies. Exploitation has been defined as a position in which a country, firm, individual, receives more income or product than the lowest possible amount it would be willing to accept in the circumstances[8]. AIOC's concern for continuing exploitation was to be an important issue which preoccupied the country. There is no doubt that British oil companies sought diplomatic support, fuel oil contracts and even finance from their government[9]. The AIOC had imperial connections and powerful national as well as strategic importance to Britain's economic situation and overseas interests[10]. The AIOC was Iran's main source of income because it had the world's largest refinery (Abadan), the second largest exporter of crude petroleum, and the third largest oil reserves. In a similar vein, AIOC was regarded to all intents and purposes as an arm of the British admiralty and of British strategic policy which was important to Britain's economic situation and prestige. There was cooperation and joint decision making between the company and the British authorities at home and abroad through the government's shareholding in the company. In fact, the government accepted because they were keen on having control and maintain disciplinary actions undertaken by the Iranian government. The overseas operations of the British oil companies actually produce a net credit in the British balance of payment current accounts which in turn reduced the overall deficit when account is taken of oil imports[11].

In 1933, a new concession was ratified by the Majlis (Iranian parliament), which extended the life of the original D'Arcy concession by thirty-two years. The key features of the 1933 Agreement between Iran and the AIOC were an increase in the

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[8] Penrose, *Profit sharing between producing countries and oil companies in the Middle East.*
[9] Jones, *The State and the emergence of the British oil industry*, 8.
[10] Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953*.
[11] Penrose, The *large International firm in developing countries*. This can be explained by the fact that oil is purchased for Sterling from British companies which means that the actual foreign exchange cost will noticeably be lower than the price paid for imports whilst domestic prices would be held up by taxation in order to protect the coal industry when competing with fuel oil, 81.

royalty paid to Iran[12] comprising a fixed sum of 4s per ton, a guaranteed 20 per cent of worldwide profits above a fixed level and a minimum annual payment of £750,000.[13] At the same time it was agreed that Iranianisation should be implemented. Literally, the 1933 Agreement offered Iran a share in AIOC's overall profits around the world equivalent to 20 percent of dividends distributed among holders of common stock in excess of £671,250[14]. However, this was not the case because the company used to increase its taxes to decrease its net profits and thus decreasing Iran's 20 percent share in dividends and general reserves[15]. Obviously, Iran was receiving crumbs from its resources because it was left at the mercy of the British government. But, Britain was claiming that they built and operated in Iran a flourishing company (AIOC) which they hoped to hand over intact to the Iranian nation at the end of the concession.

Iran wanted economic and political independence but the company had the attitude that Iran could not afford to do it on its own and resisted any demands for a change. Despite the nature of the concession as a commercial contract, attitudes towards the Iranians remained that they should be thankful to the AIOC for its achievements[16]. Hence, a series of unsuccessful negotiations have been initiated between the Iranian and British governments which resulted in the ratification of nationalisation of AIOC's Iranian assets by the Iranian Prime Minister (Mohammed Musaddiq) on 1st May 1951. The consequences were serious for the company because it lost a significant proportion of its assets including the world's largest refinery in Abadan. It is worth noting that the Abadan refinery was located in Southern Iran and was the oldest in the region with an estimated crude oil input capacity of 500,000 barrels a day and a cracking capacity of 116,000 barrels a day[17]. The refinery used to manufacture a wide range of products including aviation gasoline, liquefied petroleum gas and lubricating oil[18].

As mentioned earlier, the role of Fraser is worthy of further scrutiny and will be examined in full detail in this thesis. Fraser did not like to be told what to do by the government. "He had contempt for civil servants and on occasion tried to intimidate

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12 Esfahani and Pesaran, *Iranian Economy in the Twentieth Century.*
13 Yergin, *The Prize*, 271.
14 AIOC Annual Report and Accounts, 1950.
15 Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, *37*.
16 Johnson, *British multinationals, culture and empire in the early Twentieth century*, 206.
17 Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 13.
18 *Ibid*, 15.

them into doing what he wanted"[19]. People within the AIOC considered Fraser "a mean Scotsman who had no flexibility at all"[20]. The nationalisation crisis brought the managerial role into focus which became the subject of claims and counter-claims from the AIOC board and Iranian nationalist opinion. In this research, the dispute between the AIOC and Iranian government over control of the oil fields that culminated in the nationalisation of 1951 is re-examined using new evidence with particular reference to the position of Fraser. Also, the background to the negotiations is presented, together with the historiography of the Iranianisation debate.

1.3 Research Problem and Research Questions

It is essential to understand the political and social attitude of the AIOC towards the Iranian Government and Iranian employees to understand how the politics of the company culminated in the nationalisation of 1951. Most historians remain interested and enthusiastic in the search for explanations for continuities and explanations for changes which occur over long periods to help in identifying major vital turning points[21]. Walker explains crisis as "times of acute disturbance which may impact at the global, national, organisational or personal level"[22]. Therefore, my desire went back to a time in the 1950's to re-examine the evidence surrounding the events leading up to and immediately following the nationalisation of the Anglo Iranian Oil Company's assets in May 1951. Iranian accusations were numerous so this research seeks to examine the evidence of British imperialism in Iran through anti-Iranian discrimination and inequality in profit allocation in favour of the British. Meanwhile, this research aims to investigate the role of Fraser in maintaining the shareholders' confidence during the nationalisation crisis. Thus, this research has identified the following research questions that involve further investigation.

a) Were Iranian workers treated fairly by the AIOC?
b) Were AIOC profits evenly distributed among the British and the Iranians?
c) How was nationalisation perceived by the stock market? How did Fraser maintain shareholders' confidence and relations with the UK investors?

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[19] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 66.*
[20] *Ibid, 103.*
[21] Walker, *Accounting in crises,* 5.
[22] *Ibid.*

1.4 Research objectives

As noted earlier, three major issues have dominated the historiography of the AIOC and are therefore worthy of further investigation. Consequently, this research has various challenges. The first is to research the nexus between the nationalisation of the AIOC and imperialism to investigate the relations among different governmental British authorities, as well as relations with the local communities and Iranians to ascertain the policies of inequality and differentiation. The second is to discuss Iranian accusations of unfairness in the distribution of profits from oil production and their dissatisfaction regarding the royalties and policies adopted by the British government in limiting their dividends. The final and perhaps the most important challenge, is to evaluate the managerial response to the nationalisation crisis and examine the tactical methods adopted by the AIOC management, including the management of information. A conceptual framework is defined later to explain Fraser's motivation in maintaining shareholders' confidence and his desire in serving his managerial economic self-interests. It is important to note that the research objectives originated from the literature and became important elements of the abortive pre-nationalisation negotiations and failure to reach a settlement amongst both parties.

The main objectives of this study are summarised as follows:

Objective 1: To examine the CSR policies adopted by the AIOC in the period prior to nationalisation using new evidence on anti-Iranian discrimination.

The first objective draws particular attention to the AIOC's programme of CSR (Iranianisation), which originated in the terms of the 1933 drilling rights concession and became an important element of the abortive pre-nationalisation negotiations. It draws on a wide range of archival evidence contrasting the pronouncements of the AIOC in public documents such as the annual reports with private views reflected in correspondence and third party evidence. All sources are examined to explain how the AIOC annual reports were used as part of a propaganda battle, where private views were different from public views. Finally, this provides further evidence concerning the Iranian claims that they were not treated fairly nor regarded as genuine stakeholders.

Objective 2: To evaluate the Iranian accusations of unfairness in the distribution of profits from the oil production in Iran and the policy of dividend limitation.

The AIOC was powerful and dominant by having the support of international law. Thus, the second objective will contribute towards reviewing the Iranian accusations against the AIOC for their unfairness in the distribution of profits, using selected key documents which have been hitherto neglected. In reviewing these neglected documents, the justification of the claims made by both sides will be assessed by comparing the assertions of the AIOC annual reports with the private views which were reflected in correspondence, the latter providing supporting evidence about the motive and extent of the AIOC's adopted methods for profit distribution. These documents include the Memorandum, the private and public correspondence of AIOC executives and diplomats, and also published statements in the press and annual reports, obtained primarily from the BP archives.

Objective 3: To examine the reaction of the AIOC share price to nationalisation.

The third objective uses stock market evidence to explain how the AIOC defended its status in the stock market and illustrates how the nationalisation of AIOC and the publication of the company's Annual Report in 1951 were perceived by the London stock market. Moreover, the role of the Chairman is reviewed to highlight his successful influence in maintaining the shareholders' confidence.

1.5 Motivation of the study

The study is of significant interest to academics and the business community alike, since historical studies offer an opportunity to consider changes in the levels of disclosures in terms of both quantity and quality through the analysis of reactions to social change and regulation. The contextualization of the development of accounting by reference to major key points and periods of crisis assist in the search for the origins of a debacle and try to arrive at conclusions which generate historical evidence.

The nationalisation of the AIOC on 1st May 1951 by the Iranian Prime Minister Musaddiq angered the British and seemed part of a growing pattern of pressure on their interests culminating in wresting Musaddiq from the control of the oil industry. From this the whole question of British influence in the Middle East was raised. An unclear relationship between Iran and the British government had been established because of the British attempts to exercise imperial power. Iranians resented the imperial intentions of the British and this influenced their attitude towards the company. Iranians held the general opinion that British policy in Iran was aimed at safeguarding their interests in relation to the exploitation of oil and ignoring Iranian rights[23]. Iranians believed that oil was the most important issue to hold the nation's attention because Iran had great natural resources[24]. Iranian people wanted to take for themselves the maximum profits from their resources and make every effort to provide for the welfare of the disadvantaged elements in their own population[25].

Therefore, since 1951, the British had been considering another option which was to remove Musaddiq by force and through covert political action. To this end they received assistance from America. As previously mentioned, different phases of the dispute have been researched by other scholars over the years but there remains a substantial gap in the historical literature, with business historians tending to omit the imperial aspect and instead focussing on the role of the industry at a macro level for social, political and economic analysis. As a consequence, this research will put considerable emphasis on the impact of British imperialism and discrimination against the Iranians by providing useful insights into the Iranian perspective.

Imperialism can be defined as the maintenance of an unequal economic, political and cultural relationship between states based on domination and the physical presence of an entity as formal and informal Empire. 'Formal Empire' describes a formal colony developed by an empire to influence a region or country and achieve its strategic or military interests, whereas 'informal Empire' describes an informal colony developed by an empire to influence a region or country and achieve its commercial or military interests in an indirect way. The management of AIOC was therefore dominated by a prominent imperialist who acted as a chairman and lobbied hard to counter the Iranian accusations. Thus, this research will examine the importance of propaganda for shaping and establishing the company's hegemony through an analysis of annual reports, the press and other major archival documents.

[23] BP 126349, Reference No. 522, Northcroft to Rice on 12th December 1950, 4.
[24] BP 080924, Gist of Tudeh pamphlet distribute among Depot labour on 1st August 1949, 1.
[25] *The Times*, September 26, 1952; pg. 4; Issue 52427; col C.

The oil industry, and its importance to the British Empire, has long been a major subject of study. Thus, the motivation for this research is inevitably driven by the need to research the history of the company to provide a considerable body of evidence about British imperialism. In doing so, it will clarify how the AIOC's management attempted to influence the lobbying process and news agenda to counter the accusations of Iranian nationalists. The incentive for choosing the AIOC lies in the fact that it is one of the largest oil companies in the world and had a unique competitive advantage, being the first mover in developing the oil reserves of the Middle East. The AIOC was politically more sensitive and visible in the public eye and more closely watched by government agencies mainly during its nationalisation and the overthrow of Musaddiq. Meanwhile, the case study of a single company has the advantage that disclosures can be placed along with the major events in the company's financial performance, and the parties interested in disclosure such as shareholders, management and others can be easily recognized[26]. Moreover, case studies provide practitioners with a deeper and richer understanding of the social context in which they work and may facilitate the construction of testable hypotheses.

1.6 Conceptual framework

In the literature and historiography of the AIOC and other nationalisations, there are some important and contrasting views of strategies for retention of asset control in the face of a nationalisation threat. These can be characterized as (i) political and covert mechanisms, (ii) market based, resource access controls, and (iii) corporate social responsibility (CSR) programmes.

The first area has attracted considerable attention from political and diplomatic historians[27]. Gray et al. define political economy as the "social, political and

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[26] Maltby, *Hadfields Ltd: its annual general meetings 1903-1939 and their relevance for contemporary corporate social reporting*.

[27] Different phases and aspects of the dispute have been researched extensively, including Anglo-American relations, British and American foreign policies, international law, covert operations, Iranian nationalism, the development of the Iranian oil industry, and the impact on international oil companies, including the AIOC. For Anglo-American relations see Marsh, "Anglo-American Crude Diplomacy." For American and British foreign policies see Gasiorowski, *US Foreign Policy and the Shah; The Politics of oil;* Stern, *Who won the Oil wars*; Louis, *The British Empire in the Middle East.* For covert operations see Gasiorowski and Bryne, eds. *Mohammad Mosaddeq;* Marsh, "The United States, Iran and Operation Ajax*.";* Roosevelt, *Countercoup.* For the impact on Iran see Bill and Louis, eds. *Musaddiq, Iranian nationalism and oil;* Elm, *Oil, Power, and Principle.* For the company perspective see Bamberg, *The History of the British Petroleum Company.*

economic framework within which human life takes place"[28]. Unerman also emphasized that the political economy theory does not assume that business organisations operate within "a harmonious social, economic and political environment and introduces into the analysis structural conflict between different parts of the system"[29]. According to Marsh[30], in the Iranian case, the British government used the AIOC as an instrument of foreign policy[31] addressing wider concerns of fighting communism and advancing the Anglo-American special relationship. The AIOC "was so dominant within the Iranian economy that it was effectively a state within a state and regarded to all intents and purposes as an arm of the British Admiralty and the British strategic policy"[32]. For other scholars, the AIOC was a spillover of "British imperialism" because British officials believed that British firms should dominate the oil market to protect the home country's uncertain balance of payments[33]. Bill & Louis conclude that "the company was mainly owned by the British government, its power was in the end that of Britain".[34] As White suggests "nationalisation appeared a distinct possibility in a number of Britain's decolonizing territories because many anti-colonial movements taking shape by the 1950s espoused some form of socialism"[35]. Finally, Bostock and Jones argued that virulent Iranian economic nationalism "can't be treated solely as an endogenous factor to British business. Iranian policies were a reaction to the close relations between British business in Iran and the British government"[36]. For the British, the Iranian crisis created a crucial precedent which was "If Musaddiq's view had

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[28] Gray et al., *Accounting and Accountability:Changes and challenges in Corporate S*ocial and environmental reporting, 47.
[29] Unerman, *An investigation into the development of accounting for social, environmental and ethical accountability: a century of corporate social disclosures at Shell,* 31.
[30] Marsh, *HMG, AIOC and the Anglo- Iranian Oil Crisis*, 143.
[31] Ferrier has argued the Iranian nationalists were aware of the fact that "AIOC was acting as an agent of the British government in depriving the Iranian government of the revenues to which it was entitled" and the AIOC executives blamed the Treasury in London for being inflexible in royalty and dividend payments to Iran which resulted in the company's nationalisation; see Ferrier, *The Anglo Iranian oil dispute,* 170.
[32] Cited in Marsh, *Anglo-American Crude Diplomacy*, 28.
[33] Marsh has argued that the Abadan oil refinery was the largest in the world and was considered a source of national pride to Britain; Marsh, *The United States, Iran and operation Ajax,* 9; Tignor, *Capitalism and nationalism at the end of Empire*; Bostock and Jones, *British business in Iran*, *1860s-1970s.*
[34] Bill and Louis, *Musaddiq, Iranian nationalism, and oil*, pp. 329-30.
[35] White, *The Business and the politics of decolonization,* 551.
[36] Bostock and Jones, *British business in Iran*, *1860s- 1970s*, 66.

prevailed then nationalists throughout the world might abrogate British concessions"[37].

The second strand of literature uses market control explanations to interpret nationalisation events. For Kobrin, and others, the oil companies' control of key parts of the value chain after nationalisation, in particular refining and distribution capacity, made embargoes an effective mechanism for undermining governments[38] as in the Mexican (1938) and Iranian (1951) cases. Similarly, as suggested by Farge and Wells, market access was a crucial determinant of bargaining power in these and similar cases[39]. According to Bucheli, companies investing in mining or oil are more likely to be targets of political violence and are more vulnerable to nationalist policies than those operating in the manufacturing or service sector due to their vertically integrated structure which affects local polities[40].

The final strand of the literature, associated with CSR and labour relations, constitutes a further, less extensively researched dimension of multi-national activity[41]. CSR addresses the commitment of companies to align their activities with the needs of various stakeholder groups and account for their social, environmental and ethical performance. Maurer, in a case study of Mexican oil nationalisation, shows that oil company concessions to an increasingly powerful trade union on health insurance, paid holidays and rising real wages, motivated the Mexican government to nationalize the remains of an uncompetitive declining industry[42]. Elsewhere, CSR programmes aimed to include local populations, in networks of social capital[43]. In Turkey and India, Unilever retained control by increasing the involvement of local employees in the management of the company[44]. In Venezuela, the development of new towns by the oil companies created structured lifestyles for

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[37] Louis and Robinson, *The Imperialism of Decolonization*, 476.
[38] Kobrin, *Diffusion as an explanation of oil nationalisation* ; see also Vernon, *State- owned Enterprises in Latin American Exports*; and the discussion in Bucheli, *Major Trends in the Historiography of the Latin American Oil Industry*, p.360 for similar Latin American cases.
[39] Farge and Wells, *Bargaining power of multi-nationals and host governments.*
[40] Bucheli, *Multinational corporations*, 436; see also Decker, *Corporate Legitimacy and advertising.* Who argues that manufacturing was also vulnerable, particularly in the 1960s.
[41] AIOC's linkages with the local economy were few and the company was widely disliked; Bostock and Jones, *British business in Iran, 1860s- 1970s*, 46.
[42] Maurer, *The empire struck back* ; O'Brien, *The Revolutionary Mission*, 301.
[43] Verhoef, *Nationalism, social capital and economic empowerment*.
[44] For an example of how the firm's CSR agenda was more negatively influenced by state policies and local circumstances see Forbes, *Multinational Enterprise, 'Corporate Responsibility' and the Nazi Dictatorship*.; see also Jones, *Multi-national strategies.*

local employees thereby assimilating them into corporate culture[45]. In Africa, government requirements that an industry limit the employment of foreigners to a designated number were referred to as “Africanisation”[46]. Similarly, in the Iranian case, the AIOC was pressured to engage in “Iranianisation”, essentially the increased employment by AIOC of Iranian workers and a CSR programme aimed at giving Iranian employees increased status and access to the benefits of employment, housing and education[47]. There are disagreements amongst historians about the motivation, extent and success of these policies. In the official corporate history, the AIOC’s achievements in providing housing, education, social benefits and greater seniority for its Iranian employees are presented as substantial[48]. An alternative view promulgated typically but not exclusively by Iranian historians, was that the AIOC was “an untouchable foreign enclave”, “a state within a state” or economic power in its own right whose dominance of Iran resulted in discrimination and political repression,[49] which only paid only lip service to the Iranianisation process, and that its obstinacy fuelled the subsequent political crisis[50].

To examine the robustness of these contrasting views, this research will examine how AIOC management used CSR to respond to the challenges outlined in each of these strands of the literature. Using a new conceptualization of CSR, the research identifies managerial strategies with respect to three corresponding interest groups: politicians and diplomats, shareholders, and local employees. This allows managerial attitudes to political, market, and social control to be contrasted with reference to evidence from political negotiations, communications with shareholders in annual reports and the attitudes of corporate officials to the Iranian workforce.

The notion of CSR is regarded as a relatively recent phenomenon, and as such is rarely analyzed historically in the business management and ethics literatures. CSR is regarded as something that is imposed on business by society, for example in social contract, legitimacy based models, or as a benign and inclusive redefinition of corporate objectives, as in the stakeholder model, that can be readily accommodated

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45 Tinker-Salas, *The enduring Legacy*, chapter 6.
46 Rood, *Nationalisation and Indigenisation in Africa*.
47 Bostock and Jones, *British business in Iran, 1860s-1970s*.
48 Bamberg, *The History of the British Petroleum Company*, pp.361-74; Ferrier, *The History of the British Petroleum Company*.
49 Keddie, *The Iranian power structure*, 11; Abrahamian, *The 1953 coup in Iran.*
50 For example, Elm, *Oil, Power, and Principle;* Abrahamian, *Iran Between two revolutions.*

into economic theory derived models of strategy making[51]. CSR has not been generally viewed as a means of corporations exercising social control[52]. This research offers such a standpoint as a new perspective on CSR.

Greenwood provides a useful taxonomy of the moral treatment of stakeholders in terms of *stakeholder agency* the number and breadth of stakeholder groups in whose interest the company acts, and *stakeholder engagement,*[53] defined as the number of processes of communication, dialog and consultation. As Greenwood suggests, it is only cases where both agency and engagement are high that have exercised the CSR literature. Although these variables are to some extent useful for the purposes of testing historical evidence, they do not directly address the issue of managerial motivation, which when faced with significant external threats should be strongly influenced by control. The social capital literature suggests that the purpose of inclusion or exclusion from networks of business activity is social control, particularly through observance of norms[54]. As Coleman argues, social capital develops through social engineering, which replaces earlier forms of control, based on primordial ties, with material-based status incentives.**[55]** The implication of this view is that CSR, through increasing social provision in a post colonial setting using housing schemes, employment and benefit packages and access to education, provides corporate management with mechanisms to enforce norms and create stakeholder engagement. Viewing CSR in this light allows us to create a taxonomy of control as a series of options available to corporate management. These are set out in Figure 1.

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[51] For Legitimacy theory see Dowling and Pfeffer, *Organisational legitimacy*. For Stakeholder model see Donaldson and Preston, *The stakeholder theory of the modern corporation*, as extensions of corporate strategy Porter and Kramer, *Strategy and Society.*

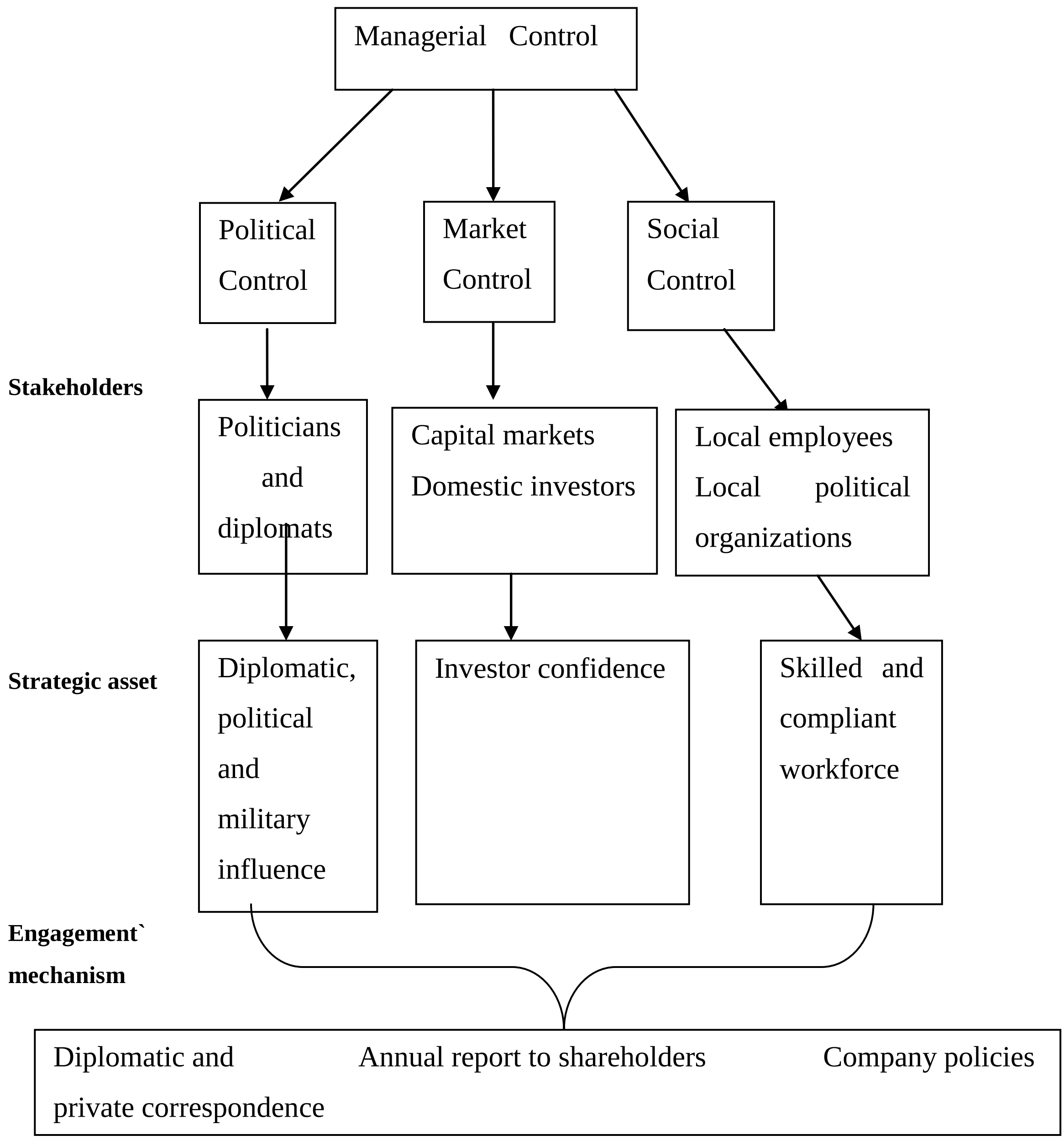
[52] For some exceptions in the accounting history literature, see for example Neimark, *the Hidden Dimensions of Annual Reports;* Maltby, *Showing a strong front*; Maltby and Tsamenyi, *Narrative accounting disclosure*.

[53] Greenwood, *Stakeholder Engagement*, pp. 321-22.

[54] Portes, *Social Capital*, p.8. For a review of recent applications of social capital in business history contexts, see Laird, *Putting social capital to work*.

[55] Coleman, *The rational reconstruction of society*.

Figure 1: CSR Control Strategies and Stakeholder Management in Multi-national Firms Facing Asset Expropriation Threats



As Figure 1 shows, control may be exercised through three options, each corresponding to the political, market based and social elements discussed earlier. The first, political control is exercised through diplomatic and covert channels. The second is market based control, in which management creates investor confidence through pronouncements about CSR activities in annual reports and other public domain communications. The third element is social control, as discussed above, which allows corporate management to create social capital through specific CSR programmes. Each element of control therefore implies a different mechanism of communication with a different range of stakeholders (corresponding to stakeholder engagement and agency in Greenwood's framework)[56]. The model predicts significant differences between communications on the same subject depending on the recipient stakeholder group. These are tested empirically in the following chapters.

1.7 Methodology

This section discusses the research approach and highlights the different methodologies employed in the thesis to test the hypotheses laid in the following chapters. A triangulation approach will be adopted in this thesis to examine the events leading up to nationalisation and assess the performance of the company during this political crisis. Qualitative analysis is a crucial complement to the quantitative process so the company's published annual reports along with other major archival documents are used in this research to supplement each other. For instance, press analysis, company meetings, political correspondence and publication of annual reports were used in conjunction with quantitative empirical testing. The triangulation method shares the notion that qualitative and quantitative methods should be viewed as complementary and offers the advantage of increasing the strength of the research. Triangulation is defined by Denzin[57] as "the combination of methodologies in the study of the same phenomenon". Denzin emphasized the importance of using triangulation in research to cross validate the results and compare the data using different approaches. Campbell and Fiske[58] developed the idea of "multiple operationism" and were the first to use triangulation. They asserted that the use of different methods is important in the validation process. Moreover, Bouchard[59] argued that the conformity and agreement of using different methods "enhances our belief that the results are valid and not a methodological artefact". The usefulness of triangulation lies in the fact that the weaknesses in using each method will be overcome by the counter-balancing strengths of another because triangulation

[56] Recent evidence from a study of oil company behaviour suggests important differences of engagement of domestic and local stakeholders see Toms and Hasseldine, *Asymmetric Response: Explaining corporate social disclosure*.
[57] Denzin, *The research act: A theoretical introduction to sociological methods*, 291.
[58] Campbell and Fiske, *Convergent and discriminant validation by the multitrait-multimethod matrix*, 81.
[59] Bouchard, *Unobtrusive measures: An inventory of uses*, 268.

purports to exploit the advantages of mixed methods rather than sharing the same potential for bias[60].

Methodological triangulation is the most discussed type of triangulation which refers to the use of multiple methods to examine a social phenomenon. Denzin[61] classified methodological triangulation into two methods which are the within-method and the between (or) across method. Firstly, within-method involves employing at least two data-collection procedures from the same design approaches. Secondly, between (or) across method employs both qualitative and quantitative data collection methods in the same study. In this research, the second approach is used because both qualitative and quantitative data collection methods will be used to provide a rich and complete picture of the impact of nationalisation on the performance of AIOC.

Triangulation helps to enhance the validity of research findings. Triangulation is used with the assumption that the weakness of one approach is complemented by the strength of another. Overall, the use of multimethods "Triangulation" has several advantages. First, it can lead to an enhanced explanation of the research problem and encourages productive research. Second, it provides the researcher with the opportunity to use ingenious methods and obtain reliable results. Moreover, triangulation plays a constructive role through the integration of different theories and utilisation of different methods in a complementary fashion. Additionally, triangulation enables the researcher to be close to the situation, which allows greater sensitivity to the multiple sources of data[62]. Finally, triangulation entails inventiveness in collecting the data and instinctive interpretation of the results through the user's creativity.

To sum up, documentary evidence, whether in the form of narratives or accounting numbers, is important in the formulation of hypotheses and helps in sustaining accuracy and research judgements. In this context, different qualitative and quantitative data collection methods are adopted to examine the same dimension of a research problem and investigate different sorts of data with the same phenomenon.

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[60] Jick, *Mixing qualitative and quantitative methods: triangulation in action*, 604.
[61] Denzin, *The research act: A theoretical introduction to sociological methods*.
[62] Jick, *Mixing qualitative and quantitative methods: triangulation in action*, 604.

1.7.1 The use of secondary data and archival sources in historical analysis

Facts are selected and evidence is assembled from the secondary literature and historical archival documents. Firstly, evidence is gathered from the official corporate history literature of the industry which was written by prior historians[63]. The secondary literature is important because it represents the sources of data that have been collected by others and not specifically collected for the research questions[64]. Secondary sources include a wide range of documents such as public reports of companies, internal documents produced by organisations and documents appearing in the press and other media[65]. The secondary literature suggests that the data have some currency and contemporary relevance which enables the researcher to link different perspectives of the research with the relevant theories.

Secondly, evidence is collected from various archival documents. A historical fact "is something that happened in history and can be verified as such through the traces history has left behind"[66]. The main role of the historian involves taking historical facts and subjecting them to the most thorough scrutiny to ascertain the truth and determine whether these facts represent credible evidence for an argument or a theory[67]. Archival data are self-evidently useful because "the methodological worries that mark sociology's discussions of secondary analysis are very simple countered by the rejoinder that there is no alternative data available"[68]. The archival documents provide new insights for analysis which go beyond the existing literature.

1.7.2 The use of empirical evidence in historical analysis

In relation to the official corporate history and archival documents, that undoubtedly enhance our understanding of the AIOC, further evidence is gathered in light of the analysis of annual reports and stock market data. Analysis of the annual reports includes the accounting analysis of the financial statements and content analysis of the narratives of the Chairman's statement. Capital market data are compiled from the FT30 index and analysed using event methodology to study the impact of specific events on the security prices of the AIOC.

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[63] Bamberg, *The History of the British Petroleum Company*; Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*.
[64] Harris, *Content analysis of secondary data: a study of courage in managerial decision making*.
[65] *Ibid.*
[66] Evans, *In defense of history.*
[67] *Ibid.*
[68] Fielding, *Getting the most from archived qualitative data: epistemological, practical and professional obstacles,* 104.

This research is undertaken in the belief that an understanding of the way in which the Chairman discloses information in the annual reports depends upon a more detailed knowledge of how accounting data are used by the AIOC and how it was placed within the wider context of the company. Aerts[69] argued that Chairman's statements might be a way to produce "systematically biased" information and to issue narrative that can be 'coloured' to manage news disclosure in the company's favour. Moreover, Aerts[70] argued that the Chairman can influence the stakeholders in respect of a particular interpretation of events and used the term "self-serving attributional bias" to describe the impression resulting from management efforts in manipulating the stakeholders. Therefore, the analysis is aimed at widening the scope of the evidence available with the company and providing new insights by adding a relevant quantitative empirical body of evidence.

First of all, data is collected from the AIOC Annual Accounts and Reports which are assembled together with evidence from other sources[71]. Accounting evidence in this research is used to reveal the truth because sometimes senior managers and especially the chairmen used their statements to gain competitive advantage. Managers may exercise judgement in preparing financial statements in an opportunistic or efficient manner to maintain stakeholders' confidence. Therefore, this research aims to explain the true picture of managerial behaviour within the AIOC, including their disclosures to different stakeholder groups.

The widespread use of annual reports plays an important role because they are the main form of corporate communication which can be attributed to an increase in the control of shareholders and may well reflect the company's appreciation of a genuine responsibility to a wider public than its own shareholders[72]. Annual reports are regarded as a medium for communicating both quantitative and qualitative corporate information to different potential users. They can also be seen as strategic documents as they reflect impressions about a firm's activities[73]. Annual reports are an important mediating document between various stakeholder groups which include

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[69]Aerts, *On the use of accounting logic as an explanatory category in narrative accounting disclosures*, 341.
[70]Aerts, *Picking up the pieces: impression management in the retrospective attributional framing of accounting outcomes.*
[71] BP 101099, Mr. Addison's Persian file, Memorandum, 1946- 1949: Gidel Memorandum.
[72] Penrose, *The large International firm in developing countries*, 29.
[73] Buhr, *Environmental performance, legislation and annual report disclosure: the case of acid rain and Falconbridge.*

investors, creditors, employees and the government. Accounting information is typically valuable as a source of information in industrial organisations because it supplies managers with timely and sensibly accurate information which in turn helps them to apply their decisions within the organisation's goals[74]. The accounting analysis enhances efficiency, and credibility which enables the investor to determine opportunities with less error. Accounting analysis will provide the researcher with the opportunity to measure different relationships and changes occurring among different numbers in the financial statements. Not only can profitability be expressed and computed but it is also possible to identify changing trends and abnormalities and subsequently draw conclusions.

Accounting researchers have neglected the Chairman's statement despite its demonstrable utility and its voluntarily unaudited nature[75]. Consequently, there is a call for methodological and empirical studies to advance research into accounting narratives in the light of acknowledged areas of weakness and gaps in the accounting literature[76]. The Chairman's statement comprises essential and corresponding information sources to complement the numerical financial statements and have incremental information value to different users, because narrative accounting information is useful for decision-making purposes. The Chairman's narrative regularly contains non-quantifiable information of the economic and industry-specific factors and references to current action, future strategies and intended policies[77]. Smith and Taffler[78] reinforced the argument that chairman's statements are unaudited managerial disclosures which contain important information associated with the future of the company and are not just reporting on past performance.

The main methods for analysing the annual report narratives have been summarised by Beattie et al.[79] which include analyst ratings; disclosure index; content analysis; readability studies and linguistic analyses. Content analysis is

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[74] Hopwood, *An empirical study of the role of accounting data in performance evaluation*.
[75] Smith and Taffler, *The incremental effect of narrative accounting information in corporate annual reports.*
[76] Jones and Shoemaker, *Accounting narratives: a review of empirical studies of content and readability.*
[77] Smith and Taffler, *The incremental effect of narrative accounting information in corporate annual reports.*
[78] Smith and Taffler, *The chairman's statement: A content analysis of discretionary narrative disclosures.*
[79] Beattie, McInnes and Fearnley, *A methodology for analysing and evaluating narratives in annual reports: a comprehensive descriptive profile and metrics for disclosure quality attributes.*

defined by Krippendorff[80] as "a research technique for making replicable and valid inferences from data according to their context". It is also defined by Bowman[81] as an "enquiry process which does not rely on casual reading but on rather explicit counting and coding of particular lines of prose, of word usage and of disclosure". Additionally, Abbott and Monsen[82] defined content analysis as "a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity". Finally, Beattie and Thomson[83] asserted that "content analysis has become a widely used method of analysis in financial accounting research".

Content analysis enables the researcher to plan, communicate and evaluate a research design independently of its results[84]. At first, content analysis was quite basic and relied on a count of basic words or sentences, which is considered to be a more objective approach. Subsequently**,** advanced studies tried to develop the application of content analysis with thematic and impression management style studies, which is considered to be a more subjective approach. Early research highlighted the concerns over the quantity and quality of disclosure. For instance, Marston and Shrives[85] and Unerman[86] raised issues concerning data quantity versus quality of disclosure, emphasising the problem concerning the importance of disclosures compared to their volume and the invalid hypothesis of quantity of disclosure as an indication of the quality of disclosure. Moreover, a major limitation of a researcher-conducted content analysis is that it is "so labour intensive that it is feasible only for small samples"[87]. This research highlights the importance of and addresses the call for more dynamic and innovative methodological approaches to be used in coding within various discourse studies.

Within the above context, DICTION software will be used to analyse the content of the Chairman statements of the AIOC. DICTION is a computerised content

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[80] Krippendorff, *Content analysis: An introduction to its methodology*.
[81] Bowman, *Strategy, annual reports and alchemy*.
[82]Abbott and Monsen, *On the measurement of corporate social responsibility: self-reported disclosures as a method of measuring corporate social involvement.*
[83] Beattie and Thompson, *Lifting the lid on the use of content analysis to investigate intellectual capital disclosures.*
[84] Krippendorff, *Content analysis: An introduction to its methodology*.
[85] Marston and Shrives, *The use of disclosure indices in accounting research: A review article*.
[86]Unerman, *Methodological issues: Reflections on quantification in corporate social reporting content analysis.*
[87] Hussainey, Schleicher and Walker, *Undertaking large scale disclosure studies when AIMR-FAF ratings are not available: the case of prices leading earnings.*

analysis programme and a dictionary-based package that examines a text for its verbal tone. The software has been utilised in evaluating semantics in a variety of social discourse areas such as politics and communication, strategic management research and business ethics research[88].

As a method of analysing semantic content, DICTION is well established in the applied linguistics literature and has been attested by independent research[89]. Its automated nature for coding and quantification renders it attractive as a research instrument, which increases its validity and reliability. As a form-oriented method of content analysis, it requires no intervention on the part of the researcher. Morris[90] identified the following advantages of computerized content analysis over human-coded content analysis. First of all, computerized content analysis makes it easy to create word-frequency counts, keywords in context listings and concordances. Second, the computerized software provides perfect coder reliability and stability of the coding scheme. Moreover, explicit coding rules are developed to provide comparable results and are thus free from criticisms of researcher subjectivity and bias that might be levied against human coding[91]. Also, the programme is designed to identify subtle aspects of written language that even the trained human eye might not readily perceive[92]. Finally, the software allows the processing of large volumes of text passages where results can easily be replicated and researcher subjectivity is eliminated[93]. In a nutshell, the benefits are obvious in using the software (DICTION) as it permits the investigation of a large body of text in comparison to more interpretive explanations reached through human-coded content analysis and reproduces the text being analysed alongside its statistical results for convenient checking.

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[88] See for example, Hart and Jarvis, *Political Debate: Forms, Styles, and Media*; Short and Palmer, *The Application of DICTION to content analysis research in strategic management*; Rogers, Dillard and Yuthas, *The accounting profession: substantive change and/or image management*; Yuthas, Rogers and Dillard, *Communicative action and corporate annual reports*.
[89] Frey, Botan, Friedman and Kreps, *Investigating Communication: An Introduction to Research Methods*; Morris, *Computerized content analysis in management research: a demonstration of advantages and limitations*.
[90] Morris, *Computerized content analysis in management research: a demonstration of advantages and limitations*.
[91] Davis, Piger and Sedor, *Beyond the numbers: An analysis of optimistic and pessimistic language in earnings press releases.*
[92] *Ibid.*
[93] Hart, *Redeveloping DICTION: theoretical considerations.*

Additionally, the event study method was developed to measure the effect of an unanticipated event on stock prices. An assessment of AIOC's performance is of particular importance to a number of interested groups which include shareholders who have an interest in identifying the performance of the company in which they invest their wealth. Using event analysis enables the researcher to assess the extent to which security price performance around the time of the event has been abnormal[94]. McWilliams and Siegel[95] argued that the event study method is a useful tool which can help researchers assess the financial impact of changes in corporate policy and examine the information content of disclosures[96]. The event study method has become popular because it reflects the need to analyse stock prices to reflect the true value of firms by incorporating all relevant information. The immediate impact of an event on security prices can be constructed using security prices over a short period of time[97].

In summary, the aim of this research is to shed light on the potential for a more widespread use of different methods of analysis to discover the messages being conveyed by the AIOC to its stakeholders. These messages may be convincing at one level, but when analysed, they give the reader the true meaning and attitude behind the company's communication, which may be particularly significant in times of crisis to convey clarity of message and lack of panic.

1.8 Structure of the thesis

This thesis comprises six chapters, with chapters three, four and five containing the empirical results.

Chapter 1 introduces the background to the research, the research questions and the thesis area of focus. Research objectives are formulated and the motivation for the study is presented. Meanwhile, the methods used to answer the research questions are discussed by explaining the importance of adopting different quantitative and qualitative techniques. Also, the contribution to knowledge is highlighted. The chapter ends by outlining the structure of the thesis.

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[94] Brown and Warner, *Measuring security price performance*, 205.
[95] McWilliams and Siegel, *Event studies in Management research: Theoretical and Empirical issues*, 626.
[96] Mackinlay, *Event studies in Economics and Finance*, 16.
[97] *Ibid*, 13.

Chapter 2 outlines the full historiographical overview of the AIOC's performance in maintaining control over the Iranian oil resources (by addressing the prior literature). This in turn will highlight the AIOC's political actions within an imperialistic framework, particularly its exploitation of Iran's oil resources. The chapter also illustrates the debates and various opinions regarding the role of senior management in AIOC. Furthermore, the chapter addresses Musaddiq's motivations for nationalisation of the AIOC in May 1951.

Chapter 3 aims to perform a critical analysis of the company's relations with Iran to illustrate the claims of antagonism by the Iranians against the AIOC and counter claims with reference to historical evidence. This chapter will also investigate the relations between different governmental British authorities, as well as relations with the local communities and with the Iranian themselves, to understand their policies of inequality and differentiation. The main reason for this is to focus on the company's treatment of Iranian employees and provides further evidence concerning Iranian claims that they were viewed as inferior and were never treated as genuine stakeholders. Moreover, an analysis of the AIOC's annual reports in 1950 and 1951 will be conducted to investigate the managerial response of Fraser towards the Iranian employees during nationalisation. All these different sources will be used to provide answers to the proposed research questions.

Chapter 4 tests the validity of the Iranian accusations of unfairness in the distribution of profits and their dissatisfaction regarding the royalties and policies adopted by the British government in limiting the dividend for 1947. It is important to review the evidence on the above accusations using selected key documents such as Gidel's Memorandum, which has been hitherto neglected. To provide further evidence concerning these claims, a financial analysis of the AIOC's annual reports for 1948-1950 is conducted to assess the division of profits from the oil industry between the AIOC, the British and Iranian Governments.

Chapter 5 examines how two key events associated with the nationalisation were perceived by the London stock market. These were the nationalisation itself on 1st May 1951 which was a major theme running over a longer course in the 1950's and the publication of the AIOC annual report on 16th November 1951 which influenced shareholders' confidence regarding their investment in the company. The chapter also presents the writer's hypotheses and the variables used to test these hypotheses. Furthermore, the chapter examines the relationship between the Chairman and the

UK investors to find out the importance of the Chairman's statement to the stockholders in maintaining the value of their investment.

Chapter 6 will draw together the key points of each chapter and summarises the findings of this study and the main conclusions of the thesis. The contributions of the study are again highlighted. Policy and theoretical implications of the research findings are identified. A discussion is based around the limitations of the study and how these limitations were addressed. Finally, suggestions for further research are made.

Chapter 2: AIOC History, oil and Iranian politics (History and Debates)

2.1 Introduction

This chapter reviews the prior literature in regard to the establishment of AIOC practices in Iran, thus contributing towards an understanding of how different and subsequent events in Iran led to the nationalisation of the company's assets including the refinery of Abadan in May 1951. Iranian accusations mainly arose from the anti-Iranian discrimination, reflected in the AIOC's employment policies and from the unfairness shown in the distribution of profits from oil production. The chapter also aims to identify the gaps in literature on these aspects, and focus on areas where further research can be extended.

The layout of this chapter is as follows. Section 2.2 looks at the sources concerned mainly with the importance of oil and the evolution of the AIOC in Iran in the middle of the Twentieth Century. Section 2.3 commences with an overview of the literature which focuses on the AIOC's domination of oil exploitation in Iran at that time, including an explanation of the 1933 Agreement and the Supplemental Agreement proposed by the company. Section 2.4 examines accounts of the key events that led to the company's nationalisation in 1951 and also highlights the motivations for Musaddiq to nationalise the company in 1951. This section also examines Fraser's role, to improve our understanding of his managerial behaviour and his motives in voluntarily providing additional information. Section 2.5 reviews the negotiations requested by the British government and the AIOC to settle the dispute and reach a lasting agreement with the Iranian government. This section also examines the sources which explain the initiation of the coup in 1953 and the establishment of the National Iranian Oil Company. Finally, section 2.6 summarises the contribution to the literature.

2.2 The establishment of the AIOC

The literature on the AIOC emanates from a number of very different sources[98]. In the post war years, the development of the Iranian oil industry was considered to be

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[98] Bamberg, *The History of the British Petroleum Company*; Elm, *Oil Power and Principle: Iran's oil nationalisation and its aftermath*; Bamberg, *British petroleum and global oil*, 1950-1975; Bill and Louis, *Musaddiq, Iranian nationalism, and oil*; Brumberg and Ahram, *The National Iranian Oil*

an important event that had occurred during the previous fifty years[99]. Iran's participation in the world economy has been greatly emphasised by its strategic location and by its prized oil resources[100]. Indeed, Iran's oil reserves accounted for the greater part of the total assets of the petroleum industry of the Middle East and the country became a major supplier of oil to Britain following the initial oil exploration by the AIOC. The AIOC had the world's largest refinery in Abadan so the company continued to expand its oil production from this major oil installation. Iran, via the AIOC's activities consequently became the second largest exporter of crude petroleum, having the third largest oil reserves during that period.

In the following section, the importance of oil is discussed and the evolution of the AIOC in Iran is reviewed.

2.2.1 The importance of oil

Oil was important to the global economy because it had advantages over coal which became apparent in the 1950s. Products of the oil industry "had a greater impact than those of any other industry on the way people lived their lives during the 20th century as oil products became an essential element in many industrial processes, consumer products and different modes of transport"[101]. Oil had the advantages of being pumped rather than manhandled and when burnt properly it enabled a complete absence of smoke which was one of the Admiralty's crucial requirements for a fuel[102]. Crude oil was one of the major commodities in the world trade arena, transferred between a range of international firms[103]. Obviously, oil was important for both producing and consuming nations because it generated major revenue (taxation and royalties) and satisfied a whole range of consumer requirements[104]. For Iran, oil played an important role in facilitating its ability to engage in global markets and giving it the opportunity to become more involved in

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Company in Iranian politics; Ferrier, *The History of the British Petroleum Company: Vol. 1, The Developing Years 1901-1932*; For this research, I used the corporate reports of BP and substantial archival documents using advantaged access to BP archives which are located in Coventry.

[99] Karshenas, *Oil, State and Industrialization in Iran*, 2.

[100] Esfahani and Pesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 11.

[101] Unerman, *An investigation into the development of accounting for social, environmental and ethical accountability: a century of corporate social disclosures at Shell*, 19.

[102] Jones, *The State and the emergence of the British oil industry*, 11.

[103] Penrose, *The large International firm in developing countries*, 19.

[104] Unerman, *Enhancing organizational global hegemony with narrative accounting disclosures: an early example.*

oil production for exports[105]. In a wider sense, oil had come to be synonymous with maintaining imperial integrity[106]. As oil became more important, British willingness to maintain control became more necessary[107]. Iranian oil supplies were "a major source of soft currency generation and tax revenue for the British government"[108]. Iranian oil was essential to Britain's balance of payments and "the Abadan oil refinery was the largest in the world and a source of national pride"[109]. In fact, Iran was not militarily strong but its geo-strategic location made it invaluable[110]. Iran remained the jewel in the crown of the AIOC because of its unlimited oil supply[111]. Iran was the oldest oil producing country in the Middle East region accounting for 74.2 per cent of the net income of the oil industry in the period 1913-47[112]. Those writing about the period, and whose accounts have been consulted for this thesis, are clearly in unison over the importance of Iranian oil in terms of its potential for economic growth in Iran.

2.2.2 The D'Arcy concession

In 1901, William Knox D'Arcy, the son of an Irish solicitor and a millionaire London socialite was the real founder of the AIOC[113]. He used his fortune to finance oil exploration in Iran[114]. On 28th of May 1901, an exclusive concession was granted to D'Arcy for 60 years for the exploration of natural gas and petroleum throughout Iran which covered 500,000 square miles of territory[115]. Later in 1905, D'Arcy ran into financial difficulties before oil in commercial quantities was discovered and the Burmah Oil Company was brought in to come to D'Arcy's assistance by taking shares in the company to explore for oil in Burmah and India[116]. Fortunately, in 1908, a great oil-field had been discovered by D'Arcy and Burmah Oil which partly financed the Anglo Persian Oil Company (APOC), allowing it to become a leading

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[105] Esfahani and Pesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 19.
[106] Onslow, *Battlelines for Suez: The Abadan Crisis of 1951 and the formation of the Suez Group.*
[107] Odell, *The significance of oil*, 93.
[108] Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953*, 28.
[109] Marsh, *The United States, Iran and operation 'Ajax': Inverting Interpretative orthod*oxy, 9.
[110] *Ibid*, 1-38.
[111] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 116.
[112] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 121.
[113] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 53.
[114] Penrose, *The large International firm in developing countries*, 109.
[115] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 26.
[116] Penrose, *The large International firm in developing countries*, 109.

contender in international oil markets[117]. After the discovery of oil in 1908, a pipeline was built from the oilfields to the coast and a refinery was constructed at Abadan[118]. This discovery was to alter radically the face of the world oil industry[119]. D'Arcy was given a million pounds' worth of shares but Burmah Oil Company continued to be the leading shareholders contributing to the APOC[120]. In 1914, the first Lord of the Admiralty, Winston Churchill, was keen to see the Navy change its ships from coal to oil power. He had an interest in the oil reserves of Iran to guarantee a continuous oil supply and to ease the strain on Britain's hard-pressed coal supplies at a time of economic reconstruction. In fact, Churchill viewed the APOC with increasing interest, as it had a promising future with its various oilfields in the Middle East[121]. As a result, after prolonged negotiations, Churchill bought 51% of the APOC with the aim of establishing a new kind of industrial animal[122]. The British navy converted from coal to oil which was an attraction in the emergence of the British oil industry and was the main reason for the growth of the British government's interest in the affairs of the oil companies[123]. Oil demand expanded in the post-war period, relying extensively on imports of petroleum from Iran because of the conversion from coal to oil and owing to Britain's negligible local production[124]. Churchill's interest in the Iranian oil reserves reflected increasing British dependence on Iranian oil and the reorientation of the peacetime economy away from coal. In summary, more than coal, the oil industry has been associated with government intervention due to its importance in providing intermediate inputs to the British economy.

2.3 AIOC's domination in Iran

Based on a review of the AIOC historiography, there are various debates about the dominant influence of the AIOC in Iran and the motivations for Musaddiq to nationalise the oil industry. To examine these debates, this section draws upon the

[117] *Ibid*, 57.
[118] *Ibid*, 112.
[119] Jones, *The State and the emergence of the British oil industry*, 2.
[120] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 54.
[121] *Ibid*, 51.
[122] *Ibid*, 52.
[123] Jones, *The State and the emergence of the British oil industry*, 9.
[124] Issawi and Yeganeh, *The economics of Middle Eastern Oil*, 18.

secondary literature to reflect the opinions of other scholars towards the AIOC's existence in Iran and the agreements that it made with Iran.

British Petroleum began its activities in Iran under the name of the Anglo Persian Oil Company (APOC) which had changed at the beginning of the Twentieth Century to Anglo Iranian Oil Company or (AIOC) with the support of the British government. Up to the Second World War, Iraq and Iran provided the only oil sources for the AIOC, although the company was undertaking explorations in different parts of the world[125]. As mentioned earlier, the AIOC discovered oil in Persia in 1908 and pioneered oil prospecting in oil-rich Iran. The discovery of oil in Iran not only marked the successful beginning of the modern oil industry in the Middle East but the AIOC's plan was to become the only one of the seven sisters[126] to be wholly British-owned[127]. Bostock and Jones argued that the AIOC had become "the most important British interest in Iran by the mid 1920s"[128]. Not surprisingly, therefore, the British government acquired a 51% stake and became a major stakeholder in Iran and had the right to nominate two government directors and a contract to supply fuel oil to the Royal Navy[129]. However, government directors on the Board looked at the company from a wider strategic viewpoint and only retained a Board veto to safeguard their interests.

The company was seen as British because the majority of the shares were held by the British government. The AIOC had the most noticeable and strongest British government connections because it was dealing with a strategic asset in a strategic area. Moreover, the AIOC had imperial connections and powerful national as well as strategic importance to Britain's economic situation and overseas interests[130]. Bill and Louis were not alone in observing that the AIOC was a dominant power in Iran since "the company was mainly owned by the British government, its power was in the end that of Britain"[131]. The British government sought to marry the protection of AIOC interests in Iran with wider concerns for fighting communism and advancing

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[125] Penrose, *The large International firm in developing countries*, 113.
[126] Seven Sisters is a group of oil companies which included: Standard Oil of New Jersey and Standard Oil Company of New York (now ExxonMobil); Standard Oil of California, Gulf Oil and Texaco (now Chevron); Royal Dutch Shell; and Anglo-Persian Oil Company (now BP).
[127] Jones, *The State and the emergence of the British oil industry*, 128.
[128] Bostock and Jones, *British business in Iran*, 1860s- 1970s, 36.
[129] *Ibid*, 112.
[130] Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953.*
[131] Bill and Louis, *Musaddiq, Iranian nationalism, and oil*, 329-30.

the Anglo-American special relationship[132]. This explains why the AIOC was observed and widely reported in the literature as an arm of imperial strategy under strong British government influence where the Iranian oil deposits were concerned. As Odell pointed out, the ultimate goal being, as was widely believed, to maintain control and serve its own interests[133].

There is no doubt that the great political power of the British government gave the AIOC more strength to confront Iranian demands and maintain its imperialism. The AIOC had a notion to ally itself in Iran to British ideals and carry on with its political and economic exploitation to maintain its imperial identity. The AIOC was a dominant player within the Iranian economy and was effectively the backbone of the British Empire. As Marsh indicated, the AIOC was "a state within a state and regarded to all intents and purposes as an arm of the British Admiralty and British Strategic policy"[134]. The AIOC's operations in Iran were extremely important to Britain's economic situation and prestige[135]. The AIOC was Iran's main source of income because it had in Iran "Abadan" which is the world's largest refinery[136]. Abadan was "…truly impressive for its scale and scope and its vast yet orderly design, covered 400 acres in addition to its tank-farms and housing estates"[137]. In 1951, the AIOC had a score of producing wells, various field equipment, an industrial area with important stores and workshops and it contained its own hospital so it was a major source of employment.

The relationship between the company and the Iranian government was very strange, given their mutual dependency, and the fact that they seemed to wish it otherwise. The company was not prepared to give up any of its control and share its power with the Iranians. Although the total profits of the AIOC constituted a formidable sum in the Iranian economy, the share of the Iranian government in the profits was relatively small[138]. As a consequence, in 1928, there had been negotiations between the Iranian government and the Anglo Persian Oil Company to

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[132] Marsh, *HMG, AIOC and the Anglo- Iranian Oil Crisis*, 143.
[133] Odell, *The significance of oil*.
[134] Cited in Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953,* 28.
[135] For the people of Great Britain, AIOC has opened up a rich supply of petroleum products which have come to be crucial for national progress and also for national safety; Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953, 28.*
[136] Abrahamian, *The 1953 coup in Iran.*
[137] Longrigg, *Oil in the Middle East*, 151.
[138] Karshenas, *Oil, State and Industrialization in Iran*, 80.

replace the 1901 concession with a new one because the Iranians were dissatisfied with the terms of the old concession and were keen to improve the royalty terms. Friction developed between the two parties and various disputes increased gradually over a number of issues. For instance, Iran complained about the fact of selling oil to AIOC subsidiaries and the British Navy at discounted prices and charging investment expenditures outside Iran as costs of oil operations. By this manoeuvre Iran was deprived of sharing in the profits of companies formed by the AIOC operating outside Iran[139]. The company requested an extension of the concession period to recoup their investment and refused to pay the Iranian income tax introduced in 1930, claiming tax exemption under its concession agreement[140]. According to Jones, securing the concession "was a case of the British government and the oil interests using each other to their mutual benefit and to the possible disadvantage of the Persians"[141]. It is clear that the AIOC was eager to secure a good deal from Iran by extending its concession to maintain its control over the Iranian oil resources.

2.3.1 1933 Agreement

The 1933 Concessionary Agreement defined several rights and obligations for the AIOC and the Iranian government, to guarantee the continuation of the company's operations. The concession included determining the duration of the contract; defining the area under concession; excluding the operation of other companies within the allocated area and offering rights of exploration and production within a stipulated period. The terms also covered refining and marketing[142]. This meant that the AIOC had a number of commitments towards the Iranian government. These included payment of taxes, royalties[143], rent to the Iranian government, provisions for employment, training of local workers and technicians, supply of petroleum to the Iranian market at reasonable prices and means of dispute resolution through arbitration rather than local courts[144].

The 1933 concession, ratified by the Majlis and Reza Shah (Iranian Prime Minister, 1923-1925) obviously extended the life of the D'Arcy concession by thirty-two years. By granting this extension, the Shah deprived the Iranians of the

[139] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 27.
[140] *Ibid.*
[141] Jones, *The State and the emergence of the British oil industry*, 130.
[142] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 24.
[143] Upon discovery of oil, it becomes the property of the AIOC who stops paying rent and instead pays the Iranian government a royalty.
[144] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 25.

possibility of controlling and operating their oil industry. The 1933 Agreement between Iran and the AIOC stipulated that the company should supply oil products for internal consumption in Iran and to warrant the Iranian government a discount of 25 per cent from the basic price to supply its own needs. It stipulated that other consumers in Iran warranted a 10 per cent discount[145]. However, the AIOC had at times encountered difficulties with the Iranian government over the payments made to the government for the oil produced[146]. Furthermore, with the 1933 Agreement, Iran had a share in the AIOC's overall profits around the world equivalent to 20 percent of dividends distributed among holders of common stock in excess of £671,250[147]. This shows that the British government had the right to increase its taxes, but Iran's taxes on AIOC revenue were frozen for a period of thirty years[148]. Evidently, Iran was left at the mercy of the British government because the company practice was to pay higher taxes in order to decrease its net profits. Less was then paid to the Iranian government which was well aware of the fact the company was making large profits from their oil industry in which the former saw themselves as having no real share or adequate reward. Moreover, with the 1933 Agreement, there was slow progress in replacing the British employees with Persian nationals and the "General Plan" to aid the progressive reduction of non Persians never came into practice. Iranian social and psychological grievances stemmed from the comprehensive discrimination against them "not only in pay but even in the bus which took them to work in comparison with British workers in the fields"[149].

In 1945 there was a proposal by the Soviet Union to give Iran equal shares in profits and management in return for having a concession in the Northern provinces. Thus, in 1946, an agreement was reached by the Iranian Premier that a Soviet-Iranian Oil Company would be formed for the exploitation of Northern Persian oil[150]. Under this agreement, Iran would supply the oil resources and receive 49 per cent of the shares and the Russians would hold 51 per cent of the company's shares for the first 25 years[151]. After this period, profits would be divided proportionately in return for

[145] *Ibid*, 75.
[146] Penrose, *The large International firm in developing countries*, 64.
[147] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 37
[148] *Ibid.*
[149] Katouzian, *The political economy of Modern Iran 1926-1979*, 157.
[150] Longrigg, *Oil in the Middle East*.
[151] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 133.

maintaining all the necessary capital, equipment and staff[152]. Unfortunately, this agreement led to resentment among the tribal and settled public in south Persia and they demanded a break up of relations with Russia [153]. Not only that, but Communist ministers were dismissed from Iran and the agreement was rejected[154]. In short, the Iranian fear of communist expansion from the north of Persia helped to damage relations with Russia but furthered British interests in maintaining control over all of the Iranian oil resources.

2.3.2 1947 negotiations and the Supplemental Agreement

Attempts to resolve the disagreements between the Iranian government and the company failed and the company was renamed the Anglo Iranian Oil Company (AIOC). The Iranian government itself wished to undertake the exploration of oil in its territory and consequently was not willing to grant any concession to foreigners, for the exploitation of oil. The Iranian government proclaimed the 1933 Agreement to be null and void and announced that “no concession would be granted to any foreigner whatsoever to regain the Iranian national rights in respect of the country’s natural resources whether underground or otherwise and necessary steps should be taken in order to restore Iranian national rights”[155]. The Iranian government believed that the previous concession was ratified by the Majlis (the Iranian Parliament) during a despotic regime and the deputies at the time possessed no powers of free debate or of expressing the public will and the benefits granted to the company were sold too cheaply[156].

These factors gave momentum to nationalist demands for increased shares of the profits. In October 1947, the Majlis reconsidered the way oil should be exploited by Britain and started negotiations with the British government to re-examine the oil concession granted to the AIOC in 1933[157]. The Iranian government’s dissatisfaction was to some extent the result of the British Government’s insistence on dividend limitations, since Iranian royalties depended in part on the level of profit

[152] *Ibid*, 133.
[153] Longrigg, *Oil in the Middle East*.
[154] *Ibid*.
[155] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 133.
[156] *Ibid*, 10.
[157] Marsh, *Anglo-American Crude Diplomacy*, 27.

distribution[158]. Furthermore, there was "sharp inflation experienced by the Middle East during the war, which resulted in an increase in the price of petroleum between 1939 and 1948. This in turn greatly reduced the real value of payments to the Iranian government since payments to the government continued to be made on a fixed royalty basis"[159]. The Iranians felt that the company's wealth had been amassed on their soil, but they had no share in its wider advantages.

In 1948, the Iranian government reconsidered the way oil should be exploited by the AIOC and initiated negotiations with the British government for a better concession. As part of the negotiations, a fifty-page Memorandum was issued by Gilbert Gidel, a French Law Professor, to revise the 1933 Agreement and to discuss specific points with the AIOC, in the hope of starting a new chapter in the relationship between the government and the company[160]. The full version of the Memorandum initially occupied fifty pages which seemed to astonish Gass, the AIOC negotiator, who immediately asked to postpone the meeting so that the full text could be translated and studied[161]. The Memorandum made a number of essential points. Firstly, it claimed that the AIOC deprived Iran of the profits of its operations overseas. Secondly, by considering the gold guarantee[162], it was found that the royalty figure represented would be less in 1947[163]. Also, the Memorandum highlighted that the company had consistently resisted Iran's demands to inspect its books in order to ascertain whether the Iranian government received its proper royalties[164]. Finally, the Memorandum pointed out that the AIOC had not improved the working conditions of the Iranian work force and they remained in unskilled jobs. We can clearly infer from the latter that that the AIOC was not willing to let Iranians hold technical jobs, fearing that they might become more skilled in the technical aspects of oil operations[165].

As a consequence of these Iranian disagreements, the AIOC provisionally agreed a Supplemental Oil Agreement with the Iranian government which was handed by

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[158] Iranian production royalties were computed for the most part at 4s per ton, but were augmented by the right to receive a sum equivalent to 20% of any distribution in excess of £671k (for an explanatory note on this aspect of profit sharing, see AIOC, Annual Report and Accounts, 1950, 14).
[159] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 132.
[160] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 53.*
[161] Elwell-Sutton, *Persian Oil, A study in power politics*, 170.
[162] The gold clause specified within the AIOC concession allowed the Iranian government the option to receive payment in gold or gold equivalent.
[163] *Ibid.*
[164] *Ibid.*
[165] *Ibid.*

Fraser on May 1949 to Mohammad Sa'ed (Iranian Prime Minister 1948-50)[166]. On 17 July 1949, when the Supplemental Agreement reached the floor of the Majlis, it was not ratified because it was successfully opposed by Musaddiq's National Front party[167]. Following the failure of ratification of the Supplemental Agreement, the Shah and the British needed a prime minister with a strong enough determination to face down Musaddiq and the National Front and force the Majlis to approve the Supplemental Agreement[168]. As a result, Razmara became the Iranian Prime Minister (1950-51) because he was seen as an "intelligent and well trained general, an able and sophisticated political tactician and a skilful diplomatic negotiator"[169]**.** Razmara argued that he could win approval for the Supplemental Agreement provided the AIOC opened its books to Iranian auditors. There were two other requests contained in the Supplemental Agreement: more training of Iranians for managerial jobs and to make some advance payment of royalties. As these other two points were implicitly accommodated in past agreements and subsequent behaviour, it can only have been the Iranian request for open accountability that stirred Shepherd to reject Razmara's proposals - to the accompaniment of another undiplomatic outburst[170]. Following a great deal of discussion, the Supplemental Agreement was modified on 1st of October 1950 because the Shah had taken the opportunity to put pressure on Razmara to make a move regarding the oil question. The Iranian government afterwards demanded a fifty-fifty division of the company's total profits, but the proposal was rejected as a result of the AIOC's insistence that only Iranian profits should be divided[171]. Fraser therefore rejected the Iranian government's demand and asserted that the Supplemental Agreement was "eminently reasonable to both parties" and rejected the request for an increase in the payment to Iran[172].

Early in 1951, the U.S government, as a precaution, urged on the British the wisdom of conceding the fifty-fifty share in the company's profits to the Iranian government[173]. In this context, the Foreign Office informed Francis Shepherd, British

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166 Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath,* 54.
167 AIOC, *Annual Report and Accounts*, 1950, 12-13.
168 Kinzer, *All the Shah's Men: An American coup and the roots of Middle East terror.*
169 Katouzian, *The Political economy of Modern Iran 1926-1979*, 158.
170 Shepherd stated the only concession the Company would consider 'was perhaps free medical treatment of certain hysterical deputies who continued to denounce the Supplemental Agreement.' FO 371/91512, cited in Kinzer, *All the Shah's Men*, 73.
171 Brumberg and Ahram, *The National Iranian Oil Company,* 10.
172 Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath,* 56.
173 Louis and Robinson, *The Imperialism of Decolonization*, 474.

Ambassador to Iran (1950-2), to disclose to the Iranian government their willingness to accept a fifty-fifty agreement, but not under the threat of nationalisation[174]. Thus, the AIOC tried to meet the mounting opposition and, in February 1951, was finally prepared to accept an agreement for equal sharing of profits[175]. Razmara maintained the closest secrecy regarding the Fifty-Fifty Agreement because his objective was to avoid a conflict with the British. He held the genuine belief that the present time was not opportune for securing the ratification of the Supplemental Agreement and he feared that the Majlis would not carry the ratification because public opinion was not in favour of anything less than nationalisation[176]. However, Razmara's royalist political objective was not achieved because the AIOC's activities had stirred nationalist sentiment to an extent unparalleled in any other Middle Eastern country.

Although a great deal has been written by non-Iranian historians about the Iranian and AIOC dispute, there are still important gaps which will be addressed in this research. For instance, there are unresolved questions about AIOC treatment of its Iranian employees. Furthermore, the sharing of oil proceeds with the Iranian government has not been fully investigated, notwithstanding their importance in the dispute between the AIOC and Iranian nationalist politicians. Moreover, the relative bargaining power of the AIOC's management and Musaddiq's government has not been assessed with reference to nationalisation and other major political events.

2.4 Nationalisation in 1951

As mentioned earlier, the problem between the Iranian government and the AIOC mainly arose in 1931 because of the decline in prices and again in 1948 because of dividend limitations which effectively reduced the payments made to the Iranian government. Not only that, but the question of evaluation of the price of gold and the limiting of production presented two common problems which needed to be addressed. As a result, the mood of the Iranian Majlis became increasingly nationalistic and the resentments became greater[177]. The AIOC was therefore obviously faced with a rising tide of nationalism and growing resentment by the

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[174] Cited in Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath*, 78; FO371/91522, F.O. to British Embassy, Tehran, Feb.23, 1951.
[175] Mansoor, *State-Centered vs. Class-Centered Perspectives on International Politics: The case of U.S. and British Participation in the 1953 coup against premier Mosaddeq in Iran.*
[176] Ansari, *Modern Iran since 1921*, 111.
[177] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 117.

Iranians towards the company's existence in Iran because of the company's resistance to change. Thus, a conflict arose between the Iranian government and the AIOC because the Iranians were seeking their political and economic independence. Iranians shared a common perception of the evil of British imperialism and a sense of facing an insensitive imperial power. Iranian nationalists brought to bear an emotional anti-imperialism and "carried with them a moral sense of righteousness that appealed to Iranians of all social and economic classes"[178]. Taking a negative view, we can say with some confidence that the wave of economic nationalism and exploitation of oil in Iran by the AIOC demonstrated Britain which was willing to receive the benefits of another country by exploiting its resources.

Important events relating to the nationalisation crisis are set out in Table (1). An important reason for these events and shifts in the political landscape, aside from wider cold war and Middle East geo-political considerations, was the perceived unfairness associated with the AIOC's operations, in terms of the share of oil wealth received by Iran and of the discrimination by the AIOC against Iranians. It is important to know the AIOC and British government officials involved during this time period. First, the AIOC officials included Ernest G. Northcroft (1896-1976), the AIOC's Chief Representative in Tehran, 1945-51, and Basil R. Jackson (1892-1957), Deputy Chairman. Second, the British government officials included the Lord Privy Seal, Richard R. Stokes (1897-1956). These officials dealt with a succession of Iranian Prime Ministers, beginning with Ali Razmara (1901-1951) June 1950 – 7th March 1951, Mirza H.K. Ala (1882-1964), 8th March – 28th April, and most significantly, from 28th April, the leader of the National Front coalition, Muhammad Musaddiq (1882-1967).[179] In the US, the Truman administration increasingly became drawn into negotiations from a relatively neutral position, wishing above all to reinforce Iranian governments of whatever nationalist hue against the Soviet Union. W. Averell Harriman (1891-1986) was appointed by Truman as his special envoy to Iran in the August 1951 diplomatic round, and subsequent negotiations involved Truman himself and Secretary of State Dean, Acheson (1893-1971)[180].

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[178] Bill and Louis, *Musaddiq, Iranian nationalism, and oil*, 2.
[179] Musaddiq led the National Front coalition from its formation in 1949; Bamberg, *The History of the British Petroleum Company*, 605-606.
[180] Bamberg, *The History of the British Petroleum Company*, biographies, 593-610.

Table (1) below illustrates that the years preceding nationalisation witnessed a series of failed proposals on the one hand, and a succession of Iranian governments and institutional changes on the other, reflecting the increasing influence of political organisations opposed to the AIOC. Clearly, with the collapse of the authoritarian regime of Reza Shah, the post-war period witnessed fundamental changes in the international economy and nationalisation of the oil industry became a central issue on the political agenda.

Table 1: Timeline of key events, May 1933 November 1951

Date	Event	Commentary and related events
a) Background events		
29th May 1933	Concession Agreement receives Iranian assent	Agreement regulating AIOC's operations in Iran concluded between AIOC and the Iranian Government.
22nd Oct. 1947	Single Article Law	Iranian government committed to renegotiate the Concession.
17th July 1949	Supplemental Oil Agreement (SOA) signed subject to the approval of the Majlis	In 1948 the AIOC entered into negotiations with the Persian Government for a revision of some of the terms of the 1933 Concession. SOA signed by an AIOC representative and the Iranian Minister of Finance.
Jun 1950	Elections to Majlis	Increased National Front representation on Majlis Oil Committee (MOC)
b) Events concurrent with Fraser's 1951 Chairman's Statement, 1 Dec 1950-19th November 1951		
1st Jan	Saudi fifty-fifty (50:50) Agreement	Signed between Saudi Government and Arabian American Oil Company (Aramco).
11th Jan	SOA Bill rejected by the Majlis	Followed MOC conclusion that the agreement did not safeguard Iranian interests.
10th Feb.	Negotiations between Northcroft and Razmara	Northcroft for the AIOC offers £25m and fifty-fifty (50:50) share of Iranian profits.
19th Feb	Musaddiq proposes nationalisation to the MOC	Political dispute between Razmara and Musaddiq over nationalisation
7th March	Assassination of the Prime Minister Razmara	Succeeded by Ala.
8th March	MOC passes resolution for nationalisation	
15th March	Single Article Bill on nationalisation approved by the Majlis	
20th March	Single Article Bill approved by Senate	AIOC management in Khuzistan imposes wage and allowance reductions, resulting in strikes and anti-British violence. Three AIOC staff killed. British Govt takes over responsibility for negotiations.
26th April	MOC promulgates "Nine Point Law".	Mixed board of senators and deputies to implement nationalisation. British government proposes setting up new AIOC subsidiary with some Iranian directors.
29th April	Musaddiq appointed Prime Minister.	Resignation of Ala following failure of negotiations with Britain. Nine point law approved by Senate and received assent on 1st May
19th June	Jackson Mission to Tehran	AIOC delegation offer, including acceptance of the principle of nationalisation, money for present needs and a practical foundation for future partnerships.
5th July	Ruling of the International Court of Justice	Granted the British request for interim measures of protection
4th August	Lord Stokes Mission with Harriman to Tehran	British and US government 8-Point proposals subsequently withdrawn. British staff withdrawn from Abadan.
28th Sept	Iranian Government orders all British staff to leave Abadan	In response the British government refers the dispute to the UN security council; submits Memorial to International Court of Justice
22nd October	Musaddiq holds talks with Truman and Acheson	Joint proposals developed.
8th Nov	Eden rejects joint proposals.	

Sources: Compiled from Cmd 8425, 'Explanatory Memorandum' *Correspondence between His Majesty's Government*; AIOC *Annual Report and Accounts*, 1950, 11-22; Bamberg, *The History of the British Petroleum Company*, chapters 15-18.

As illustrated above, in Table (1), the political landscape had changed considerably and new nationalisms started to emerge in May 1951 because Iran wanted to develop policies with which the country could earn higher returns from its oil production. As we have already noted, this kind of ambition naturally generated conflict with the British government which had its own regime. However, the way the conflict evolved and the kind of actions the Iranian government took were determined by each type of regime. Reza Shah was the commander-in-chief of the newly created national army and exerted his authority throughout Iran[181]. The Shah reminded the Iranians of his dictatorial father and his dependence on America for military advisers, hardware and economic aid for his Seven Year Plan[182]. Iranians did not enjoy economic prosperity during the era of the Reza Shah because of his bureaucracy and administration. During the reign of Reza Shah, "the landlords relinquished total control over the state machinery to the Shah and the government did not intervene to control such actions"[183]. Reza Shah managed to replace the parliamentary majority of the conservative forces "who increasingly opposed his policies and challenged the consolidation of his political power by a working majority of his supporters"[184]. Economic policy during Reza Shah's era was characterised by a trial and error approach rather than systematic economic calculations[185]. It was during the Shah's administration that Britain maintained control over the Iranian oil industry and became dominant oil producers and this was clearly because of a weak government and also because of Reza Shah. The Shah's regime was deficient and was driven largely by the Iranian nationalist view of dealing with institutional and economic concerns that seemed urgent such as establishing order and promoting education, health care and infrastructure[186]. As a consequence, Reza Shah was forced to resign and Iran reached its peak in nationalist policies after the opposition of the Reza Shah's rule and the overthrow of his regime.

After Reza Shah's rule came to an end, there were no more talks about land reform which had been an important aspect of political discourse during his era,

[181] Karshenas, *Oil, State and Industrialization in Iran*, 65.
[182] Abrahamian, *Iran Between two revolutions*, 251.
[183] *Ibid*, 68.
[184] *Ibid*, 65.
[185] Esfahani and Pesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 5.
[186] *Ibid.*

which enhanced power for Britain to intervene in the Iranian economy[187]. The departure of Reza Shah created a variety of groups willing to participate in the political process to attain independence and halt the process of exploitation and imperialism of AIOC[188]. Therefore, a chorus of different opposition voices arose, ranging from the Communists (Tudeh) who opposed the economic treatment of Iranian employees by the AIOC[189] and the secular nationalists (National Front Party), ultimately led by Musaddiq, who favoured a fairer share of oil resources for the Iranian people. Thus, in the growing Iranian sentiment towards nationalisation, political conditions had changed considerably and new nationalist movements started to emerge. This happened because the Iranian government wanted to develop policies with which the country could earn higher returns from its oil production. Musaddiq believed that Iran should begin profiting from its vast oil reserves because the Supplemental Agreement was of marginal benefit to the Iranians. Musaddiq "stressed that no oil concessions should be given to foreigners either during or after war"[190]. Therefore, Musaddiq submitted a bill calling for nationalisation in February 1951 but it was refused by the Shah for one and half months[191]. Following the refusal of the Shah, there were strikes and anti-British violence in Iran and the Majlis elected Musaddiq as the Iranian Prime Minister[192].

Amid the growing demands for nationalisation, the Foreign Office acted to try and avert the event and held a meeting on 20 March 1951 to argue the need to intervene in AIOC's relations with Iran and to arrange for talks with the US to build unity and avoid nationalisation from taking place[193]. Meanwhile, on 7 March 1951, Razmara's broadcast to the Iranians, seemed to be telling the nation to support AIOC operations in their country and continue to produce handicrafts rather than trying to run an oil industry[194]. After arguing against nationalisation to the Majlis Oil Committee and following a call from Ayatollah Kashani "to all sincere Muslims and patriotic citizens to fight against the enemies of Islam and Iran and join the nationalisation

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[187] Karshenas, *Oil, State and Industrialization in Iran*, 233.
[188] Esfahani and Pesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 5.
[189]Tudeh led protests against bad housing and low wages in the oil industry and mobilised mass meetings against the government's procrastination in implementing the nationalisation law; Abrahamian, *Iran Between two revolutions*, 266.
[190] *Ibid*, 47.
[191] Mansoor, *State-Centered vs. Class-Centered Perspectives on International Politics: The case of U.S. and British Participation in the 1953 coup against premier Mosaddeq in Iran.*
[192] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, p.118.
[193] Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath,* 83.
[194] *Ibid*, 80.

struggle", Razmara was assassinated on 7th March 1951 amid an upsurge of nationalist sentiment[195]. It was against this backdrop that Musaddiq succeeded as Prime Minister and pushed forward the bill for nationalisation.

The Nationalisation Law was approved by the Iranian Parliament on 30 April and signed by the Shah the next day[196]. On 1st of May 1951, against a national background of strong anti-British sentiment, the Iranian Prime Minister nationalised all of Iranian assets of the AIOC with the promise of restoring Iran's honour and dignity by eliminating the AIOC concession[197]. Obviously, nationalisation did not emerge overnight but the company was seen as a British sphere of influence which had helped to bolster the autocratic rule of Reza Shah who had enabled the company to undertake exploration throughout the period. Given the above, it was clear that the historiography of the industry dominated Iranian culture which was tightly bound up with the imperialistic British Empire[198]. The company appeared to the Iranians to be imperialistic because it was both British-owned and managed despite the use of Iran in its name. The AIOC was seen as a symbol of informal British Empire that remained mostly resistant to change and unwilling to improve the Iranian concessions. Therefore, resentment against the AIOC grew because of its British sovereignty. More than this, Iranians felt desperate about the company's exploitation of their oil resources claiming that the company was not safeguarding Iranian rights and that the Iranian government should nationalise the oil industry. Bucheli[199] described companies investing in mining or oil as targets of political violence pointing out that they are more vulnerable to nationalist policies than those operating in the manufacturing or service sector. This is due to their vertically integrated structure which affects local polities. In similar vein, White asserted that "nationalisation appeared a distinct possibility in a number of Britain's decolonizing territories because many of the anti-colonial movements taking shape by the 1950s espoused some form of socialism"[200]. More to the point, Bostock and Jones stated that the virulent Iranian economic nationalism "cannot be treated solely as an

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[195] Ansari, *Modern Iran since 1921*, 111-112.
[196] Longrigg, *Oil in the Middle East*.
[197] Brumberg and Ahram, *The National Iranian Oil Company in Iranian Politics.*
[198] Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953*.
[199] Bucheli, *Multinational corporations, totalitarian regimes and economic nationalism: United Fruit Company in Central America, 1899-1975*, 436.
[200] White, *The Business and the politics of decolonization: the British experience in the Twentieth century*, 551.

endogenous factor to British business. Iranian policies were a reaction to the close relations between British business in Iran and the British government"[201]. Ferrier was more explicit in his statement that the Iranian nationalists were aware that "AIOC was acting as an agent of the British government in depriving the Iranian government of the revenues to which it was entitled".[202] However, in contradiction, AIOC executives blamed the Treasury in London for being inflexible in royalty and dividend payments to Iran which was the main trigger for the company's nationalisation. From a broader perspective, the dependency theory explains that the world consists of a "core" of dominant nations and a "periphery" of dependent ones[203]. Friedmann and Wayne argued that the main relationship between societies has been an exploitative one because wealth is created at one of its poles and poverty is created at the other[204]. Thus, this may explain how rich and powerful countries have monopolistic power and how they are allowed to exploit weak and poor countries through economic and political methods, resulting in unfairness in income distribution, discrimination and political repression[205]. Given this hypothesis it was predictable that major British businesses were founded on the basis of monopoly concessions, secured at a time when British political power was strong and Iranian political power weak[206]. Within this context, Iranian nationalists were well aware of the fact that the AIOC's strategy was shaped not only by the policies of the company, but also by the prevailing political economy of the British government. The AIOC was "acting as an agent of the British government in depriving the Iranian government of the revenues to which it was entitled"[207]. Accordingly, the AIOC was seen as a prime example of domination in its economic power over Iran, resulting in unfairness in income distribution, as well as discrimination and political repression.

To return to the direct question of nationalisation, we shall now examine its implications for the performance of the AIOC. The main implication of the Iranian government's nationalisation of the oil resources was to prevent foreign oil

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201 Bostock and Jones, *British business in Iran*, 1860s- 1970s, 66.
202 Ferrier, *The Anglo Iranian oil dispute: a triangular relationship*, 170.
203 Seers, *Dependency theory: a critical reassessment*, 15.
204 Friedmann and Wayne, *Dependency theory: a critique*, 401.
205 For unfairness in income distribution review Keddie, *Modern Iran*, 124; For discrimination and political repression review Abrahamian, *The 1953 coup in Iran.*
206 Bostock and Jones, *British business in Iran*, 1860s- 1970s, 66.
207 AIOC executives blamed the Treasury in London for being inflexible in royalty and dividend payments to Iran which resulted in the company's nationalisation; Ferrier, *The Anglo Iranian oil dispute: a triangular relationship,* 170.

exploitation on its territory[208]. Nationalisation was considered to be the first movement which emerged out of Iran's expropriation of the Anglo-Iranian Oil Company's interests in 1951[209]. Nationalisation of the AIOC angered the British and affected their imperial power because it led to the loss of the company's entire status, rights, and assets in the territory. Following the nationalisation of the AIOC by Musaddiq, an unclear relationship between Iran and the British government was established because of British attempts to exercise imperial power. The serious nature of the dispute between Iran and the AIOC in the 1950s was mostly due to Musaddiq's persuasion that the problem was more one of principle and politics than of money[210]. Tignor reinforces this view with the assertion that "Political economies, like all human constructions, emerge through the visions of usually powerfully placed individuals"[211]. Thus, Musaddiq's nationalisation made Britain lose its previous advantages of maintaining control because the Iranians consolidated their power and were eager to change former policies and agreements.

It is clear that the promulgation of nationalisation represented the culmination of a rising tide of nationalism that overwhelmed the efforts of the AIOC to negotiate a new concession. The British government feared that the existing political situation in Iran would negatively affect the production and exports of the AIOC. Obviously, the Iranians refused to export oil under the terms of the old agreement and refused to allow British tankers to ship their oil from their refinery. That meant that the flow of crude oil would come to an end and the refinery forced to close[212].

Nationalisation was therefore considered by the British government as a potential threat from several points of view, not least commercial, and the government therefore aimed to fight for the control of Iran without destroying its industry. To this end the AIOC undertook "advocacy advertising" during the nationalisation crisis which took place in 1951 to present a point of view about a major public issue in a way that is favourable to the sponsor (i.e. the AIOC), thus making otherwise one-sided viewpoints appear more objective. Indeed generally, since Musaddiq's nationalisation, the company had become more aggressive in buying advertising

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208 Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 48.
209 Odell, *The significance of oil.*
210 Penrose, *The large International firm in developing countries*, 211.
211 Tignor, *Capitalism and nationalism at the end of empire: state and business in decolonizing Egypt, Nigeria, and Kenya*, 1945-1963, 23.
212 Onslow, *Battlelines for Suez: The Abadan Crisis of 1951 and the formation of the Suez Group.*

space (as shown in *The Times*, *The Manchester Guardian and The Daily Mirror*) to respond to the crisis. This activity was felt to be crucial to the image presented of the company's performance and was also used to counter sources of public and political concern (other than making a profit) of an ethical nature[213]. Simply, the reasons that the AIOC undertook advocacy advertising were firstly to widely disseminate a public message and to clearly set the agenda for its preferred policies.

To sum up, the events that took place in Iran in 1951 were dramatic because Musaddiq nationalised the AIOC's assets, including the largest refinery in Abadan. Musaddiq promoted nationalisation in order to secure more profits and rewards for his own country. Musaddiq was not a radical but a reformist because he was keen to fight against the imperial power of the AIOC which was dominating Iran. To achieve his aims he saw that it was necessary to first attain political independence for his country[214]. Musaddiq criticised the existence of the company because it had not done enough to advance and promote Iranians in its employment. Musaddiq believed that the company had contributed insufficiently to Iran's economic and social progress and was aware of the fact that the AIOC had profited greatly from Iranian oil and had thereby dominated Iranian economic life. Iran's loss of sovereignty and the desire to defeat British imperialistic power were the main motives for nationalisation, and also because there was no sense that the AIOC was in a quest for equality. From the foregoing it is easy to see how the growth of nationalism was driven by historic anti-Iranian prejudices which were born out by the manner of the AIOC's operations in Iran. On the other hand British officials believed that British firms should dominate external transactions to protect the home country's uncertain balance of payments[215], since Iranian oil supplies were "a major source of soft currency generation and tax revenue for the British government"[216]. Not surprisingly, for the British themselves, the company was seen as a model of commercial behaviour and an example of ethical qualities lacking in the Iranian national life.

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[213] 1950 reports of AIOC Annual General Meetings, at which the chairman presented the published statement, appeared in different local newspapers such as the *Economist* and the *Times.* The AIOC 1950 statement for instance appeared in *The Economist* December 1st 1951, 59-65; *The Times,* November 28, 1951, 8(A), Issue 52170.published in full in various newspapers.
[214] Ferrier, *The History of the British Petroleum Company: Volume 1, the Developing Years 1901-1932*, 180.
[215] Tignor, *Capitalism and nationalism at the end of empire: state and business in decolonizing Egypt, Nigeria, and Kenya,* 1945-1963; Bostock and Jones, *British business in Iran*, 1860s- 1970s.
[216] Marsh, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-1953*, 28.

As illustrated above, various scholars have different views and interpretations of AIOC operations in Iran and the nationalisation by Musaddiq. For example, Bamberg has studied Iranian nationalism and the development of the AIOC in Iran and explained that the AIOC contributed to the Iranian economy through its exploration activities in Iran and the discovery of oil resources[217]. However, Elm had the view that the AIOC did not contribute fairly to the Iranian economy because non-Iranian subsidiaries were not consolidated by the AIOC thereby depriving the Iranian government of profits generating from overseas operations[218]. Furthermore, he explained that the AIOC should not contend the Iranian claims that the AIOC's worldwide business "had been built up on Persian oil"[219]. In fact Elm's view supports Keddie's suggestion that the company was an untouchable foreign enclave within Iran which exploited the Iranian resources to contribute a significant amount of royalty to the British government[220]. As discussed above, much has been written on the AIOC by various scholars in the secondary literature about the role of the AIOC at a macro level. Notwithstanding the differing views on the above issues, the literature has not examined the attitudes of senior AIOC management to their Iranian employees, how the profits of the company were divided between the main stakeholders, or whether Musaddiq and Iranian nationalism represented a serious political threat to the wealth of AIOC investors. These issues are crucial for a detailed understanding of the events before and after nationalisation, which had such important long term impact on Middle Eastern politics and will be explored further in the empirical chapters that follow.

2.4.1 Musaddiq's motivations for nationalisation

After the Second World War, oil played an important role in world economics and Iranian people wanted the AIOC to adopt the same attitude to Iran as the oil companies in the world showed towards those who had granted them concessions. Iranians were doomed to be poor, in spite of their vast underground resources, since their share of the oil profits served to satisfy the AIOC instead of being used for public welfare.

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[217] Bamberg, *The History of the British Petroleum Company*; Bamberg, *British petroleum and global oil*, 1950-1975;
[218] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 53.
[219] *Ibid*, 107.
[220] Keddie, *The Iranian power structure and social change 1800-1969: an overview*, 11.

As important as Iran receiving fair revenue for Iranian oil, the British government was often seen as an instrument of British policy toward Iran and the Middle East. This could be achieved through being the majority shareholder in the AIOC. Britain had occupied Iran in World War II in order to have access and to maintain control over Iran's oil after the war, through the AIOC[221]. It is important to emphasise that all of the AIOC's oil came from Iran and the loss of Iranian oil in 1951 dispossessed Britain of a significant percentage of its oil needs[222]. The AIOC claimed to be an important arm of the British Empire and continued to promote itself therefore as an imperial company with strong British status. This was reinforced by the fact that, in a military sense, the strength and union of empires were based largely on naval and air supremacy, and that supremacy, at that time, was based on oil[223]. The inter-war period created the possibility, and saw the growth of horizontal mass political organisations in Iran, which included the rapid growth of an Iranian communist party (Tudeh Party) along with a national movement led by the National Front Party. Both new parties had the effect of cutting through traditional political allegiances[224]. The Tudeh Party had the motivation to pursue economic growth since economic development was viewed as top priority for the Iranian economy

Musaddiq was a nationalist politician and the spokesman for the tide of public opinion demanding a change to the relationship between the UK and the state of Iran. Musaddiq was eager to improve the terms of the concessions offered, in Iran's favour. In 1944, Musaddiq was elected in the Majlis and expressed his aims as follows. His first aim was to end Iran's subjection to foreign powers. He believed that the existence of the AIOC had provided a vested interest for Britain in the Iranian political economy, exposing the country's domestic and foreign political relations to covert British interference and manipulation[225]. Thus, he wanted to be permanently rid of the foreign-dominated enclave as a route to achieving real national sovereignty and independence[226]. His second aim was to establish parliamentary rule in a way that representatives of Iranians would control the affairs

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[221] New York Times (2000). http://www.nytimes.com/library/world/mideast/041600iran-cia-index.html, visited 10th of August 2008.
[222] Marsh, *Continuity and Change reinterpreting the policies of the Truman and Eisenhower administrations toward Iran, 1950-1954.*
[223] Johnson, *British multinationals, culture and empire in the early Twentieth century*, 168.
[224] Karshenas, *Oil, State and Industrialization in Iran*, 84.
[225] Katouzian, *The Political economy of Modern Iran 1926-1979*, 157.
[226] *Ibid.*

of the state[227]. For Musaddiq, the past behaviour of the AIOC and its long record of profit extraction was the major source of injustice.[228] Downplaying the economic significance of oil, Musaddiq said that 'Persia must at all cost maintain her independence and that he would be content to sell no more than 10 million tons a year which he thought would be enough to balance the budget,'[229] and that henceforth 'we value independence more than economics.'[230]

Musaddiq explained that the real purpose of nationalisation was "to transfer all the company's assets and the installations of the former concession folder to the Persian government as well as the control of the production and exploitation of the oilfields…..The Persian government has at its disposal the necessary means to ensure oil production and the technical and financial management of the oil industry in Persia and is confident that there will be no interruption or reduction in production"[231]. He was concerned with maintaining political control over Iranian oil resources. Because of the oil question, Musaddiq had acquired strong nationalist dimensions which rendered a liberal compromise with the AIOC impossible[232].

To understand Musaddiq, it is worth digressing a little into his personal background: he was an eccentric European-educated lawyer from a rich landowning family "whose father was a bureaucrat and whose mother descended from Persian kings"[233]. Musaddiq in particular was a controversial figure. His strengths and weaknesses have been much debated, although it is agreed that he appealed to and operated in diverse constituencies[234]. Not all commentators on his character have been kind. Bamberg summarises British opinion of the Iranian leader as "demagogic agitator and lunatic extremist"[235]. To the British public and the press, Musaddiq was seen as "the old man wearing pyjamas and perpetually weeping, appeared so ridiculous, so fanatical and unashamedly emotional, that he represented the defiance

[227] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 59.
[228] *The Times*, September 26, 1952, 4(c).
[229] Middleton to Foreign Office, July 25, 1952, BP 100571.
[230] Ferrier, *The History of the British Petroleum Company: Vol. 1, The Developing Years 1901-1932*, 180; Kinzer, *All the Shah's Men,* 74.
[231] *The Times*, May 3rd , 1951, 4(C), Issue 51991.
[232] Karshenas, *Oil, State and Industrialization in Iran*, 84.
[233] New York Times (2000). http://www.nytimes.com/library/world/mideast/041600iran-cia-index.html, visited 10th of August 2008.
[234] De Groot, *Religion, Culture and Politics in Irans*, 221.
[235] Bamberg, *The History of the British Petroleum Company*, 413; Heiss, *Empire and Nationhood*, 74; Keddie, *Modern Iran*, 125

of all reason"[236]. Such were the highly polarised views of the person that confronted Fraser as the chief threat to the value of the AIOC's very substantial Iranian investments.

Nonetheless, George McGhee, the US Assistant Secretary, liked Musaddiq "as a man and admired his patriotism and courage in standing up for what he believed best for his country"[237]. Meanwhile, McGhee criticized the AIOC for "subordinating broader political considerations to purely commercial interests" and added that "the British government had failed to exercise sufficient control over the company's policy"[238]. Interestingly, when Musaddiq visited America to argue his case to Acheson, U.N. Security Council, he "struck up a kind of comic friendship with the emotional old man, fascinated by his pixie quality and his bird-like movements"[239].

Musaddiq perceived the nationalist mood because he was the nucleus of the National Front which successfully blocked the adoption of the Supplemental Agreement. He was appointed as the Chairman of the Committee on Iranian Oil Policy and rejected the existing concession since it did not safeguard Iranian interests. Thus, Musaddiq considered the 1933 Agreement to be void because it was endorsed during a dictatorship when Iranians were conceded no authority. Meanwhile, the aim of the Supplemental Agreement was to reinforce what was earlier pronounced as a null agreement, so that for the next forty-three years the nation would be burdened with a disgrace which could not easily be eradicated[240].

Nationalisation by Musaddiq did not gave the opportunity to AIOC to choose or reject the process, and this explains why he was seen by Britain as an anti-colonial figure. Musaddiq was aware that Iranian rights had been violated by the oil concession granted to the AIOC and this was the main reason for asking for better terms. Iran struggled to improve its concession but secured nationalisation. It is worth noting that 1951 marked the start of a difficult period for the AIOC in Iran: not only were its investments affected by the storms of great economic depression but, also, by the populist nationalist movements led by Musaddiq. The latter gained momentum in much of the region, demanding that the AIOC should make more generous concessions to the Iranian labour force and provide better conditions for the

[236] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 117.
[237] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath,* 219.
[238] *Ibid*, 86.
[239] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 121.
[240] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath,* 71.

locals. Musaddiq insisted that Iran should have the right to regulate the performance of subsidiaries and reach a settlement with regards to the amount of taxes paid to the Iranian government.

After Musaddiq nationalised the assets of the AIOC, he said “our biggest national resource has come back to the nation”[241] and asserted that if these resources were properly used then Iran “can in future live comfortably and fulfil its duty to world civilization shoulder to shoulder with other nations”[242]. Furthermore, he demanded that the Iranian workers should “maintain order and not afford any excuse to our foes” because any disturbance or enmity would result in the loss of the efforts of the Iranian people[243]. The change of government in Persia and the sharpening of its oil policy “seem bound to usher in a new period of anxiety”[244]. Musaddiq was willing to give the National Iranian Oil Company (NIOC) full control of operations under the following management structure: four Iranian directors and eight experts from “neutral” countries such as Sweden, Switzerland, and Holland[245]. Musaddiq’s governmental action angered the British because it seemed part of a growing pattern of pressure on their interests (by wresting control of the oil industry) and raised the whole question of British influence in the Middle East. Musaddiq’s challenge, therefore, to the position of the Anglo-Iranian Oil Company and British interests was regarded as a crucial test of British nerve[246].

Musaddiq criticised the AIOC for not contributing sufficiently to the Iranian economy “as might be inferred from the fact that Iranian oil workers lived in hovels”[247]. He accused the British government of using imperialism to suit their cause through their access to politicians and government officials at the highest level. Moreover, he accused Britain of “interfering in Iran’s internal affairs and the AIOC of treating Iranian employees like animals while manipulating Iranian governments in order to have a free hand in plundering Iran”[248]. As a result, no settlement was reached.

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[241] *The Times*, May 1st, 1951, 4(E), Issue 51989.
[242] *Ibid.*
[243] *Ibid.*
[244] *The Times*, April 30, 1951, 5(B), Issue 51988.
[245] Elm, *Oil, Power, and Principle: Iran’s oil nationalisation and its aftermath*, 137.
[246] Onslow, *Battlelines for Suez: The Abadan Crisis of 1951 and the formation of the Suez Group.*
[247] Pirouz, *Iran’s oil nationalisation: Musaddiq at the United Nations and his negotiations with George McGhee*, 111.
[248] *Ibid, 210.*

In December 1951, Musaddiq gave a clear statement of his political objective to the Majlis: 'we should assume that like Afghanistan and the European countries we do not have oil, we should reduce our spending and increase our revenues, the nation should tolerate the burden of hard times in order to free itself from the yoke of slavery'[249]. Musaddiq believed that Iranian oil resources should be developed by Iranians themselves because the company had expanded its operations by reducing Iran's share in oil revenues. For Musaddiq, the past behaviour of the AIOC and its long record of profit extraction were the major sources of injustice[250]. The AIOC was exploiting the Iranian resources and making trifling payments in return. "AIOC had become the personification of the exploitative imperialism of the British Empire and the source of social and economic injustice"[251].

Musaddiq was hailed as a hero for his fiery speeches on the evils of British control of Iran's oil industry[252]. Obviously, Musaddiq's anti-British position was an important reason for his increasing and enduring political power as the crisis unfolded. His government was democratic, popular, and with a broad base of support[253]. Nevertheless, Musaddiq's role in history will remain under dispute because some would consider him an embarrassing phenomenon who bankrupted his country and looked foolish to the world[254]. However, others would view him as a kind of national hero because of his push towards nationalism in response to the perceived excesses of the British.

2.4.2 Senior Management (Fraser)

As mentioned earlier in this chapter, the AIOC had no clear founder-chairmen or founding family because William Knox D'Arcy financed the exploration in Persia but never visited the country himself (which was, even then, quite unusual). After oil was discovered, D'Arcy traded his rights and remained mostly unimportant to the company's further development, regardless of becoming a non-executive director of the Anglo Persian Oil Company. Since power was retained at the top, the Chairman

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[249] Cited in Mansoor, *State-Centered vs. Class-Centered Perspectives on International Politics: The case of U.S. and British Participation in the 1953 coup against premier Mosaddeq in Iran*, 14.
[250] *The Times*, September 26, 1952, 4(c).
[251] Cited in Elm, 81; William Roger Louis, *The British Empire in the Middle East*, 1945-1951 (Oxford, 1984), p.649).
[252] New York Times http://www.nytimes.com/library/world/mideast/041600iran-cia-index.html, visited August 10, 2008.
[253]Curtis, *The coup in Iran, 1953*. http://markcurtis.wordpress.com/2007/02/12/the-coup-in-iran-1953/, visited August 10, 2008.
[254] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 136.

was certainly of key importance in the company. Thus, the Chairman's statement provided in the annual report gives an indication of the internal perception of the company and reflects the objectives and attitudes that the company was seen publicly to espouse. Despite his relative power, he never acted in isolation but had to enlist support from the members of the Board of Directors when taking national and imperial interests into consideration.

Sir William M. Fraser (1888-1970) took over from Cadman as Chairman of the AIOC from 1941 to 1956. He was a man with few doubts about the national role of his company[255]. Fraser had been born into oil because he inherited from his father the largest company in the Scottish oil-shale industry which was merged with other six companies into the AIOC to provide them with Scottish outlets[256]. Later on, Fraser joined the Board of Directors and helped to negotiate the 1933 Agreement. It is worth noting that he lacked Cadman's breadth of outlook[257]. Fraser had no flexibility at all and did not like to be told what to do by the government. He alone wished to determine both the AIOC's and Britain's policies with regard to Iranian oil. "He had contempt for civil servants and on occasion tried to intimidate them into doing what he wanted"[258]. Fraser's chief asset was his commercial insight, and his chief weakness was his lack of political insight.[259] According to Sir Edward Bridges, Permanent Secretary to the Treasury, Fraser was narrow-minded, lacked political insight and should be removed[260]. People within the AIOC considered Fraser "a silent, craggy Scotsman, with an intimidating Glasgow accent and a bleak sense of humour"[261]. Fraser "did not think politics concerned him at all and had all the contempt of a Glasgow accountant for anything [which] could not be shown on a balance sheet"[262]. Eden described Fraser as living in "cloud-cuckoo land"[263].

After World War II, there was significant friction between His Majesty's Government and the autocratic Sir William Fraser, because the Government began to see Fraser and the company's Board as the real problem behind British difficulties in Iran. Kenneth Younger, a British Labour politician who served during the Attlee

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[255] *Ibid*, 113.
[256] *Ibid.*
[257] *Ibid.*
[258] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 66.*
[259] *Ibid, 120.*
[260] Bamberg, *The History of the British Petroleum Company,* 463.
[261] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made,* 113.
[262] *Ibid*, 120.
[263] Cited in Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 242.

government, described Fraser as a thoroughly second-rate intellect and personality which is incompatible with the position of Chairman of a company like the AIOC operating in so complex and unsettled area as the Middle East[264]. In similar vein, Sir Frederic Leggett, the company's labour adviser, suggested that the company required a fresh start on the basis of equal partnership because the AIOC's management was considered to be blind and unaware[265]. Bamberg sums up Fraser as a competent practical oilman but poor diplomat[266].

From the U.S perspective, George McGhee, Assistant Secretary of State, agreed that the continual ineptitude of the company had helped Musaddiq's cause.[267] McGhee met Fraser at a meeting characterized by tenseness and sparring comments when McGhee tried to persuade the latter to consider current realities in Iran and be more forthcoming. Fraser, unfortunately, was adamant, saying that McGhee's understanding of the situation was wrong and that there was no need to give Iran any concessions[268]. Indeed, Acheson, Secretary of State Dean, and many Americans had for some time been annoyed by Fraser because of "his parochial arguments about commercial feasibility, and by the apparent failure of the British government to control company policy"[269]. Moreover, William Harriman, President Truman's special envoy to the Iranian government, believed that Fraser was completely out of touch with reality and his men were trying to impose archaic policies on the British government[270]. The *Washington Post* reported that American officials were "convinced the company must abandon the stiff-necked policies followed for many years by its president, Sir William Fraser"[271]. Both the Labour government and the U.S State Department urged that Fraser had to be replaced by someone with "a broad outlook and statesmanlike qualities" or at least the Foreign Office should not allow him to dictate British policy[272]. In short, as far as U.S negotiators were concerned, after several rounds of diplomacy it was clear that either Fraser or Musaddiq would need to be removed if matters were to be progressed and they did not care either way. It is easy to see that this was the correct conclusion: Musaddiq was concerned with

[264] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 120.
[265] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 66.*
[266] Bamberg, *The History of the British Petroleum Company*, 413.
[267] *Ibid*, 462.
[268] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 86.
[269] Marsh, *HMG, AIOC and the Anglo- Iranian Oil Crisis*, 163.
[270] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 143.*
[271] *Ibid, 88.*
[272] *Ibid, 105.*

politics and ignored commerce, but Fraser ignored politics and applied only commercial logic.

Britain was aware of the Iranian claims that were upheld and as a result they urged the United States to support her, but Fraser felt that no support from other countries was needed. He believed that the Iranians would soon yield in desperation and said: “When they (Iranians) need money they will come crawling to us on their bellies”[273]. He was resolute in not paying any attention to such warnings and was confident that Musaddiq would collapse and that the Iranians would be forced to negotiate[274]. Fraser had calculated that oil, being by far Iran’s biggest export would mean that the withdrawal of tankers by AIOC and other major companies would bring Iran’s oil exports to a halt, thus making Iranian workers idle and “would be fruitful material for stirring up trouble”[275].

Fraser was convinced that the AIOC should maintain its monopoly of Iranian oil and squeeze out of Iran as much as it could. His blatant short-sightedness in running this empire made his position and by extension that of the AIOC potentially vulnerable, because the forces ranged against the AIOC were very powerful. These forces, once unleashed, eventually led to the biggest political upheaval in the history of oil[276]. Members of the British government believed that the Supplemental Oil Agreement was a reasonable proposal to the Iranians but they heavily criticised Fraser who drew it up in a manner which made it seem less favourable than the Aramco Agreement in Saudi Arabia[277]. Consequently, after several rounds of diplomacy, it was clear that there was a vigorous and ever growing sense of autonomy and nationalisation, fuelled by Prime Minister Musaddiq.

The AIOC was of strategic importance because it captured a large market share in the economy and was highly visible in the public eye. There were many internal and external factors that influenced Fraser to disclose information during the company’s nationalisation. Fraser lobbied against protecting Iran from communism and was thereby able to further exploit Iranian resources. He disclosed in the *Times* that “the recent disturbances in the Abadan area, which the Iranian government were obliged to repress with a firm hand, were undoubtedly of communist inspiration and are a

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[273] Cited in Elm, *Oil, Power, and Principle: Iran’s oil nationalisation and its aftermath, 122.*
[274] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 120.
[275] Elm, *Oil, Power, and Principle: Iran’s oil nationalisation and its aftermath, 119.*
[276] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 113.
[277] *Ibid*, 120.

timely reminder of their ability to fish in troubled waters"[278]. The AIOC believed that the essence of the dilemma in nationalisation would "help nobody except the communists who alone have an interest in the impoverishment and disturbance of the Middle East"[279].

Fraser disclosed information in his chairman statement as a company requirement but also to influence the attitudes of various stakeholders and further the company's own interests and goals. His actions had important consequences for key AIOC stakeholder groups, including domestic investors and Iranian employees and society. For instance, Fraser enjoyed incredible lobbying power in Iran in relation to the fair treatment of the Iranian labour force and also in determining the company's performance. The nationalisation crisis brought these into sharp focus, and they became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. In general, contrasts were made between a well managed company playing a progressive and developmental role in Iran on the one hand, and on the other a rapacious exploitative representative of British imperialism. To the extent that the latter is true, the AIOC's policies are implicated in the nationalisation and the resulting international crisis, particularly if Iranian claims about the unfair distribution of the proceeds of oil production, discrimination against Iranian employees and misadministration, are upheld[280]. As a consequence, several issues are worthy of further investigation. First, did the company mislead the Iranians and others about shares of the oil revenues? Second, did the company discriminate against the Iranian employees? Third, how well did Fraser succeed in defending the interests of AIOC shareholders and maintain the confidence of its investors? In particular, how did Fraser explain his performance to shareholders in the year in which three quarters of the firm's assets were lost through nationalisation? In short, was the company the chief architect of its own downfall? To investigate these questions, contrasts are drawn between the AIOC's management's public view of the crisis and the actual events as documented in the literature, official papers, and financial records. In these respects, consideration is also given to how AIOC's

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[278] *The Times*, May 2nd, 1951, 6(A), Issue 51990.
[279] *Ibid.*
[280] For a list of the Iranian accusations against the company, and the company's defence of these see *Anglo Iranian Company Annual Report and Accounts* 31st December 1950 (published 19th November 1951), 22.

management attempted to influence the lobbying process and news agenda to counter the accusations of the Iranian nationalists.

2.5 Negotiations to reach a settlement after AIOC's nationalisation

The AIOC was one of the largest companies quoted on the Stock Exchange and Britain feared that Iran might use its oil as a political weapon. Therefore Britain was looking to reach a settlement and to receiving compensation for the loss of future profits or having at least a new oil concession. The Anglo-Iranian Oil Company sent a communication to the Iranian Prime Minister claiming a breach of agreement between the Iranian government and the company[281]. The company representative stated that the principles of mutual goodwill and good faith should not be altered by any legislative, administrative or executive acts and it should be remembered by the Iranian Prime Minister that the company had worked for 18 years to develop the oil industry in Iran and had assisted the Iranians in their economic progress[282]. Further, the company representative emphasised the importance of the AIOC to Britain by saying "not only because of its magnitude as an element of our balance of payments…but also because of the power it gave us to control the movement of raw materials and as a bargaining weapon" and stressed the importance of Iranian oil to Britain's defence and the effect of losing it[283]. He explained that the Royal Navy was dependent on Iranian oil and that 85% of its furnace oil requirements came from Abadan, so this was Britain's motive for wanting to maintain control over Persian oil[284]. This heavy dependency was also voiced by the Foreign Office when it admitted that, since 1923, "the company's worldwide business had been built on Persian oil"[285]. The AIOC was aware that replacing the crude oil would not be a big problem, but replacing the refined products would be quite difficult "in which the Ministry of Fuel has confirmed to cost an annual additional amount of $350 million"[286]. Reinforcing the drastic effects of nationalisation and loss to the British, it was stated by the British Prime Minister in the *Times* that Britain was really affected

[281] *The Times*, April 30, 1951, 4(C), Issue 51988.
[282] *Ibid.*
[283] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 87.
[284] *Ibid.*
[285] *Ibid, 107.*
[286] *Ibid, 144.*

by the act of nationalisation: we were out of Iran; we had lost Abadan; our authority throughout the Middle East had been violently shaken[287].

The British government referred the nationalisation issue to the International Court and awaited its decision. Meanwhile, they warned the Iranian Government that if they persisted in driving out the AIOC then "they will be killing the goose that lays the golden eggs, they will be cutting off their principal source of income and they will be signing their own death warrant"[288]. Britain and the United States were jointly concerned about nationalisation and at the possible loss of oil and thus were jointly interested in the possible repercussion of events in Persia on neighbouring oil-bearing countries[289]. In the light of these concerns the British government sought to highlight two important facts for Musaddiq, to make him aware that he must negotiate with the company. One was that, except for the revenues from the AIOC, the Iranian government had no reliable income. The second was that, without British staff and services of the company to produce and market the oil, the company would have no revenue[290].

Most officials in the Foreign Office believed that it would be impossible to work the oilfields without the support of the Iranians, and surrounded by a hostile country[291]. The AIOC was aware of the fact that the Iranians would fail to obtain effective control of the oil industry because much of the world's processing and distributing facilities were in the hands of the major companies who would refuse to handle the expropriated oil. The AIOC threatened legal action against anyone who did so[292]. The AIOC argued that they had made an enormous investment in Iran in terms not only of money but of scarce materials, technical skills and the employment of thousands of Iranians so the calculation of benefits to Iran could not therefore be measured in terms of money alone[293]. To sum up, Iran's strong resentment and mistrust of the AIOC led to deep bitterness towards imperialism. These sentiments, carried to their ultimate conclusion, (that is, the cancellation of the oil concession and creation of a National Oil Company) would result in Iran facing the bleak prospect of being permanently left out of the world oil market.

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[287] *The Times* Friday, Jan15, 1960; pg. 4; Issue 54669; Col B.
[288] House of Commons, Parliamentary debates 30 July 1951, 1039.
[289] *The Times*, April 30, 1951, 5(B), Issue 51988.
[290] *The Times*, May 1st, 1951, 4(E), Issue 51989.
[291] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, p.119.
[292] Penrose, *The large International firm in developing countries*, p.67.
[293] *The Times*, May 2nd, 1951, 6(A), Issue 51990.

2.5.1 The Stokes mission

Britain was concerned that Iran might use its oil as a political weapon in order to claim a share in the company's worldwide profits under the terms of the 1933 concession. Britain feared Iran would also demand compensation for the loss of future profits. Therefore, Britain employed the strategy of reaching a settlement via a series of legal manoeuvres. Firstly, the International Court of Justice proposed the idea that the AIOC would market Iran's oil on a fifty-fifty profit sharing basis (although it was too late to avert Musaddiq's nationalisation)[294]. Next, Richard Stokes led a mission that was slightly different from that of the International Court of Justice, proposing to give Iran half of its shareholdings in the company and putting Iranian Government directors on the AIOC Board[295]. Stokes's proposal was, however, opposed by Musaddiq so the former was completely aware that his proposals would be rejected[296].

[294] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 134.
[295] *Ibid.*
[296] Cited in Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 141.

The American press also was critical of the Stokes mission and the *Washington Post* dismissed this British negotiating strategy. It published the following:

> Does the Stokes plan actually recognise nationalisation or is it just a masquerade for the old system? If it does recognize nationalisation, how does it explain the repeated insistence that company control must extend to the wells and pipelines covering the area one-sixth of the total size of Iran?....Does not maintenance of such control constitute an explicit denial of nationalisation and an invitation to the political interference that the Iranians insist on shaking off?.. If the present tactic is to force the Iranians to their knees, might they not bow to the Communists instead of to the company?[297]

Stokes had discussions with the Iranian delegation and explained the difficulties that would face Iran in running its oil industry without the help of British technicians[298]. In response, the Iranians handed Stokes a Memorandum which was composed of the following points. First, British proposals did not attest to their acceptance of the nationalisation issue, but merely revitalised the AIOC in a new form, in full control of oil operations. Second, Iran did not plan to sell oil to Britain at a 50 percent discount as had been claimed. The third point made was that the Iranian government was willing to compensate the company but only after negotiating the claims of both parties[299].

In fact, Musaddiq offered to compensate the AIOC and had always been prepared to negotiate within the limits of legal principles for the settlement and solution of the oil problem. Regardless of Musaddiq's offer to compensate the AIOC shareholders, Britain rejected the idea of nationalisation and "the failure to achieve any result up to this time has been due to the fact that the British government have desired to retain the influence of the former company under other titles in the same shape and form as before, in violation of the laws and of the rights and desires of the Iranian nation"[300]. The failure of Richard Stokes's mission dashed hopes of a negotiated settlement. Consequently, Britain found it impossible to make a deal with Musaddiq and "all

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[297] *Ibid*,142.
[298] *Ibid, 136.*
[299] *Ibid, 139.*
[300] *The Times* Friday, September 26, 1952; pg. 4; Issue 52427; Col C.

efforts to reach a friendly settlement having proved abortive"[301]. From the British point of view, there seemed no immediate prospect of reaching agreement with the Iranian government for the assessment and payment of compensation to the company.

2.5.2 Undermining Musaddiq

After the failure of the Stokes mission, British policy made it abundantly clear that their desire was to get rid of Iran's popular, nationalist government under Musaddiq as soon as possible because the cessation of Iranian oil supplies negatively affected British revenue. More seriously, Britain feared the loss of the company's position in Iran. Britain therefore accused Musaddiq of violating the company's legal rights through the following audacious plan. British strategy was to undermine Musaddiq's support base by imposing economic sanctions on Iran and also by carrying out military manoeuvres in the region. They also brought about a production slowdown where tankers were prevented from loading oil at Abadan and this in turn affected their main source of income[302]. The second line of attack was the imposition of financial restrictions, approved by the British Cabinet (along with additional sanctions). The British government approved the blocking of Iran's sterling balances held in London and forced ships carrying commodities such as sugar and steel to change their destination[303]. Furthermore, a boycott on Iranian oil was put in place, which threatened to jeopardize western economic reconstruction because of its dependence on oil sources. In order to police the boycott, a threat of legal action was made against any and all purchasers of Iran crude oil or refined products or against any oil company breaking the boycott, starving the Iranian economy of $200 million of oil revenue annually. Special financial and trading privileges previously accorded to Iran were also naturally withdrawn.

Besides the oil boycott, Shepherd, British Ambassador in Iran, suggested stopping foreign technicians from coming to Iran and arranging the withdrawal of the company's British staff, in order to make a strong impact on the Iranians and show them Britain's firmness[304]. President Truman was concerned about Britain's stubborn attitude and warned them of the dangers of using force. He had tried to mediate

[301] AIOC annual report 1950, 16.
[302] Gasiorowski, *The 1953 Coup D'etat in Iran.*
[303] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 141.
[304] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 149.

through a visit by Harriman to Tehran but it was unsuccessful[305]. Harriman had advised the British ministers that "Dr. Musaddiq is not the man the British have depicted to the World"[306] and also pointed out that economic sanctions were not the best reaction because it would stiffen the Persians' resolve[307]. Acheson, too, was sympathetic with Musaddiq because he thought that the AIOC bureaucracy had poisoned the judgment of the British government which was committed to rule or ruin[308].

In March 1951, there were further developments. Herbert Morrison replaced the British foreign Secretary Ernest Bevin and proposed to post British troops near the Iranian oil fields to intervene when necessary. By 25 May 1951, Britain was ready for direct military intervention, mainly around Abadan's oil refinery, with 4,000 British paratroopers carrying full fighting equipment (despite the US's opposition to the use of military force)[309]. The Defence Minister, Emanuel Shinwell, argued strongly for securing Abadan for the sake of upholding British Prestige in the Middle East and for preventing other countries like Egypt from being tempted to nationalise the Suez Canal. He proclaimed: "we (Britain) must be prepared to show that our tail could not be twisted interminably"[310]. To sum up, the British were in no mood to accept the principle of oil nationalisation and so their immediate aim was to bring about the collapse Musaddiq's government.

2.5.3 Coup in 1953 and NIOC

The years preceding nationalisation witnessed a series of failed proposals on the one hand, and a succession of Iranian governments and institutional changes on the other, reflecting the increasing influence of political organisations opposed to the AIOC. These were years of dual sovereignty in Iranian politics from which the country did not fully recover even after the end of the CIA sponsored coup to remove Musaddiq in 1953 and the return to power of the Shah. This period was marked by political instability due to a complex set of factors related to both internal social changes which had taken place in Iranian society and external interventions[311]. The

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305 Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 121.
306 Elm, *Oil, Power, and Principle, : Iran's oil nationalisation and its aftermath* 127.
307 *Ibid*, 143.
308 Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 122.
309 Mansoor, *State-Centered vs. Class-Centered Perspectives on International Politics: The case of U.S. and British Participation in the 1953 coup against premier Mosaddeq in Iran,* 14.
310 Cited in Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 157.
311 *Ibid.*

strong nationalist sentiment in Iran against the British monopoly over Iran's oil resources coincided with the United States' desire to reorganise the geographic distribution of world oil markets. The British plan was to allocate designated Middle East exports among various oil exporting countries and not to restructure the oil industry towards increased concessionary access for US oil companies[312]. Even during the British oil embargo of 1952-53 when all foreign revenues to Iran originated from non-oil exports, trade remained in surplus. Interestingly, while the British government encouraged non-oil exports during the embargo, it was only concerned about weathering the temporary foreign exchange shortages and did not pursue it as a long term strategy.

Turning once again to Musaddiq, British observers believed that if he remained in power it would eventually lead to a communist takeover and not necessarily through British intervention. As Musaddiq himself suggested it would be through intervention by a country other than Britain. We may gather, then, that there were behind-the-scenes mysterious forces working in Iran with many anti-Musaddiq elements who received their support, including cash, from Britain, and it was these elements which helped to bring Musaddiq down[313]. In the end, the US government, with British support, organised a well-structured coup, a task which was passed on to the CIA in Washington with the aim of forcing Musaddiq out of office and restoring the Shah to power[314].

In the aftermath of the 1953 coup, oil revenues recovered and imports sharply increased to the extent that Iran developed a large trade deficit and started borrowing from abroad[315]. Oil production increased, with the result that the AIOC's crude production recovered more rapidly from the Iranian crisis than did its refinery runs. Meanwhile, greater reliance needed to be placed on processing contracts with other companies[316]. The policy of the AIOC in exporting crude oil was more flexible now that it did not depend on refining a large proportion of the output within the area[317]. One of the most important functions of any firm is the coordination of various activities encompassing all stages of production from exploration to the delivery of

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[312] *Ibid*, 85.
[313] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 126.
[314] *Ibid*, 127.
[315] Esfahani andPesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 12.
[316] Penrose, *The large International firm in developing countries*, 114.
[317] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 79.

the end products[318]. The fact that Iran could export its oil in crude form made it more attractive to different consumers who preferred to have the refining done at home for political, financial and economic reasons[319].

Much was learned from the nationalisation crisis. First, from a political perspective, the nationalisation crisis showed that it was much easier for certain countries to develop alternative markets for crude oil than to build new refineries[320]. Second, from a financial and economic perspective, most consuming countries sought to reduce their foreign exchange disbursements on petroleum by refining at home, which would in turn open new opportunities for domestic investment and create new jobs for the nationals[321]. It is worth bearing in mind however that oil companies continued to concentrate their exploration activities around the Persian Gulf so that they could keep their transport costs to a minimum by the construction of shorter pipelines to the sea terminals[322]. So we see that vertical integration[323] in the AIOC was a major issue for its efficient operation and performance. This was achievable because the company was closely associated, through the joint ownership of affiliates, in the exploration and production of crude oil, in refining and sometimes in marketing and distribution of finished product to the final consumer[324]. Vertical integration was profitable to the AIOC because various advantages would be offered, such as assured outlets for crude, secure and efficient operation of refineries, maintaining efficient output and avoiding change in prices which would raise costs to both producers and customers[325]. Similar to many other oil companies, AIOC was vertically integrated but it still produced more oil than it refined[326].

It should be mentioned at this point that the defeat of nationalisation and the CIA-initiated coup of 1953 led to the formation of a new international consortium in 1954. On 20 December 1954, the AIOC, which was formed at the beginning of the century to exploit the oil resources of Persia was renamed British Petroleum with a market capitalisation of £480m. It was a stock market leader then and has been, ever

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[318] Penrose, *The large International firm in developing countries*, 153.
[319] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 81.
[320] *Ibid.*
[321] *Ibid.*
[322] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 20.
[323] Vertical integration describes companies in a supply chain that are united through a common owner.
[324] Penrose, *The large International firm in developing countries*, 46.
[325] *Ibid.*
[326] *Ibid*, 112.

since[327]. Fraser was eventually reconciled to the fact that the AIOC could no longer retain the monopoly of Iranian oil which the British had enjoyed for forty years because the future security of Iran then rested more in American hands - through diplomacy[328]. The consortium was set up after protracted negotiations and severe political damage to ensure that the Iranian government received half of the net profits attributed to its crude oil production[329]. Further the Iranian government had pressed the consortium of oil companies to restore Iran's traditional position and to increase the capacity of crude oil production[330]. The agreement covered almost all the areas previously under the concession of the AIOC whilst applying the principle of nationalisation and turning over the assets of the AIOC in Iran to the NIOC[331]. As previously mentioned, the company was renamed British Petroleum (BP) and it now held 40% of its previously exclusive concession. BP's demands for compensation were satisfied and the company would be paid directly from the Iranians and indirectly through other consortium members[332]. In this respect, Iran agreed to pay a sum of £76 million, of which £51 million was paid in cash and the balance of £25 million was to be paid in ten yearly installments of £2.5 million each. This was meant as compensation for the company's assets in Iran and also to settle the claims and counter claims of both parties[333]. The Iranian Government refused, however, to consider the company's suggestion to set up a company with mixed Iranian and British directors to operate in Iran on behalf of NIOC. The NIOC offered employment to British staff but this was not accepted. The Prime Minister of Iran also insisted on his Anti-Sabotage Bill as a measure designed to convict the British in case of any misadventure in future at Abadan[334]. Subsequently, the NIOC, faced with an increasing demand for oil in Iran, embarked on the construction of a network of pipelines from the southern refineries to the northern centres of oil consumption to market its oil products[335]. In theory, the NIOC was in charge, but the consortium of

[327] Littlewood, *The Stock Market: 50 years of capitalism at work*, 89.
[328] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 128.
[329] Penrose, *The large International firm in developing countries*, 66.
[330] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 9.
[331] *Ibid*, 27.
[332] *Ibid*, 27.
[333] *Ibid*, 46.
[334] *Ibid*, 46.
[335] *Ibid*, 19.

foreign companies managing oil production rapidly took control of production and distribution of Iranian oil, passing 50 percent of the profits to Iran.

2.6 Summary

The AIOC's actions merely represented the workings of capitalism which necessarily implies inequality and power difference and thus were the precursor to the May 1951 Bill approving nationalisation of the company's holdings. This was a serious conflict between Iran and Britain and the magnitude of the expropriation made this event particularly important. The events that led to nationalisation did not evolve overnight. Arising from the 1933 concession and the Supplemental Agreement, Iran had experienced unfairness associated with the distribution of wealth. The British exploitation had also brought with it discrimination against the Iranian workers, regarding them as mere cheap labour. It is therefore important to review the evidence on profit distribution, anti-Iranian discrimination and CSR during this period to examine and assess the justifications of the claims made by both sides. Furthermore, it is important to examine whether the AIOC managed, in respect of share prices and also national prestige, to overcome the negative consequences of nationalisation. The success or failure of Iran's nationalisation could provide a model for other countries which were closely watching the events and were planning to follow the same trend and undertake nationalisation.

The Iranian demands for economic planning and development of oil revenues, along with their desire for national control over their major economic resource, were vital aspects of politics during 1951 and were major motives behind Musaddiq's nationalisation. Musaddiq desired independence and was not satisfied with any of the British concessions. He believed that Iran should begin profiting from its vast oil reserves because the Supplemental Agreement proved virtually impossible for the AIOC to allocate profits on a fair basis. Resentment against the AIOC grew because of British domination and Iranians felt desperate about the company's exploitation of their oil resources. This aroused anti British sentiment which led to the company's nationalisation by the Iranian prime Minister in 1951.

As a consequence, the history of the AIOC in Iran reveals a number of distinctive features. The first is the dominant role played by the company in creating the modern economic sector in Iran. A second important feature is the close relationship between the company and the British government which could be seen as a centre of diplomatic rivalry. Finally, and perhaps most importantly, Iran's historical legacy and the dominant position held in the economy by the AIOC led to severe and acrimonious conflicts between British commerce and the Iranian government[336].

In summary, we can say that out of the brief period of nationalisation of oil in Iran and its immediate aftermath, there arose some long term, largely beneficial effects, felt both locally and internationally. For instance, the bargaining power of the Iranian government increased during nationalisation and culminated in total control of its oil industry by the mid 1970s. Several important developments subsequently took shape, such as the establishment of the NIOC, which created greater autonomy for the government in petroleum matters. There also came into being the 1956 Petroleum Act which established the basis for the formation of joint ventures with independent oil companies. Finally the oil producing community witnessed in the 1960s the creation of The Organisation of the Petroleum Exporting Countries (OPEC), an influential international cartel concerned with oil production and price control for a large number of oil producing states.

[336] Bostock and Jones, *British business in Iran*, 1860s- 1970s, 46.

Chapter 3: Employee relations and Iranianisation

3.1 Introduction

This chapter aims to discuss the employee relations and Iranianisation process within the AIOC to examine evidence of British imperialism in Iran through social, economic, political domination and practices of discrimination and inequality in favour of the British. As previously mentioned in chapter (2), the AIOC became a large British multinational at the beginning of the Twentieth Century and considered Iran as its own country. During the Shah's administration Britain maintained control over the Iranian oil industry and became dominant oil producers. The AIOC was keen to increase its access to the oil to ensure a profitable business and maintain its political influence by ignoring the rights of the local population: Keddie attributes this to greater exploitation under Western impact[337]. Thus, AIOC actions carried a special attitude towards the Iranian employees, considered by the Iranians as being, in some sense, "Imperial", or at least extremely autocratic since the company was able to employ whom they liked and to run the company as they wished. The result was the creation of an enclave community.

Since the 1933 concession, Iran had suffered from significant discrimination because Iranian workers were always viewed as cheap labour. The AIOC was aware of the fact that its operations in Iran were damaging to the interests of Iranians because of the lack of participation of their skilled labour force in the exploration and production process. In defence of their position, the company always claimed that the locals were unfamiliar with the machinery and modern industrial techniques. The company also maintained that most of the non-British workmen entering the oil industry were illiterate throughout their service so they should remain as cheap labour. British staff in Iran were generally of the opinion that without them, "no one would be able to run the central heating in AIOC's offices"[338]. Quite clearly, Iranian employees were treated as racial inferiors and remained, largely, at the bottom of the management hierarchy, disadvantaged, on the grounds of their nationality. The attitude of the company to its Iranian employees was influenced by the fact that the locals were not British and this was reinforced by the differences in languages,

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[337] Keddie, *Historical obstacles to Agrarian change in Iran*, 54.
[338] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 80.

customs and traditions, where the British and the Iranians were, in many respects, worlds apart.

The relationship between the Iranian government and the company was revealed with the passing of Article 16 by the Majlis on 1933 to re-examine the oil concession granted to the AIOC in 1933. The aim was to implement ''Iranianisation'' to reduce the employment of foreigners to a designated figure. In a similar vein, a fifty-page Memorandum was issued by Gilbert Gidel, a French Law Professor, who made a number of essential points, amongst which that the AIOC had not improved the working conditions of the Iranian work force and consequently they were destined to remain in unskilled jobs[339]. An important moral argument from the Iranian point of view was that the company was seen as a typical colonial power in the way that it appointed and removed governors and Majlis deputies and also in the way that it considered Iran as its own sovereign territory where clubs and stores discriminated against the natives[340]. Nonetheless, regardless of the importance of Iranianisation, Article 16 and the Memorandum seemed to worry the British because they feared they would be driven out of business. As a consequence, Fraser, AIOC's chairman (1941-56), along with major British authorities, adopted a stance in which they intended to defend their position in the eyes of the public and maintain the confidence of their stakeholders mainly during the AIOC's nationalisation.

Although much has been written on the AIOC, there remains a substantial gap in the historical literature, with business historians tending to omit the imperial aspect and tending to focus on the role of the industry at a macro level for political and economic analysis, at the expense of noting its influence on the local population. In its official corporate history, the AIOC appeared to fulfil its Corporate Social Responsibility (CSR) commitment towards the Iranian employees by contributing significantly through housing, education, health and social benefits. An alternative view was offered by other historians explaining that the AIOC paid little attention to Iranianisation and the charges of discrimination against Iranian employees was seen as a major precursor to the nationalisation of the AIOC's Iranian assets by the Musaddiq government in 1951. Therefore, this chapter aims to give a critical analysis of the company's relations with Iran, to examine the claims of antagonism by the Iranians against the AIOC, and counter claims, with reference to historical evidence.

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339 Gidel Memorandum.
340 Abrahamian, *The 1953 coup in Iran.*

Furthermore, this chapter will investigate the relations among different British governmental bodies, as well as relations with the local communities and Iranians, to ascertain the policies of inequality and differentiation. The main focus will be on the company's treatment of Iranian employees and to examine further evidence concerning the Iranian claims that they were viewed as inferior and were never treated as genuine stakeholders. In addition to the archival evidence, this chapter includes an analysis of the AIOC's annual reports in 1950 and 1951 to investigate the managerial response of Fraser towards the Iranian employees during nationalisation.

The layout of this chapter is as follows. Section 1.2 presents the historiography of the Iranianisation debate including a presentation of the negotiations involving both the Iranian government and the British authorities which helps to set the scene for the subsequent analysis. In section 1.3 the archival historical evidence is reviewed with reference to British discrimination which was manipulated and influenced by attitudes of the company and interactions with the Iranians. Section 1.4 presents the public and private view of the AIOC senior management in order to understand its attitudes towards the Iranian staff and to understand the company's policies and motives behind its employment and social policy. Finally, section 1.5 summarises and concludes the chapter.

3.2 Iranianisation: Claims and Counter Claims

With the 1933 Agreement, there were new employment rules specified to the recruitment of the artisans, technical and commercial staff from Iranian nationals. The AIOC, aware of the expanding needs of the oil industry in Iran, called for ever-increasing numbers of employees possessing a high degree of proficiency and skill[341]. However, there was slow progress in replacing the British employees with Iranian nationals and the progressive reduction of non-Iranians never came into practice. The Iranian government's reports indicated that past performance by the company had fallen short of what it should have been; the plan of annual and progressive reduction of foreigners was too specific to allow of any ambiguity. Implicit in the wording was that the company should include in its plan a programme of housing, training, education, medical and social amenities. Moreover, the reports indicated that the company should bear the capital cost and upkeep of all schools in

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[341] Gidel Memorandum.

Khuzistan and improvement of much the infrastructure in such towns as Abadan which existed solely for the oil industry[342]. It is worth noting here that Northcroft, the AIOC's Chief Representative in Tehran (1945-51), was aware of the importance of training to the Iranians so he suggested that a strong effect might be produced (in view of the Iranians' allegations made in the Majlis against the company's training policy) by offering to spend a little more under the heading of training to "be a very useful weapon in our [AIOC] armoury"[343].

In 1948, the AIOC entered into negotiations with the Iranian Government for a revision of the terms of the 1933 Concession and introduced Memorandum to increase investments in health, housing, education, and the implementation of Iranianisation through the substitution of foreigners, with the aim that all posts in Iran except very top management ones should be held by Iranians. To sum up, the Iranianisation strategy aimed to underpin the long term engagement of Iranians.

3.2.1 Iranianisation and Article 16

The AIOC was clearly engaged to some extent with its social programme under the terms of the 1933 Agreement. After 1945 the company recognised the housing problems in Abadan and embarked upon an emergency accommodation programme. An International Labour Organisation (ILO) observer commented in 1950 that the company had been able to provide a vast number of modern houses in a short period of time and hospital and healthcare spending attracted similarly favorable comment[344]. Meanwhile, the AIOC made investments in education, such as Tehran University and other schools, and also provided extensive educational and training schemes[345]. Writing in the 1948 company's annual report and accounts, Fraser commented that 2038 houses and 79 ancillary buildings such as canteens, schools, medical clinics, shops, clubs were completed during the year at a cost of nearly £6m. He also pointed out that there were now 2000 students on various categories of training schemes, including 84 in Britain[346]. Addressing the differential wage issue, Fraser asserted that "Iranians received the same pay as British staff in similar posts"[347].

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[342] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 34.
[343] BP 126347, Reference number 425, Northcroft to Rice, 19th October 1950, 3.
[344] Bamberg, *The History of the British Petroleum Company,* 375.
[345] *Ibid,* 361-3.
[346] AIOC, *Annual Report and Accounts*, 1948,19.
[347] AIOC, *Annual Report and Accounts*, 1950, 22.

However, there are contrasting claims and considerable evidence that there was little engagement by the AIOC with its social responsibilities under the terms of the 1933 Agreement. The Iranian government therefore embarked upon Article (16) designed to improve the Iranian terms. Article (16) clearly signalled that Iranian employees genuinely disliked their confinement to lower levels of the company and the criticism was frequently heard, sometimes in violent terms, that individual Iranians who had worked with British staff have met with discourteous and unjust treatment from them[348]. Article 16 (iii) discusses Iranianisation and increasing employment opportunities for Iranians at the expense of foreign employees, with the aim that all posts in Iran except very top management ones should be held by Iranians. The Article reads as follows:

> The parties declare themselves in agreement to study and prepare a general plan of yearly and progressive reduction of the non-Persian employees with a view to replacing them in the shortest possible time and progressively by Persian nationals[349].

Obviously, the AIOC was aware of the Iranian rights and the importance of Article (16) to the Iranians because, nearly 15 years since the signing of the concession, the number of non-Iranians employed was much greater than it was in 1933 or in 1936 which creates a case for the Iranian government to ask for arbitration[350]. The AIOC was aware of their unfairness towards the Iranians and Gass (Managing director of the AIOC and AIOC negotiator 1939-1956) made it clear that Iranians had the right to claim better terms for Iran by saying:

> We attached great importance to reaching an early settlement on the General Plan as it was a subject on which the government had strong and genuine feelings, and we had no wish to lay ourselves open to a charge of procrastination[351].

The AIOC was aware that arbitration on the plan of 1936 would necessarily entail an exhaustive enquiry into the operations of the company during the period from 1936 to the date of submission to arbitration. It would allow the government every possibility to call for any documents or evidence from any official of the company into the working and structure of the company in Iran. The company feared that the

348 BP 126349, Reference No. 522, Northcroft to Rice on 12th December 1950, 6.
349 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 36.
350 BP 101099, opinion on general plan 20th February 1948, 1.
351 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 6.

arbitration tribunal might find itself sitting in judgment over conditions of work, health, wages and other difficult problems of relations between the company and the government. This would obviously be undesirable because the company would have to refund all payments to Iran[352]. To avoid this happening, Northcroft suggested in his correspondence that they should at this crucial point show open support for Iranianisation which they knew was of particular importance for the Iranians[353].

In short, the Iranian government was well placed to demand better terms for Iranian employees whose education and training was not well planned and which required further development by the company.

3.2.2 Negotiating Iranianisation and Article (16)

The Iranian government argued that the employment of foreigners entailed heavy costs of expatriation, travel, relocation not incurred by Iranians. The aim was therefore to reduce the number of non-Iranians by an increasing figure each year and a scheme was provided with illustrative figures to show a reduction of 150 non-Iranians in the first year, 200 in the second year and 50 more in each subsequent year[354]. Abbas Golshayan, the Minister of Finance, acting as the government representative, made it clear that the principal concern of the Iranian government was about having a ratio, as the matter should be judged by tangible results. Therefore, the concession made provision for this via a yearly and progressive reduction of non-Iranian personnel[355]. Ali Zarrinkafsh, the Iranian government's representative and Imperial Delegate to the AIOC (1933-39) explained that Article (16) could not be interpreted piecemeal and highlighted that efficiency and economy in the administration and operation of the company in Iran was a major factor, not only by the Article but of the entire concession. Therefore, he suggested that the company should prepare a plan and provide figures to indicate the extent of annual and progressive reduction of non-Iranian employees and submit it to him after completion[356]. Zarrinkafsh was willing to satisfy public opinion and demonstrate that full weight was given to the terms of the concession, in order to minimise subsequent public criticism[357].

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352 *Ibid*, 1.
353 BP 126347, Reference number 425, Northcroft to Rice, 19th October 1950, 3.
354 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 36.
355 BP 126422, Note of second meeting of the understanding committee on 3rd May 1949, 10.
356 BP 52887, Jacks to Fraser, 15th December 1933, 2.
357 *Ibid*, 3.

Article (16) revealed that the Iranians were very conscious of national independence and prone to react to any charge that their national interests and rights were being impaired. Consequently, Ali Razmara, the Iranian Prime Minister, studied the position in Iran with all the diligence it demanded and was left in no doubt that an improvement in social and economic conditions throughout the country was needed to save Iran from utter disintegration[358]. Razmara advised Northcroft that "certain changes in the Supplemental Agreement would be necessary if it were to be ratified by the Majlis (increased Iranianisation)"[359]. He was extremely concerned and distressed about the current situation in Iran because of the large numbers of unemployed persons in Tehran. He had studied the general plan and his views were that at the end of ten years, all posts in Iran except very top management ones should be held by Iranians[360]. Meanwhile, his plan was to receive "at least fifty-five millions sterling to put his projects in hand in such a manner as to ensure full employment and stable contentment throughout the country"[361]. However, Razmara believed that the Supplemental Agreement would be ratified if he were able to implement his programme within six months. He estimated that, after that period, the country would then solidly be behind the government and the Majlis could carry the ratification[362]. Razmara held the belief that the present time was not opportune for securing the ratification of the Supplemental Agreement.

In fact, there should be no excuse for replacing British employees with Iranians in many non-technical posts in the company such as administration, accountancy, health services and railways since none of these jobs required technical training. Golshayan confirmed that there were a large number of company employees in Abadan and Tehran whose posts needed no technical qualifications which could reduce the ratio[363].

From the AIOC point of view, it is worth noting that the company was aware of the Iranian rights and the importance of Article (16) to the Iranians because Mr. Jameson, Director of the AIOC, mentioned in his report on a visit to Tehran that "Iranianisation is so important to the company that everything possible should be

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[358]BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950.
[359]BP 126347, letter 307, Tehran correspondence regarding position of Iranian government and Supplemental Agreement, 16th July 1950.
[360] BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950, 5.
[361] *Ibid*, 3.
[362] *Ibid*, 6.
[363]BP 126422, Note of second meeting of the understanding committee on 3rd May 1949, 11.

done to make the policy fully effective"[364]. Moreover, Edward Elkington, the General Manager in Persia, asserted

> Our plan of education has got to start very high up the tree, and our friends in Persian circles must be taught that the company has not reached its present stage of development on any grounds which I term purely theoretical, such as those of nationality, but of the practical efficiency of the individuals forming every cog in a great machine, and not least the spindles at the centre of each cog-wheel[365].

However, regardless of the importance of Iranianisation, the reduction of non-Iranian personnel and the improvement in the conditions of Iranian employees and workmen, Article (16) gave the British authorities and the AIOC management cause for concern. This was because they were worried about their British staff whom they did not plan to replace under any circumstances. This was the main motive behind Gass's suggestion to rearrange the company's present proposal in a rather different form to gain a better prospect of its acceptance[366]. Gass had hoped to obtain agreement with the Iranian government to all the other provisions of the General Plan, and left the main questions that deal with annual and progressive reduction of foreigners until the last, but the Iranian government insisted on taking this clause first with the ingenuous remark that a settlement of the other clauses would largely depend on our agreement to their proposal for this one[367]. The Article appeared impractical from the British point of view and would never come into effect, as the existence of non-Iranians as part of the workforce was considered vital to keep the company in the forefront of modern trends of scientific development and improved production methods. The company argued that its programme in the housing and amenity sphere was as a separate Memorandum and not part of the General Plan. Therefore, from the company's perspective they did not consider it to be a concessional obligation which they undertook willingly and with pride as an industrialist's contribution to the oil industry of Iran.

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[364]BP 67627, Jameson, Report on a visit to Iran, 1938; Johnson, *British multinationals, culture and empire in the early Twentieth century*.
[365] BP 070268, Fraser to Jacks on 16 November 1933.
[366] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 50.
[367] *Ibid*, 36.

The AIOC was inclined to postpone the implication of Article (16) to safeguard themselves from any obligations and commitments and company representatives tried to find several excuses for not implementing the Article. Their first excuse was that the Iranians would not be able to run their own industry without the assistance of the British. Diplomats from London perpetuated the colonial myth that Iran was not ready to exploit its own oil and needed to be protected from itself. For instance, to overcome the implementation of Iranianisation the British thought of rewording the General plan in their own favour when Rice, company representative in London, asserted:

> So as to bridge the gap between its present form of words and our [British] position under the new General Plan (from which, I [Rice] repeat, we cannot in any way depart[368].

Moreover, Northcroft, chief representative of the AIOC in Tehran, in strictly confidential correspondence to Rice on 19th of October 1950 explicitly revealed the duplicitous methods that were adopted by the company for rewording the General Plan. For instance, he said:

> I have devised a form of words which (in a suitable legally worded version) might be used in substitution of the existing preamble of the General Plan, to be read in conjunction with the remainder, as a definition of its spirit[369].
>
> I enclose for your consideration a form of words which it seems to us does not alter the sense of the text as signed, and which we believe would when translated into Persian produce a text free from any possible misunderstanding[370].

Similarly, Rice asked Northcroft to convey the company's attitudes and views without giving "the impression of unwillingness to cooperate or closing the door to further discussion of points which fall outside the limitations which [they] have stressed to the point of redundance"[371]. To avoid any commitments towards the local population, it is important to mention that Gass was worried about the wages and salaries that would have to be paid to the Iranians. As a result he suggested that Article 16 should be amended and the words "of the salary and conditions of service

[368] BP 126347, Reference number 604, Rice to Northcroft, 6th October 1950, 3
[369] BP 126347, Reference number 425, Northcroft to Rice, 19th October 1950, 3.
[370] *Ibid*, 2.
[371] BP 126347, Reference number 604, Rice to Northcroft, 6th October 1950, 3.

applicable to, applicants' occupation and grading" should be deleted to avoid discussions of salary scales[372]. Gass and other members of the AIOC tried to disabuse the Iranian government minds of the conception of transforming men into figures, claiming that it was quite impracticable and contrary to their interpretation of the concession, and when projected into the future would be highly impossible to forecast the trend of consumption of oil products in the world in future years[373]. British authorities claimed that the formula of estimated reduction of foreigners must be a practicable one to which they must feel they could safely subscribe[374]. It is important to note that Jacks mentioned in his correspondence to Fraser that "the company would agree to no interpretation of annual and progressive reduction"[375]. Also, Dr. Idelson, AIOC's representative, was not happy with the basis of the percentage figures, and favoured a ratio between non-Iranian employees and the total employees[376].

[372] BP 070266, Gass to Elkington on 29th May 1935, 2.
[373] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 37.
[374] *Ibid*, 35.
[375] BP 52887, Jacks to Fraser, 15th December 1933, 2.
[376] BP 070266, Gass to Elkington on 14th May 1935, 2.

His argument was

> I would prefer to exclude all unskilled staff from the picture and adopt a ratio between the strengths of non-Iranian employees and total staff, exclusive of unskilled staff, and then diminish them in some progressively declining percentage. If this latter basis was adopted what ultimate percentage would you regard as reasonably safe, taking into account the safeguards with which the percentages are hedged round? Reverting again to the former basis, you will notice that I have reduced the percentage to 8% and had in mind that it would be safe to go to 5% as an ultimate limit. In other words I kept 3% in hand for negotiation or for a stage subsequent to the next 10 years. I realise of course that percentages to-day are below 10% but I look upon that result as being covered by the undertaking in my plan to accelerate the rate of progress if no indeterminable factors operate to our disadvantage[377].

To confirm the company's intentions not to reduce British staff, Gass disclosed that the company held to the previous formula of a reduction in the proportion of foreigners to total skilled workers. But after a survey of the expected results of the training schemes came to full fruition over the following 7 to 10 years, the general management were satisfied that they could make a concession to the government's point of view, and reduce their non-graded or artisan categories to a definite figure and this concession had been offered at the earlier talks[378]. Within this context, it is quite clear that the British authorities were clever by declareing that they were prepared to make a concession to the Iranian government and reduce the non-graded or artisan categories to a definite figure[379]. However, it is quite clear that the British authorities were willing to reduce the non graded or artisan categories which included Indians and other nationalities and would not affect any of the British staff because they were always classified as skilled workers. In a nutshell, while foreign

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[377] *Ibid.*
[378] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 35.
[379] *Ibid.*

oil workers were getting richer, the Iranian employees were destined for low-paid jobs and deteriorating housing: a recipe for revolution that the British ignored[380].

It is important to point out that the company distorted the facts, when releasing public information. The impression was given that the company was anxious to obtain the services of every suitable Iranian who came forward for employment; setting out in great detail the various measures which the company of its own volition proposed to take and was in fact already taking to increase the supply of suitable Iranians and to minister to their continued well-being.[381] Obviously, Northcroft was completely aware that the general plan was unlikely to be effected and highlighted that if Britain had to base their "activities on Persian manpower to the degree which he [Razmara] envisaged, we [Britain] should be driven out of business"[382]. This reveals Britain's plans to maintain and achieve their own commercial interests in the area, regardless of Iranian aspirations.

The company's stated policy had always been to "keep standards of education in Iran at their lowest, in order to prevent Iranians from acquiring any knowledge other than that which suits the AIOC. The company attempts to prevent the development of public health schemes in Iran. It is the company's objectives to keep in power governments which subserve its own ends. But free from men who are not willing to sign the agreement as the company wishes"[383]. Noticeably, the General plan was just a plan and would never be put into practice because the AIOC was unwilling to reduce the number of British staff in Iran. There was no wish to accede to the Iranian request for an arithmetical reduction each year to ensure a rigid control of the number of foreigners employed.

3.3 Iranian claims for discrimination within the AIOC: Empirical evidence

The nationalisation crisis brought the topic of discrimination into sharp focus and it became the subject of claim and counter-claim from the company's board and Iranian nationalist opinion. The AIOC had created its own "British Empire" in Iran

[380] Stern, *Who won the Oil wars.*
[381] Gidel Memorandum.
[382] BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950, 5.
[383] BP 126347, Northcroft to Rice, 15 October 1950.

and established hierarchies by preference for British staff[384]. Keddie argued that the real changes in the structure of power "have been tied to social and economic changes that have reduced the power of certain social groups and classes while increasing that of others"[385]. Meanwhile, Bostock and Jones emphasized that the AIOC's linkages with the local economy were few and the fact that the British government was a majority holder in the company was widely disliked and was directly associated for most Iranians with British imperialism[386]. In this section, I will illustrate the validity of this, and demonstrate that the claims of discrimination against the Iranians are true, using relevant archival evidence.

Expatriate workforce status communicated key messages about the AIOC. The company desired to have its own British staff seen as powerful and influential for prestige and to maintain control within these prevailing groups. It is worth noting that British managers in Iran did not develop local government relations nor even established social networking and teamwork with the Iranians. Racial injustice was shown by the company's practice of excluding Iranians in favour of British workers and through the company's most frequent claim that only British candidates had the required skills. The attitude of the company towards Iran was influenced by negative British attitudes towards the Iranians as demonstrated by their slogan "a native is always a native, however good"[387]. For instance, Mr. Jameson, Director of the AIOC, that the company is not willing to replace British staff with the university trained Iranians because of the unsuitability of the ordinary working man in Persia[388]. Discrimination between British and Iranian employees was a key feature in the AIOC where it had been specified by the company that staff must be British by birth and origin. Jacks, Director of the AIOC in Iran declared that the company would never agree to have its administration other than British and the Iranian government should never expect that it should[389]. Obviously, the AIOC was not willing to let Iranians hold technical jobs fearing that they might learn oil operations. Yet, the company avoided engaging British nationals who were thought to have "gone native"

[384] Bostock and Jones argued that in areas of British influence rather than administration, AIOC had long acted as agents of empire in blocking the tendencies of other great powers.
[385] Keddie, *The Iranian power structure and social change 1800-1969: an overview*, 3.
[386] Bostock and Jones, *British business in Iran*, 1860s- 1970s, 46.
[387] BP 66815, Jameson to Robert [his brother], 7th June 1916, 2.
[388] BP 67589, Notes of meeting held on 6th February 1934, 47.
[389] BP 52887, Jacks to Fraser, 15th December 1933, 4; Johnson, *British multinationals, culture and empire in the early Twentieth century.*

and married locally because it was against the company's interest to employ them[390]. The company feared that those unskilled workers who had "gone native" might form unions and strike for better terms[391]. Therefore, it was quite obvious, on the perception of skills and character, that the company was preventing itself from "finding" Iranians. Their rationale was that it would be considered as heavy wastage if the company had an obligation to train the Iranian employees[392]. As a result, the AIOC had management hierarchies where the British were always at the top of the company regardless of their efficiency. For example, Jameson was aware of the previous disappointing technical reports associated with the company's earlier performance but he persisted in employing and hiring British engineers regardless of how unprofessional they might be. He asserted that:

> The Germans are at present erecting extensions to the jetties there [Khor Musa] and if this policy is adopted it is possible that the government may not call for our assistance. The view has been expressed that our proposal to employ consulting engineers to advise us would probably result in the confirmation of previous adverse technical reports[393].

British managers in the AIOC continued to exercise control over the company's operations in Iran and even clubs and stores discriminated against the natives, which had a negative impact on the Iranian workers. The company missed opportunities to offer better conditions, break down social barriers and mix more with the Iranians so there was no chance for Iranian and British solidarity because of class barriers. British workers used to scorn the natives and did not mingle with them. There was always a sense of oddness when referring to the Iranians because when British staff referred to the "company" this meant that they are referring to themselves as they had organized and conducted their operations, without much thought given to Iranian ideals and customs. All social and operational modes were based on their own usage and from their own standpoint[394]. Accordingly, the labour force was divided into three classes: the first class comprised British; the second class included technical men and salaried office workers with few Iranians who had their education in

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[390] Johnson, *Ibid*, 88.
[391] *Ibid*.
[392] BP 52887, Jacks to Fraser, 15th December 1933, 3.
[393] BP 68067, Jameson to Fraser, 6 March 1938, 5.
[394] BP 59011, Elkington to Medlicott, 11th July 1929.

Britain, whereas the third class included artisans, skilled and unskilled labour, who were exclusively Iranians. This reveals that British personnel were always employed in the top grade posts where their superiority could be always maintained and where they gained no experience of being among Iranians (who were in the lower grades).

The following figures explain British and Iranian employment ratios in the AIOC. Firstly, the number of foreigners had risen in 1945 to over 4,000 out of a total of 42,000 which is a ratio of less than 10 percent against 7 percent in 1938. Meanwhile, foreign salaried employees had risen from 1,744 to 2,478 between 1939 and 1945 whereas Iranian salaried employees had actually fallen from 1,496 to 1,479. Additionally, in the artisan grade, the figures were 979 and 1,552 for foreigners, and 6,516 and 6,254 for Iranians which illustrates a drop for the latter[395].

To the public, the British authorities claimed that the continued operation of the AIOC was vital to their mutual wellbeing, as it contributed to Britain's wealth[396]. Moreover, the AIOC justified their unfairness and inequality towards Iranian employees by claiming that "it has aroused in the various nationals feelings of jealousy towards the British, which in some instances are closely akin to dislike"[397]. There was no sense that the AIOC was in a quest for equality because discrimination remained and there was little scope for those amenities which ought to play a considerable part in the life of the Iranians[398]. The company continued to behave unfairly and even Cadman, Chairman of the APOC/AIOC (1927- 41), felt the injustice and advised Ministers to establish mutual confidence between the British and the Iranian government. He recommended that they should strive increasingly to regard the company's activities through Iranian eyes and in terms of Iranian vocabulary[399]. However, this was not the case and the company maintained its practice of not engaging Iranians even in non technical posts.

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[395]Elwell-Sutton, *Persian Oil, A study in power politics*, 92.
[396] House of Commons, Parliamentary debates 1 May 1951, 1011**.**
[397] BP 49673, Report by J. M. Wilson on certain aspects of the company's building proposals in Persia, 3rd April 1934, 2.
[398] BP 68386, Report by Sir John Cadman, visit to Persia and Iraq, Spring 1926, 28.
[399] *Ibid*, 47.

The company claimed it was unable to find these talents and experience among the locals, for instance,

> The company is undertaking very extensive measures to increase the supply of Iranians possessing the requisite competence and skill and to attract and retain in its employment all available candidates. Even so, it seems certain that their numbers will fall short of the total number of skilled employees required for many years to come[400].

Moreover, among their excuses, Jacks affirmed in his correspondence to Fraser that "it should be no matter of surprise that as a result of [their] experience with purely local and uneducated tribal people the company and its management had little confidence in the ability of its Persian employees to rise to any important position in the company's operations"[401]. Attitudes to local staff in the AIOC showed indisputable discrimination against the Iranians in a direct way or indirect way. Even promoted and educated Iranians of the company were also in an unfortunate position because the company did not want them to prove successful nor to engage them in first grade jobs, and consequently their views were not necessarily respected. Even as the service of the company attracted the more intelligent Iranians, it became evident that their living conditions were unsatisfactory and this feeling of dissatisfaction among superior Iranian employees became increasingly evident[402]. Moreover, the company refused to provide additional training to competent and efficient Iranian employees and disclosed that it would be difficult to allocate an annual grant "in providing additional education and training abroad for Persians who in the course of their employment in the south had demonstrated by good work and general loyalty their suitability, subject to additional education and training, to promotion in the company"[403]. As a result, it was a very common complaint that the British staff of the company treated their Iranian colleagues and subordinates as racial inferiors with whom all association and contact had to be conducted[404]. Iranians of all grades, from workmen up to senior staff, including UK graduates, who served the company in

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[400] Gidel Memorandum.
[401] BP 52887, Jacks to Fraser, 15th December 1933, 3.
[402] BP 49673, Report by J. M. Wilson on certain aspects of the company's building proposals in Persia, 3rd April 1934, 2.
[403] BP 52887, Jacks to Fraser, 15th December 1933, 4.
[404] BP 126349, Reference No. 522, Northcroft to Rice on 12th December 1950, 6.

Khuzistan, related their experiences concerning alleged insults which they suffered on the grounds of nationality from British members of the staff[405].

To sum up, discrimination against the locals was all-encompassing in Iran as the existing British attitude was based on fear of allowing the Iranians to have influence in the company because this would be detrimental to company prestige. It is worth mentioning that these divisions of classes existed for housing, wages, hospitals and for all major issues concerned with the whole life of the community. Therefore, the evidence that the AIOC treated its Iranian staff badly will be set out in the following section.

3.3.1 Housing

Since 1933, the company was only concerned to provide houses and amenities to British staff and Iranians married to British citizens[406]. The company was keen on providing British employees with luxurious facilities for the sake of "British Prestige" which reinforced their superiority. The British authorities believed that, being "English they have had hundreds of years of experience of how to treat the Natives[407]. Different housing and social facilities were provided according to the grade of the employee. Jameson asserted that the company's original policy was not "to graft on to the Iranians too high a standard of living and therefore decided to build their [Iranian] accommodation in another section of the area"[408]. Meanwhile, Elkington suggested that it was preferable to have the minority of the employees in Bawarda area and Mr. Jameson requested to separate the British staff from the Iranians because "he did not consider Bawarda [as] an ideal position for a European residential area"[409].

Housing for the British was outstandingly superior to that provided for the Iranians and this was always the case because Iranians were not promoted above a certain level and housing was based on employee position at work. It was agreed that the accommodation provided to British staff was fully-furnished with air conditioning, W.C. and a pantry[410]. For instance, Elkington disclosed that the manager's house used to have 4 bedrooms in order to accommodate passers-

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405 *Ibid.*
406 BP 067627, Report on a visit to Tehran in 1938, 51.
407 Soleh Boneh, *Jerusalem Post*, July 6, 1951, cited in Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 103.
408 BP 68067, Jameson to Fraser, 6 March 1938, 5.
409 BP 67590, Notes of meetings held at Abadan, 22nd February 1934, 151.
410 *Ibid*, 155.

through[411]. Writing to a family relative, Jameson commented about the amenability of life in Iran, referring to his luxurious housing, drinks and concert events and the comparable lack of expense[412].

On the other hand, housing and social facilities provided to Iranian employees were insufficient, and for a certain number it afforded a basis for legitimate discontent[413]. Accommodation for the clerical staff and the highest grade of artisan was not so problematic because they were able to get a room but a skilled worker on the lowest grade might have to wait thirty years. Nevertheless, it should be noted that the third class employees were randomly housed throughout rural areas and did not have the benefit of living in company houses[414]. For instance, the company had built houses which were called "coolie lines" for the unskilled Iranian workers[415]. Even Jameson asserted that he was unhappy with the accommodation provided to the artisans and said: I am disappointed with the progress in the artisan lines, and will see what can be done to accelerate building[416].

Iranian employees were forced to live in segregated houses in a single room "approximately twelve cubic meters in volume, say six feet by seven by eight feet high"[417]. Abdul Husayn Hazhir, the Minister of Finance, drew comparisons with housing and other developments in Arabia and suggested that the AIOC were laggards and referred to the essential need for the company to make some gesture outside the concession to satisfy the hopes and aspirations of Iran[418].

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[411] *Ibid*, 153.
[412] BP 66815, Jameson to father, 24th October 1917, 5.
[413] BP 49673, Report by J. M. Wilson on certain aspects of the company's building proposals in Persia, 3rd April 1934, 3.
[414] *Ibid*, 14.
[415] Johnson, *British multinationals, culture and empire in the early Twentieth century*, 131.
[416] BP 68067, Jameson to Fraser, 6 March 1938, 5.
[417] Elwell-Sutton, *Persian Oil, A study in power politics, 89.*
[418] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 4.

Moreover, Mr. Kazem Hassibi (Under-Secretary of the Finance Ministry) made a strong attack in The *Manchester Guardian* on the slum conditions provided by the company for the Iranian employees at Abadan declaring that

> 20,000 workers were living in holes in the ground and even 10,000 for whom the company had provided houses, lived surrounded by open gutters in which sewage, and drinking water mingled[419].

Furthermore, an Israeli employee who worked for the AIOC in Abadan since 1944 explained the dreadful situation facing the Iranians and asserted that the Iranian workers lived during the seven hot months of the year under the trees and they moved into big halls built by the company during the winter where each family occupied the space of a blanket[420]. When the AIOC was compared with other firms in Iran, it was found that the others provided good houses with similar standards as they operated in the city and town areas[421].

It is remarkable that the AIOC exclusively regarded itself as "British" and employees always classified themselves as superior to the locals who were not permitted to rise up the hierarchy because of being Iranian[422]. As a consequence, antagonism towards the AIOC grew among Iranians because they did not enjoy the extraordinary European-style housing of the British staff and were accommodated in inferior accommodation which was not so well adapted to cope with their own typical weather[423]. At the other end of the scale, British staff were provided with everything they chose, including their preferred drink. For instance, Jameson mentioned in his letter to his father and Edith that he was enjoying his life in Iran and he used to go over to dine with his friends and attend concerts which regularly took place and his delight can be clearly illustrated when he asserted: How Edith (wife) could I do the above sort of things at home [Britain] and at the same put past more pounds[424].

It is worth noting that Elkington, General Manager of the AIOC in Persia, was aware of the slow progress and inadequacy of housing provided by the company and he declared that the housing schemes initiated in 1934 were proving inadequate and

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[419] *Manchester Guardian*; May 28, 1951, 5.
[420] Cited in Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath,* 103.
[421] Elwell-Sutton, *Persian Oil, A study in power politics, 96*.
[422] Johnson, *British multinationals, culture and empire in the early Twentieth century,* 94.
[423] Brumberg and Ahram, *The National Iranian Oil Company in Iranian Politics.*
[424] BP 66815, Jameson to father and Edith, 24th October 1917, 5.

their progress too slow to cope with the situation and suggested that the company's housing schemes must be increased if this feature in the social conditions of our employees is to be ameliorated[425]. Meanwhile, Elkington highlighted in his correspondence to company representatives in Britain that the disparity of treatment afforded by the company to its Iranian employees became more evident in housing and it was necessary for the management to take early steps to correct the position or alternatively some form of compensation granted in lieu[426]. He admitted that the company organized and conducted its operations without much thought for Iranian ideals and customs, and based everything on their own usage and from their own standpoint[427].

Also, John Wilson, the British architect in Iran, disclosed the result of his investigations for housing and affirmed that "the disparity in housing presented a real barrier between Iranian and British employees serving in the company, where the standard of living leaves much to be desired"[428]. Moreover, Jameson was aware of the company's discrimination towards Iranian employees and declared that about 40% [accommodation in Bawarda] was occupied by European staff, and by putting Europeans into accommodation which has primarily been built for Iranians would be liable to cause comment[429].

Noticeably, British and Iranian personnel were kept separate due to partitioning and the enclosing of space policy that was adopted by the AIOC[430]. This political model of accommodation certainly led to the creation of exploitative regimes and poor economic conditions for the majority of Iranians[431]. Evidently, British workers' everyday life had immensely influenced the Iranian workers' aspirations and

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[425] BP 067627, Report on a visit to Tehran in 1938, 59.
[426] *Ibid*, 61.
[427] BP 59011, Elkington to Medlicott, 11th July 1929; Johnson, *British multinationals, culture and empire in the early Twentieth century*.
[428] BP 49673, Report by J. M. Wilson on certain aspects of the company's building proposals in Persia, 3rd April 1934, 1.
[429] BP 68067, Jameson to Fraser, 6 March 1938, 4.
[430] The Iranian government contentions highlighted that past performance by the company had fallen short of what it should have been; the plan of annual and progressive reduction of foreigners was too specific to allow of any ambiguity; it was implicit in the wording that the company should include in their plan a programme of housing, training, education, medical and social amenities and finally the company should bear the capital cost and upkeep of all schools in Khuzistan and of much the township improvement in such towns as Abadan which exist solely for the oil industry; BP 126407, Report on visit to Tehran 31st August to 26th October 1948.
[431] BP 49673, Report by J. M. Wilson on certain aspects of the company's building proposals in Persia, 3rd April 1934; *Manchester Guardian*; May 28, 1951, 5; Johnson, *British multinationals, culture and empire in the early Twentieth century*, 94.

activities, both collectively and individually. To sum up, racial discrimination was so evident in the AIOC that it represented a major barrier to the development of labour relations between British and Iranian workers. Antagonism towards the AIOC grew among Iranians because they did not enjoy the extraordinary European-style housing of the British staff and were accommodated in less spacious accommodation. In short, Britain was politically dominant and even though the company was called Anglo-Iranian but there was little Iranian in its culture.

In short, the employment of British by the AIOC was a long-standing source of grievance because the senior posts were obviously held by the British. Iranian employees naturally remained unhappy about the company's discrimination.

3.3.2 Wages

The level of wages paid in the oil industry was considered more favourable than in other sectors with regard to unskilled labour[432]. Working conditions and training given by the oil industry to its employees was better than those offered in other sectors of the economy[433]. Nevertheless, the level of wages that the AIOC offered to its Iranian employees was always very low and had not risen in relation to their cost of living. The wages paid to Iranian workers were calculated on the basis of meeting the minimum necessities of existence for a single man. Whereas the oil workers were receiving less than Rials 80 per day which is equivalent to £4 a week, oil workers in the United States received $1.65 an hour which is about 6.5 times the rate paid by the AIOC. Moreover, there was no area outside the Middle East paying as low a rate as in Iran[434]. It is worth noting that the situation was almost the same for higher grades and the wages and salaries offered for executive posts did not meet the expectations of ambitious men. Even Mr. Elkington declared that he was afraid that if their Iranian employees compared Iran with highly industrialised countries in the matter of pay "it would be found difficult at the present time to find Persians who would work for the company"[435]. However, the fear of unemployment and loss of wages was always present in Iranian workers' mind. Iranian authorities including the Iranian Government accused the company of ignoring the terms of the 1933 Agreement to improve pay and social provision since the wages paid to the Iranian workers were

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[432] Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 97.
[433] *Ibid*, 151.
[434] Elwell-Sutton, *Persian Oil, A study in power politics, 89*.
[435] BP 67589, Notes of meeting held on 6th February 1934, 48.

calculated on the basis of meeting the minimum necessities of existence for a single man regardless of having his family accompanying him or not[436].

Wages also can be examined with reference to the comparative earnings data shown in Table (2) below.

Table 2: Comparative earnings

	£	**£**	**%**
	Year	**Year**	**Change**
Average annual wages and salaries	**1945**	**1949**	
a) All Iranian labour	76	314	3.13
b) All British labour	980	2140	1.18
A as a percentage of b	*7.76*	*14.67*	
c) non-graded Iranian staff	290	838	1.89
d) graded Iranian staff	604	1910	2.16
C as a percentage of b	*29.59*	*39.16*	
D as a percentage of b	*61.63*	*89.25*	

Source: Adapted from Bamberg, *The History of the British Petroleum Company,* and Table 14.4, 357.

Although Table (2) shows that AIOC's Iranian employees' remuneration increased significantly after 1945, it is clear that higher graded Iranian employees received a disproportionate share of the general increase and it is clear that inequality within the Iranian workforce increased during the period. It is worth highlighting that the company's staff manager in Iran asserted in 1947 that "there is more joy in Iran over the appointment of one Iranian chemist/ engineer/ accountant/ doctor/ labour officer than there is over the appointment of 100 Iranian artisans or 1000 Iranian cooks"[437].

Jameson disclosed that "it was not the company's scale of salaries that was at fault but the occasional discrepancy in individual salaries which gave rise to a certain amount of grousing"[438]. In the interim, he justified the low payment to the Iranians by claiming that the Iranian staff are paid in sterling and by converting the sterling

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[436] Elwell-Sutton*, Persian Oil, A study in power politics, 88.*
[437] Bamberg, *The History of the British Petroleum Company*, 360.
[438] BP 67589, Notes of meeting held on 6th February 1934, 47.

into Rials, they would consider themselves very well paid[439]. Furthermore, the company justified the low pay to the Iranians by arguing “that a man working at home would have a higher standard of living than a Persian working in this country”[440]. In fact, the company used the excuse for their low pay to the Iranians that the wages were based on the market rate and that they could not consider paying rates in Persia exceeding the normal trade rates at home[441]. For instance, Gass disclosed that the AIOC “could not consider paying a Persian in his own country more than would be paid to British staff doing the same job at home”[442].

While the Iranians were not well paid, it was intended that British staff should be paid a sterling allowance in addition to their salary since “it was appreciated that such a basic salary would be insufficient for British staff who were employed in a foreign country”[443]. Not only that, but also the British staff asked the company for entertaining allowances. For instance, Jameson emphasized in his correspondence to his father that

> Before taking over the place I let them clearly understand that I would expect a good entertaining allowance as we get all sorts of generals of people[444].

When the situation is taken as a whole, it is apparent that the British, with their excellent rates of pay remained dominant and at the top of the hierarchy. From this position they were thus able to discriminate in favour of their British colleagues.

3.3.3 Medical Treatment

The discrimination against Iranians resulted in a mix of different groups including nationality, class and employment status. The total number of hospital beds provided by the AIOC was 590 for a population of 180,000 which indicates that many people were not entitled to medical treatment at all. There was a “staff” hospital for the Europeans and clerks and a Native hospital for the other “employees”[445]. The European hospital had 3 wards of 2 beds each for the treatment of Europeans and staff of clerical grades but the native hospital consisted of a single tent, surrounded

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[439] BP 067627, Report on a visit to Tehran in 1938, 52.
[440] BP 67589, Notes of meeting held on 6th February 1934, 47.
[441] *Ibid*, 46.
[442] *Ibid*, 48.
[443] *Ibid*, 46.
[444] BP 66815, Jameson to father, 24th October 1917, 4.
[445] BP 37074, fields medical and health services, 21st April 1927, 13; Johnson, *British multinationals, culture and empire in the early Twentieth century*.

by expanded metal fencing[446]. The company seemed only concerned about the health of the British workers ignoring the health needs of the Iranian workers whilst asserting "…there were serious problems of health, especially among the white staff"[447]. Iranian doctors were not given the opportunity to benefit from the experience of British doctors whose duty was principally to take care of the British staff. This may be the reason why Iranian doctors preferred to work in other parts of the country even for less reward[448]. There were no maternity hospitals or even a midwife in smaller areas.

As far as medical staff were concerned, the company's prejudice became evident, as there were separate wards for British and Iranians[449]. British wards were privileged to contain only 4 beds to accommodate few patients whereas the wards for the natives had 22 beds on average[450]. Moreover, British wards had their own bathrooms and toilets. All medical stores were kept separate so that no equipment from the British wards could be used in the other wards[451]. This discrimination is well captured from Idelson's attitude when he explained the plan of the AIOC towards the Iranian medical staff by asserting that:

> The obligations of the company to reduce its non-Iranian staff do not extend to the replacement of its medical and administrative staff. I still adhere to that view but regard it necessary not to express it in the general plan so as to avoid at this stage a controversy with the government[452].

Evidently, each component from housing to medical treatment was influenced by racial discrimination and inequality in favour of the British[453]. Perhaps not surprisingly, even the food was passed to the Matron to divide into two different quotas for the European wards and native wards respectively before handing it over to the cooks[454]. Clearly, the company remained conservative and refused to work towards Iranianisation despite the awareness of its importance in enabling the company to conduct negotiations (for instance sanitation, housing) with local

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[446] BP 37074, *Ibid*, 16.
[447] BP 18791, the Anglo Persian Oil Co Ltd, Wembley 1925, 14.
[448] Elwell-Sutton, *Persian Oil, A study in power politics, 97.*
[449] BP 62398, Medical services, 6th March 1924.
[450] BP 37074, fields medical and health services, 21st April 1927, 13.
[451] *Ibid*, 12.
[452] BP 101099, opinion on general plan 20th February 1948, 4.
[453] Johnson, *British multinationals, culture and empire in the early Twentieth century*, 114.
[454] BP 37074, fields medical and health services, 21st April 1927, 17.

authorities (thereby circumventing the political questions raised by central government). The operations of the AIOC brought injustice and racial discrimination against the local population in Iran which was a major drive for nationalism. The evidence would seem to support Elm's view, that notwithstanding the economic and military importance of Iran, British politicians and the senior management of the AIOC displayed complacency and colonial arrogance[455].

3.4 Counter Claims by the AIOC: Empirical Evidence

To study the negotiating position of the AIOC, this section will examine Fraser's role as a Senior Manager including his public views and his published statements in the company's annual reports as well as his private views towards the implementation of Article (16).

3.4.1 The Public and Private position of the AIOC senior management

Part of Fraser's strategy was to use financial reporting as a means of communication to maintain employee confidence. In view of nationalisation and the associated uncertainties from the company's point of view, Fraser was under considerable pressure whilst he was preparing for the company's annual general meeting in 1951. This could be considered a normal response in view of the new law promulgated in Iran on 1st May 1951 in which the majority of the company's assets were detained by a foreign government. Fraser was attentive to the fact that without foreign technicians, oil fields could be kept going and the refinery could be run using Iranian personnel, even if at reduced efficiency[456]. Therefore, Fraser's personal position and control had been brought into question and he had to explain how far the company aligned its behaviour with Iranian interests. Fraser distorted some facts in his statement and did not reveal his negative attitude towards Iranians. Neither did he reveal his tactical methods and true reasons for not engaging the Iranians. For instance, he made announcements concerning the difficulties in reaching a settlement with Iran and said that "all efforts to reach a friendly settlement having proved abortive"[457]. Not only that, but he addressed the British Government indicating that communicating with the Iranian Government appeared conclusively "that no further

[455] Elm, *Oil Power and Principle: Iran's oil nationalisation and its aftermath;* Heiss, *Empire and Nationhood.*
[456] Elm, *Ibid*, 119.
[457] AIOC, *Annual Report and Accounts*, 1950, 16.

negotiations with the present Iranian Government could produce any result, and that the negotiations, previously suspended, were to be considered broken off"[458]. Fraser was not presenting the truth but his insistence on the company's full control was the greatest obstacle to the solution of the Iranian problem and made him inclined to reject any of their proposals.

It is important to note that Ernest Bevin, the Foreign Secretary, advised Fraser that the company's policy was not progressive and should "establish every possible relationship with the people in order to develop confidence between them and the company"[459]. By this, Bevin meant that Fraser had to do his utmost to develop a good relationship Iran and develop mutual confidence and assurance between them and the company. Consequently, Fraser used his statement as a piece of propaganda to portray the AIOC as fair and reasonable and to maintain the confidence among key AIOC stakeholder groups, including Iranian employees. Fraser adopted a tone of elusiveness in his statement to overcome the severity of the issues that confronted the AIOC with regard to Article (16) and with regard to the negative impacts of nationalisation facing the company. For example, in his statement in the annual reports for 1949 and 1950 (the years reflecting the oil crisis), Fraser could not avoid acknowledging his desire to maintain a relationship with the Iranians (see AIOC annual report, 1949, 1950). He announced an improvement in the company's social programme, saying: "The company carried out a vast expansion of the social services for its tens of thousands of employees in Iran, 94 percent Iranian nationals, whose numbers had been greatly increased"[460]. In another section of the main report, Fraser pointed out that the very large scale of the company's operations in Iran maintained a high standard by the company "in all matters concerning the welfare and working conditions of personnel"[461]. Also, Fraser communicated with the stakeholders and noted in his statement in 1951 that the AIOC "serves as a major national asset and fruitful source of revenue and employment"[462]. Furthermore, Fraser disclosed in his statement that "he carried out a vast expansion of the social services for its tens of thousands of employees in Iran"[463].

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[458] *Ibid*, 20.
[459] FO371/52735, Minute by Bevin, July 20, 1946.
[460] AIOC Annual Report and Accounts, 1950, 12.
[461] *Ibid*, 22.
[462] *Ibid*, 12.
[463] *Ibid*.

In fact, Fraser used distorted facts to maintain a flourishing and progressive picture for the AIOC during nationalisation and as a result he disclosed in his statement more information than in previous years concerning the improvement in amenities and working conditions of the Iranian employees. His aim was to create the impression that the company was still performing well regardless of the crisis. It is worth noting that Fraser's statement in 1950 included more detailed references to employee welfare provisions made by the company compared to 1949. For example, he emphasized that the "the Company's policy has always been to encourage the spirit of amity and partnership between members of the British and Iranian staff" and signalled that the company's strategy was to provide housing, leave and pension benefits, medical care and hospitalisation, club life and amenities to all employees irrespective of nationality[464].

Ernest Bevin, the Foreign Secretary, advised Fraser that the company's policy was not progressive and the AIOC "should go out of their way to improve pay conditions"[465]. Consequently, Fraser started to express in his 1950 statement his agreement to maintain a good relationship with the Iranians and show them that the company was not discriminating between the British and Iranian employees. For instance, he asserted in 1951 that "I [Fraser] wish to pay tribute to the many Iranians, some occupying very senior posts, who have given long, loyal and devoted service to the company and, I feel, also, their country"[466]. Moreover, Fraser disclosed in his statement to the employees that "Iranians received the same pay as British Staff in similar posts"[467]. Here Fraser equates the interests of the AIOC with the interests of Iran, although as documented in the review of evidence above, it was the injustice and subordination of the Iranians that had helped bring about the rise of nationalisation and antagonism towards the AIOC. In relation to the above, it is useful to note that there was no information disclosed in the previous year (1949 annual report) about the treatment and payment to Iranians – an omission which could be seen as confirming his strategy to defend the company's existence and operations in Iran.

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[464] *Ibid*, 22.
[465] The National Archives, FO371/52735, Minute by Bevin, July 20, 1946.
[466] AIOC, *Annual Report and Accounts*, 1950, 22.
[467] *Ibid*.

Yet, consistent with the practice of discrimination, British employees entered into "staff" status straight away, whilst the company tended to disregard Iranians in this respect, referring to them as "employees". For example, Fraser mentioned in his 1950 annual report "…tens of thousands of employees in Iran", "…strikes occurred among our Iranian employees" and "…three members of our British staff were killed"[468]. The AIOC seems to have adopted an unconscious policy towards invisibility of the Iranians[469].

For more emphasis, using connotative word counts, Table (3) below reports the average frequency of occurrence of specific significant words by 500 unit word counts. The table contrasts keyword counts for the annual reports published in 1950 and 1951 which contrasts Fraser's use of different groups of words and vocabulary that are particularly relevant to an understanding of AIOC's self-presentation. A software programme was used to analyse the semantic features of the text[470].

Table 3: Specific Word Counts

Keyword	Pre-nationalisation 1950	Post-nationalisation 1951
Staff	†	11
Employees	4	†
Personnel	4	†
Iran/Iranian	11	124
Company/Company's	10	95
Nationalisation	†	10

Sources: AIOC *Annual Reports and Accounts*, 1949 and 1950, Statement to Stockholders by the Chairman, 11-19 and 9-30 respectively.

Notes:
Counts performed using DICTION software[471].
† counts of <3 (in a standard 500-word passage) are ignored by the DICTION software. Nouns only.

As shown in Table (3), the specific word counts illustrate that Fraser referred to all the workers including the Iranians as "staff" in 1951 and this was not the case in prior years because they were always ignored, or referenced as "employees" and

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468 *Ibid*, 28.
469 Johnson, *British multinationals, culture and empire in the early Twentieth century*, 70.
470 *DICTION is a computer-aided content analysis programme, developed from linguistic research that analyses unique aspects of a text (Hart, DICTION 5.0).*
471 Hart, *DICTION 5.0: The Text-analysis Programme that analyses rhetoric and was used in this research as a computerized content analysis approach.*

“personnel” as illustrated in 1950. Here the differences between British and Iranians highlights and provides an effective link between nationality and discrimination. The company was keen to present its British staff as superior to the Iranians for reasons of British prestige and this notion manifested itself from the start of their employment[472]. As a result, it was rare for Iranians to be referred to as “staff” at all because they scarcely appear in the few lists: representing a loss to the historical study of the Iranians activities and work lives[473].

Furthermore, Fraser increased the number of his references to the company’s achievements in 1951 to maintain stakeholders’ confidence during the crisis. For instance, he emphasised the improvements of the company and noted that “the Company's annual production of oil in Iran rose over fourfold”[474] and “twenty-one new ships having been added since last year”[475] to cope with the rise in production. Meanwhile, using the counts of keywords for the annual reports published in 1950 and 1951, the word “**company/company’s**” has been mentioned 95 times during nationalisation (1951) instead of 10 times in (1950) and this indicates that Fraser referred to “the company” more than before nationalisation, in order to maintain stakeholders’ confidence about the success of the company. Fraser was aware that Iranianisation had to take place because the Iranian workers felt inferior and had a sense of anti Iranian discrimination from the British. Moreover, he was aware that nationalism would be the only solution to protect Iranian rights. Therefore, he mentioned “**nationalisation**” 10 times in 1951 which was not previously mentioned in 1950. Meanwhile, it is enlightening to note Fraser’s reference in 1951 to the word “**Iran/Iranian**”, which was mentioned 124 times, compared with only 11 references in 1950.

It is interesting to contrast Fraser’s public disclosures to his shareholders with his private correspondence to various political diplomats. In private, Fraser was aware of the rights of Iranians’ and the importance of Article 16 to the Iranians, and as a consequence he took a measured view of the parameters of the negotiating position. On the one hand he was aware that any attempt to revise this clause in favour of the company would fail and would “produce an acrimonious discussion on the question

[472] Johnson, *British multinationals, culture and empire in the early Twentieth century*, 129.
[473] *Ibid*, 70. As Johnson suggests, “it is the very absence of evidence that is itself evidence of the lack of importance accorded to these workers”, 70.
[474] AIOC, *Annual Report and Accounts*, 1950, 12.
[475] *Ibid*, 26.

of equality of treatment [of] Iranian and non-Iranian employees"[476]. Therefore, Fraser considered that any discussion of that nature could do a great deal of harm and was not likely to result in any changes in favour of the company[477].

As previously mentioned, the Iranian government was looking for better terms but Fraser was unwilling to adhere to any commitments with regard to Iranianisation. For instance, the Iranian government's contentions included an allegation towards the AIOC that clause 16 (iii) of the concession called for a plan of annual and progressive reduction of foreigners which was too specific to allow any ambiguity.[478] On the other hand, the argument of Fraser towards this conflict was different claiming that their

> Programme in the housing and amenity sphere was not a concessional obligation. We [company] undertook it willingly and with pride as an industrialist's contribution to the oil industry of Iran[479].

Fraser therefore appeared reluctant to implement Article 16 but he was bound by the extraordinary provision that progressive reduction of non-Persian employees is applicable in terms of percentages of the numbers of foreign staff at the beginning of 1934 up to the final suggested date of 1948[480].

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[476] BP 101099, AIOC opinion on 20th June 1948, 15.
[477] *Ibid*.
[478] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 34.
[479] *Ibid*, 35.
[480] BP 070268, Fraser to Jacks on 16 November 1933, 5.

His irritation and his unwillingness to implement Article (16) were reflected in his correspondence by asserting the following:

> The more application of strict periods of twelve months is typical of the paper theory views held of the problem, and if any such percentages were acceptable they would clearly have to be applicable to the number of non-Persian staff at the beginning of each period in question, and not throughout the periods to the number of non-Persian staff originally serving. Furthermore, the higher one got in the graded employees the more difficult would it be to find efficient substitutes and if the principle even more acceptable common sense would call for a reduction in annual percentages, after some initial rise as a result of putting individuals through a course of training- which might or might not produce efficient men not merely failed B.A.'s[481].

Obviously, Fraser was never prepared to engage Iranian employees in skilled and first class jobs because of his negative attitude towards them, even if they were well educated and trained because he made it clear in his confidential correspondence that the company

> Should at any time be prepared to engage only a very few Iranians in the company's service. Courses of training, examinations passed, academic distinctions, are all very well, but they are not ends in themselves and are of use only so far as they produce a properly equipped man. That is one of the things which I [Fraser] fear have yet to be learned by some of the nations who attach an excessive importance to education[482].

Moreover, Fraser revealed in his correspondence his tactical excuses for not engaging the Iranians, by disclosing his view that the company should not promote learning or manual training to help the Iranians possess a sense of responsibility and initiative, in case it may perhaps endanger their lives[483]. However, this was not the case for Fraser was distorting facts and found reasons for not engaging the Iranians with the British staff, in order, one may presume, to maintain the class and ethnic separation.

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[481] *Ibid*, 5.
[482] *Ibid*, 1.
[483] *Ibid*, 3.

3.4.2 Review of empirical evidence

The above discussion has re-considered the claims and counter claims of the AIOC and Iranian representatives in the light of Fraser's public and private correspondence. Historical evidence has tended to reflect the bi-polar aspects of the negotiations and the differences in historical interpretation. Such evidence has therefore been used selectively, with the purpose of reviewing the neglected documents, including the secret political correspondence between Fraser and other diplomats. There are interesting contrasts between Fraser's private views and his public pronouncements, and it was the former that informed the company's negotiating position and contributed to the failure of the talks and subsequent nationalisation.

Undertones of colonial attitudes in these public documents demonstrate all the more strongly the underlying resistance to Iranian involvement in the management of the company revealed by Fraser's private correspondence. Within the above context, it is quite clear that Fraser's public pronouncements were part of a wider propaganda battle. It is clear to observe that Fraser used his public statements as a tool to communicate an assumed attitude towards the Iranians, in order to maintain their confidence. However, his mindset and personal attitude, as illustrated in the archival evidence, revealed his individual beliefs which underpinned the fact that the Iranians were not treated as genuine stakeholders.

To the reader of the Chairman's statement of 19th November 1951, the behaviour of the company was nothing more than a reasonable response to difficult circumstances. However, the moral tone of Fraser's arguments only reinforced the colonial attitudes that angered many Iranians. Fraser was willing to be seen as a key visible figure in the AIOC, making public statements and speeches which would bring him credibility and respect. It was in his own interests, therefore, not to reveal his conflicting private opinions to the public. To the public, he played a major role in portraying the company as "fair" and in attempted to show the AIOC's employment policies in a positive light. On this point, nevertheless, the Iranian nationalists saw things quite differently, to the extent that their principal justification for nationalisation was the charge of discrimination by the AIOC against its Iranian employees.

Even though the delayed 1951 report was a carefully worded document, it is clear from further analysis that Iranian and British staff were regarded as different. The evidence shows that the AIOC was discriminatory towards Iranians, reflecting a negative attitude towards their technical potential as well as traditional colonial stereotyping. The segregation of housing and social facilities created relations of unequal power, thus, reinforcing hierarchies resulting in subordination and exclusion for Iranians. For instance, Fraser created racial hierarchies within the company according to his imperial beliefs which in turn isolated and deprived the indigenous people from becoming competent in their own country. He was clearly disdainful of their knowledge of the oil industry[484]. Evidently, the AIOC resisted Iranianisation because the redistribution of employment in favour of Iranians, including at senior level, threatened to compromise the control of the business. This point was therefore the most strenuously resisted by the AIOC negotiators and was the reason why the company was less willing to compromise. The AIOC concessions were insufficient to forestall the ensuing nationalisation crisis, which after all, was all about the crucial question of control of the oil fields. Therefore, Fraser's insistence on full control of the company and its operations by incumbent British staff was the greatest obstacle to the solution of the problem.

Fraser had a negative attitude towards Iranian staff, and CSR policy and his comments on the issues raised by Article 16 were elusive. There was no concept of partnership and cultural incorporation with the Iranians and this left them living in an environment of injustice and social and economic domination. Obviously, this proved to be the point on which no compromise could be countenanced because the AIOC paid only lip service to the Iranianisation process. Documentary evidence shows that changes in staffing ratios, including reductions of British staff had no chance of being achieved from Fraser's perspective and thus these associated obstacles prevented more Iranians from being employed in the AIOC. Meanwhile, social responsibility disclosures, on subjects such as health and housing, were easy to make but where imprecisely quantified especially in the published AIOC Annual Reports and Accounts.

To sum up, the public image of the company was seen as a crucial ingredient of the nationalisation crisis, not least because a key objective of the AIOC management was to maintain the confidence of its own stakeholders in the face of a major threat and the backing of the British government in the face of that threat. However, it

[484] White, *The Business and the politics of decolonization: the British experience in the Twentieth century*, 549.

might also be supposed that if the AIOC could defend itself from the claims made by the Iranian government regarding discrimination against Iranians, it would also absolve itself of any blame for the international crisis.

3.5 Summary

The notion of the British Empire and its political formation played a crucial role in defining the AIOC’s operations and in transmitting British attitudes of racial discrimination that resulted in disparity between the company and the Iranians. The AIOC’s economic hegemony in the 1950s was attributed to the prosperity of the company and high standards of living of the British staff. The AIOC’s social and economic domination entailed inequality and violation of Iranian sovereignty because the company always regarded Iranians as low-grade and not on an equal footing with their British colleagues. Abadan was run as a company town, where “natives” were kept out of company stores and clubs. Although the efforts of British staff had resulted in growth and benefits to the company but it is estimated that the drawbacks of their performance was reflected in their treatment of the Iranian workers. Iranians believed that hiring expatriates and largely excluding the local population created problems in the running of the company and also certainly diminished the rights of Iranians. One of the more salient points in the AIOC’s working environment was that the Iranian workers felt that they lacked a well-articulated set of career paths because of cultural biases. This was coupled with the sense of anti Iranian discrimination from the British towards them. Iranians criticised the British staff for being inflexible, unfair, disrespectful and insensitive to them. From an adjustment perspective, the greater the economic and cultural distance, the more difficulty the Iranians have in accepting the new environment of the AIOC. Iranians always felt that they were inferior beings because their life was lived away from the British and because the company’s attitude towards them seemed to require an acknowledgement of gratitude for the success of the company. It worth noting that there was instability in Iran at that time, as well as a general deterioration in housing, schools and hospitals during the AIOC’s era.

The Iranian government was justified in asking for better terms for Iranian employees whose education and training was not well planned and required further development by the company. However, the AIOC had never committed itself either to develop its training programmes or to recruit more local workers. It did not even commit to increasing the construction of houses or providing other benefits for Iranian employees. It was not surprising that the unfair treatment and injustice against the Iranian employees were the precursor to the bill approving the nationalisation of the company's holdings, in May 1951[485]. Musaddiq was committed to nationalisation because expatriates from the foreign company's home country provided most of the managerial and technical skills, whereas locals constituted most of the labour force. It was clear that the Iranians were eager for their country to benefit from an important agreement, fairly honoured and properly implemented by the AIOC

To conclude, the AIOC was seen as a typical colonial power and an arm of the imperial British government and the accusations against the AIOC of discrimination against Iranians can be upheld on the basis of the evidence reviewed here.

[485] Mansoor, *State-Centered vs. Class-Centered Perspectives*.

Chapter 4: Profit distribution by the AIOC

4.1 Introduction

Since the 1933 concession, there was a great deal of dispute about how profits generated from the AIOC were shared unevenly with the Iranian government. In fact, Iran was not a shareholder but considered itself a stakeholder although AIOC took all the risks of exploitation. It is worth noting that by the AIOC's own admission, there were difficult accounting issues in arriving at an assessment of such profits[486]. For instance, the AIOC's preliminary statement was unhelpful since it did not disclose trading profit or the taxation provision for the year: because of these omissions the AIOC ignored a major requirement of the Stock Exchange[487]. The Iranian government and the Iranians in general were to some extent dissatisfied with the British Government's insistence on dividend limitations (to which the company adhered) because the Iranian royalties depended, in part, on the level of profit distribution. According to Elm, "the British government set limits on the distribution of dividends during and after the Second World War.....Iran was left at the mercy of the British government, which by increasing the AIOC's taxes decreased the company's net profits and thus decreasing Iran's 20 percent share in dividends and general reserves"[488]. This in turn affected Iran's immediate receipts[489]. Iranians realised that their country was not receiving profits and royalties from the AIOC's operations because their country did not have control over the allocation of net profits between dividends and reserves, therefore the company paid much more in income tax to the British government than it did in royalties to the Iranian government[490]. Moreover, Iran was in doubt whether the AIOC had included profits from all its subsidiaries or not and there had been a complaint from the Iranian

[486] Mansoor, *State-Centred vs. Class-Centred Perspectives*, 13-14.
[487] *The Economist*, June 24 1950, 1406.
[488] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 37.
[489] The AIOC had to pay Iran at the expiration of the concession, 20 percent of the amount by which its general reserves exceeded the 1932 level. Iranian production royalties were computed for the most part at 4s per ton, but were augmented by the right to receive a sum equivalent to 20% of any distribution in excess of £671k (for an explanatory note on this aspect of profit sharing, see AIOC, Annual Report and Accounts, 1950, 14).
[490] Keddie, *Modern Iran,* 124; Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath,* 37.

government that the rewards it received from the working of the British concession were inadequate. There were major disputes between Iran and Britain because of differences of opinion in the interpretation of some of the provisions of the agreement, particularly with regard to the conduct of the AIOC's operations. As a consequence the Iranian government was willing to pursue vigorously a policy of negotiation for the revision of the 1933 concession.

At the behest of Abbas Golshayan, the Iranian Minister of Finance, Gilbert Gidel, a French Law Professor, produced a fifty page document describing the 'accounting tricks' used by the AIOC to cheat the Iranians out of huge sums of money[491]. Gidel issued this Memorandum to the AIOC in order to discuss specific points and to revise the 1933 Agreement, with the hope of starting a new chapter in the relationship between the Iranian government and the company[492]. The Memorandum made a number of essential points. Most important among these were the insistence by the AIOC that non-Iranian subsidiaries should not be consolidated, having the effect of depriving the Iranian government of profits from overseas operations. This affected royalty figures, and further limited the distribution of dividends set by the British government. In conjunction with this there was resistance by the company of Iran's demands to inspect its books in order to ascertain whether the Iranian government received its due royalties[493]. There were repeated Iranian requests to allow them to audit the AIOC's accounts, which were refused[494].

As previously illustrated in Chapter 3, in an area of 'informal Empire', the AIOC paid only lip-service to the Iranianisation process and showed a reluctance to maintain control, which suggests an exploitative relationship between the company and Iran. In this context, this chapter aims to test the validity of the key claims of the Iranians and the AIOC counter claims, and to review the crucial elements leading to the nationalisation of the AIOC's assets by Musaddiq in May 1951. Iranian justifications for this action were based on accusations of unfairness in the distribution of profits and on their dissatisfaction regarding the royalties and policies adopted by the British government in limiting the dividend for 1947.

[491]Kinzer, *All the Shah's Men*, 69.
[492]Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 53*;* Gidel Memorandum.
[493]Elm, *Ibid*, 53*;* Gidel Memorandum, 1-6.
[494]Elm, *Ibid*, 53.

It is therefore important to review the evidence for the above accusations using selected key documents, in particular the Gidel Memorandum, which have been hitherto neglected. In reviewing these neglected documents, the justification of the claims made by both sides will be assessed by comparing the assertions of the AIOC annual reports with the private views which were reflected in correspondence. This will provide supporting evidence for the motive and extent of the AIOC's adopted methods for profit distribution. These documents include the private and public correspondence of AIOC executives and diplomats, published statements in the press and in annual reports, obtained primarily from the BP archives. To provide further evidence concerning these claims, a financial analysis of the AIOC's annual reports for 1948-1950 is conducted to assess the division of profits from the oil industry between the AIOC, the British and Iranian Governments. To the extent that these claims are upheld or rejected, Fraser's subsequent defence of the company's activities can be more precisely evaluated by conducting a textual analysis of the Chairman's Statement to Shareholders. The validity of the statements is then reappraised with reference to historical evidence. In short, this chapter aims to answer two questions: whether the company misled the Iranians and others about shares of the oil revenues and secondly, whether the company was the chief architect of its own difficulties.

The layout of this chapter is as follows. Section 2 presents the Iranian claims and AIOC counter claims over the injustice of the 1933 concession. Section 3 presents the empirical evidence, which involves examining the key controversial points in the Memorandum (a major neglected historical document). This section also illustrates the accounting analysis for the AIOC annual reports for 1948-1950 inclusive, to examine the evidence and review the claims of the Iranians and counter claims of the AIOC. Section 4 examines behind-the-scenes correspondence between various diplomats to discover the tactical plans adopted by different managers in the AIOC. Section 5 highlights the role of Fraser, the AIOC's Chairman (1941-56), in responding to Iranian accusations. Section 6 summarises and concludes the chapter.

4.2 The 1933 concession: Claims and Counter Claims

In the light of the literature reviewed in chapter 2, the question of distribution of oil income continued to be a major source of rising conflict between the AIOC and the Iranian government[495]. In October 1947, the Iranian government committed to renegotiate the 1933 concession and demanded fair compensation. Later, the AIOC provisionally agreed a Supplemental Oil Agreement with the Iranian government but its ratification in the Majlis was successfully opposed by the National Front party. Iranians were not happy with the Supplemental Agreement and with the idea of extending the life of the concession for 32 more years. A subsequent proposal by the Iranians, for a fifty-fifty division of the company's total profits was proposed but the AIOC rejected the offer and insisted on dividing only "Iranian" profits.

There was continuing economic and political conflict between the AIOC and Iran. The AIOC claimed that the search for oil was an expensive risk and to transform oil into actual value required vast capital, skill, tenacity and a widespread organisation[496]. The company believed that it had mutual interests with Iran, asserting that the continued operations of the Anglo Iranian Oil Company were vital to Persia's wellbeing[497]. In fact, the company held the view that their operation in Iran was a remarkable success, and capital was spent on an unprecedented scale with the result that production rose in Persia at a greater rate than other territories. Herbert Morrison, Leader of the House of Commons and Foreign secretary, highlighted the benefits that the AIOC offered to Iran by asserting that

> The company operations consist not only of extracting oil from the ground but of the extensive refining operations undertaken in the great Abadan installations and in a widespread marketing organisation, including a great fleet of tankers[498].

It is worth noting that there was cooperation and joint decision-making between the company and the British authorities at home and abroad through the government's shareholding in the company and its power of veto. The AIOC was eager to present a united front, listing its achievements and recounting the benefits it showered equally on both producers and consumers to defend its innocence against charges of deception and exploitation.

The Iranian government and the locals, however, held a quite different opinion. Iran saw control of oil by the AIOC as damaging national control and argued that the country should gain as much revenue as possible from their oil reserves. Iranians

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[495] Karshenas, *Oil, State and Industrialization in Iran*, 81.
[496] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 44.
[497] House of Commons, Parliamentary debates 1 May 1951, 1011.
[498] *Ibid*.

believed that Iran should begin profiting from its vast oil reserves because the Supplementary Agreement proposed by Britain did not offer Iran as much as it wished and the definition of profits was difficult. Iranians strongly felt the injustice of the 1933 concession and argued that the AIOC 'stole' their established rights, giving them, in return, a small fraction of their own oil. The Iranian government made great capital of the suggestion that the AIOC was only "the British Government under another form"[499]. Iranian accusations were numerous in regards to the unfairness and injustice of the AIOC whilst they were alert to the reality that the company's worldwide business had been built up on Persian oil[500]. Iranians argued that in spite of their rich underground resources and vast wealth on land and in the sea, the population was mostly poor, claiming that if any other nation possessed one-tenth of their advantages, it would have made their country a paradise. The Iranian government was annoyed with the fact that the company had done little or nothing for the people of Persia in return for the natural wealth which the company had won and carried away[501]. The Iranian government believed that their negligible share of the oil profits served to meet unnecessary expenditures such as satisfying the demands of certain influential people, instead of being used for public welfare[502]. Ali Mansur, Iranian prime Minister, March-June 1950[503], explained that the company enjoyed a range of privileges from their operation in Iran such as cheap labour, exemption from customs duties and charges, exemption from income tax and from any supervision over its imports and exports[504]. Iranians were extremely annoyed with the low bargaining power of the Iranian government in relation to the AIOC. This was in part because their government's oil revenues constituted only a small percentage of the value of oil exports which naturally slowed down the accumulation of capital reserves over the period[505]. From the Iranian point of view therefore, the lack of trust in AIOC's adopted policies was the precursor for the issuance of the Gidel Memorandum. The following section will therefore examine the key points in the Memorandum, addressing the validity of both parties' claims and counter claims.

[499] BP 72017, Memorandum by Admiral Sir Edmond Slade, 23rd May 1922, 3.
[500] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 107.
[501] BP 68386, Report by Sir John Cadman, visit to Persia and Iraq, spring 1926, 31.
[502] BP 071181, Press extracts No. 798 on 6th September 1948, 1.
[503] Ali Mansur is an Iranian Politician. Governor-General of Khurasan and then Azerbaijan. Head of Seven-Year Plan Organisation.
[504] BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.
[505] Karshenas, *Oil, State and Industrialization in Iran*, 234

4.3 Iranian Claims and AIOC Counter claims: Empirical Evidence

As is illustrated above, the 1933 concession and the Supplemental Agreement had a number of key points which proved controversial and resulted in the issuance of Gidel's Memorandum. The Memorandum covered several issues that are worthy of further investigation. These issues formed the basis of the Iranian government's claims that the AIOC was paying an unjustly low return under the terms of the 1933 concession. It challenged the validity of the company's arguments in self-defence, and, in particular, AIOC's accounting reports which featured in this controversy. These reports were used as a source of data about profit and performance which allowed AIOC to transmit arguments in defence of its position and behaviour.

It is worth mentioning that no prior studies or research have examined the Memorandum in order to address the responses by the Iranians to the AIOC's counter claims or to reveal the tactical methods adopted by the AIOC management, including the management of information. According to Gass, some of the points in the Memorandum were of a trivial and departmental nature but others were very radical and novel interpretations of the concession, such as comparisons between the present concession and the D'Arcy concession, and also the question of a gold premium and taxes payable to the British government[506]. The Memorandum also dealt with other general issues which are not included in this chapter; the main aim here is to address and scrutinize the key points of contention that the Iranian government regarded as necessary in order to reach a settlement with the AIOC. Therefore, the following section reviews the most prominent items in Gidel's Memorandum in terms of distribution of value and the question of control and will examine and assess these in the light of Iranian claims and AIOC counter claims.

4.3.1 Difference in the value of gold

The gold clause specified within the AIOC concession allowed the Iranian government the option to receive payment in gold or gold equivalent. In fact, the Memorandum claimed that the AIOC had not abided by the gold clause in the 1933 concession and therefore the Iranian government had not received the quantity of sterling was assured it by the conditions governing the gold guarantee. The Iranian government therefore called for more sterling because the price of gold was

[506] BP 071181, Reference no. 8585 A, Gass to Fraser on 29th September 1948, 1.

controlled[507]. According to Elm, "in 1933 the royalty figure of 4s per ton represented one-eighth of the price of Iran's crude oil, whereas in 1947, considering the gold guarantee, it represented less than one-sixteenth. Thus, Iran's royalties in relation to the price of oil exported dropped from 33 percent in 1933 to 9 percent in 1947"[508]. In a similar vein, Ali Mansur, the Iranian Prime Minister, pointed out that the price of goods and particularly that of oil products had risen more than the price of gold and the currency used at the time of the agreement would still not have had the same value when payment became due.[509]. Ali Mansur also declared that the total amounts paid to the Iranian government in the early years of the execution of the 1933 Agreement were often between 35 and 40 percent of the company's profit, whereas for the year 1948, assuming that the Supplemental Agreement would have been put into effect, they would come to about 26 per cent thereof[510]. In this above context, Ali asked the AIOC that any amounts to be paid on account of royalty and taxes due retrospectively, irrespective of the date of the agreement and the date of payment, should be reckoned on the basis of the price of gold on the day of payment[511]. In June 1950, when Ali Razmara became the Prime Minister, he studied the Supplemental Agreement and asked for a lump sum payment of £14,000,000 to take account of the devaluation in sterling, and in settlement of the accounts for the years 1947 and 1948[512].

Gass countered that the efficacy of the gold conversion clause was challenged by the government, on the grounds that it was not providing the intended security. The crisis which arose at the beginning of the war owing to reduced output and diminished revenue was settled by make-up payments, to bring the total royalty revenue and tax composition up to £4,000,000 per annum between 1939 and 1945 inclusive[513]. Furthermore, the AIOC's treasury countered that "it was nevertheless accepted that the Iranian government had the unilateral right under clause 10 (v) (b) to call for review of the protection afforded to it by the conversion factor in that sub-clause and that their present complaint originated from their view that they were no

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507 Gidel Memorandum, 1.
508 Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 53.
509 BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.
510 *Ibid.*
511 *Ibid.*
512 BP 126345, Informal discussion at Britannic house on 20th October 1949, 1.
513 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 1.

longer fairly protected against the depreciated purchasing power of sterling because of the fixed official price of gold"[514]. The AIOC pointed out that the Iranian government's objective in raising this gold conversion issue was to receive larger sterling payments from the company by using a new and lower factor for the basic price of gold in place of the existing factor of 120/-d. per ounce in the concession. Also, the AIOC claimed that Iran was seeking to replace the fixed official price of gold in London, for royalty calculation purposes, with a higher fixed price[515].

In short, the Iranian government was aware of the fact that the price of gold was not free but was looking for better terms for the country and for the Iranian people, by protecting their rights from being violated under the gold clause. The British government's main objection was that whenever an increase or decrease occurred in the official price of gold, the Iranian government would demand a revision of the special price fixed for royalty purposes, which would be impossible for the British to meet.

4.3.2 Taxes and Immunities

Iranians were willing to see the payment terms improved because they were dissatisfied with the massive amount of tax paid to the British government[516]. The Memorandum claimed that British tax should not have been deducted from the profit share of the Iranian Government, and that the company underpaid Iranian tax on its profits because of the immunities it enjoyed. An important moral argument from the Iranian point of view was that Iranians strongly wished to develop their country and get terms as good as, if not better than, those contained in the concessions in other countries[517]. According to Ali Mansur, Iranians found it shocking that Iran, the main source of the AIOC's income, receive a negligible share in the profits which was by no means proportionate to the company's net profits[518]. The Memorandum clarified that the Iranian government's revenue should be exempt from any kind of tax and the amounts which had been withheld by the British government, were to be restored[519]. For a clearer picture, Table (4) presents a comparison of the amount of taxes paid to both the British and the Iranian governments for 1933-1947 inclusive.

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[514] BP 101099, Note on meeting held at the treasury on 30th December 1948, 1.
[515] *Ibid.*
[516] BP 070266, Jacks to Fraser on 19th August 1934, 1.
[517] BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.
[518] *Ibid.*
[519] Gidel Memorandum, 1.

Table 4: Comparison of the taxes paid to the British Government and Iranian Government

Year	Total tax payable to British government (£)	Iranian Government's tax (£)
1933	305,418	274,412
1934	511,733	301,135
1935	408,635	291,169
1936	910,559	328,524
1937	1,651,588	362,734
1938	1,157,029	378,494
1939	1,955,606	466,204
1940	2,975,156	460,118
1941	2,920,682	568,667
1942	4,917,486	454,168
1943	7,662,764	606,948
1944	10,636,457	514,725
1945	10,681,364	646,644
1946	10,279,241	768,599
1947	15,266,665	765,405

Sources: BP 101099, Gidel Memorandum, 1946-1949, 6b.

As shown in Table (4), the amounts received by the British government in taxation were huge, and not proportionate to the payments received by the Iranian government. Professor Gidel noted that the company paid to the Iranian government £274,412 in 1933 on account of income tax and £305,418 on the same account to the British government whilst in 1947, the amount received on account of taxation by the Iranian government was £765,405 and that received by the British government was £15,266,665[520]. Mr. Ebtehaj, Governor of Bank Melli, reported that the company made large tax payments to the British government and urged Iran to claim a share of these payments[521].

AIOC countered that it could not change British tax provisions, and that the Iranian government enjoyed benefits from AIOC investment which would not have been possible if the company had not been given tax immunity. The company claimed that the royalties paid to Iran were a source of revenue to the Iranians and in return, it argued, the company should receive a substantial proportion of any profits from oil, without which Iran would not have benefited from the AIOC's exploration of their oil reserves. Furthermore, AIOC claimed that it should not overlook the existing provisions regarding tax composition; the British Treasury had informed the

[520] *Ibid,* 5.
[521] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 19.

company that the level of taxation in the UK was a matter for the British government[522].

An important moral argument from the Iranian point of view was that profits earned in Iran were being used to generate profits elsewhere. Gass, the AIOC negotiator, noted that his Iranian counterparts "possessed only a very elementary idea of accounts"[523]. Even so, an analysis of the accounts (Table 5 below) reveals first, that the AIOC was financially self sufficient and did not raise significant new loans or equity capital and second, that it was committing significant resources to capital expenditure in other countries. With or without knowledge of accounting, the diversion of funds outside Iran was quite obvious to both sides of the negotiations.

Table 5: Funds generated and location of capital expenditure: 1946-1951

Year	A	B	C	D	E
	Funds generated from operations	Increase in capital*	Capital Expenditure (total)	Capital Expenditure (Iran)	% D/C
1946	15.2	Nil	20.2	9	44.55
1947	43.9	Nil	31	8	25.81
1948	58.8	Nil	39	14	35.90
1949	43.1	1.6	55.7	18	32.32
1950	93.5	0.8	42.1	10	23.75
1951	83.2	4.2	60.2	n/a	n/a
Totals	**337.7**	**6.6**	**188**	**59****	**31.38****

Sources: Adapted from Bamberg, *The History of the British Petroleum Company*, table 10.4, 276 and figure 14.1, 348.

Notes:
* Refers to loan capital
** Excludes 1951

522 Gidel Memorandum, 7.
523 Bamberg, *The History of the British Petroleum Company*, 392.

From the above analysis, the evidence strongly supports Elm's conclusion, endorsed by British Treasury and Foreign Office officials- Britain could not refute Iran's claim that the company's worldwide business "had been built up on Persian oil"[524]. The AIOC performed commercial activities overseas with the status of a British domiciled company resulting in unfairness of capital payments to Iran when compared with other countries (see Table 5 above). Thus, the Iranian government's income from oil was largely confined to taxation, resulting in reduced capital reserves. In short, the company demonstrably found reasons for not changing its currently advantageous tax provisions.

4.3.3 Company's Reserves and Profits

Since the 1933 concession, the Iranians had found it difficult to arrive at an assessment for the division of profits[525]. As mentioned earlier in the chapter, the 1933 Agreement offered Iran a share in AIOC's overall profits around the world, equivalent to 20 percent of dividends distributed among holders of common stock in excess of £671,250[526]. The 1933 concession did not bring any substantial changes to the extremely unequal shares nor did it create a significant increase in the absolute value of the oil income of the Iranian government[527]. Karshenas has pointed out that although the total profits of AIOC constituted a formidable sum in the Iranian economy, the Iranian government's share of the profits was relatively very small[528].

Gidel's Memorandum called for the method of calculation of the company's various reserves to be clarified in an accurate manner[529]. Professor Gidel recognised that the AIOC's treatment of depreciation was seen as creating a misleading reduction of profits with the aim of reducing the amount it was required to pay the Iranian government[530].

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524 Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 107.
525 Mansoor, *State-Centered vs. Class-Centered Perspectives*, 13-14.
526 AIOC Annual Report and Accounts, 1950, 14.
527 Karshenas, *Oil, State and Industrialization in Iran*, 81.
528 *Ibid*, 80.
529 Gidel Memorandum, 6.
530 Depreciation is an estimate and a normal feature of accounting practice, but there is considerable scope for it to be used to manipulate profit.

He argued from two different perspectives:

> First, the government would in effect have paid for a part of the depreciation of properties outside Iran to which it had no right at the end of the concession and secondly, the government would in effect have been paying towards the depreciation of the company's properties in Iran which should under the concession revert to the government at the end of the concession free of any cost and at the end of the concession the government would have no share in the reserves provided for this purpose. The result would be that the ordinary stockholders would benefit from the reserves at the end of the concession and from the company's property outside Iran, while the government's reversionary right to the property inside Iran would be defeated[531].

Moreover, the Prime Minister Ali Mansur commented that the reserves were implausibly large, a matter which should be cleared up thoroughly and without any ambiguity so that the interests of Persia should be completely safeguarded[532]. He explained that

> (The) AIOC has acted under instructions from the British government and reserved terrific amounts in order not to pay more than what the company laid down in the 1933 Agreement, however it should be stipulated in the Supplemental Agreement that the Persian government would share in all the reserves up to 20% whether visible or invisible[533].

The AIOC became anxious and was ready to re-open discussions with the Iranian government rather than let the latter's concerns become magnified into serious grievances[534]. The Board of the company decided to discuss with the Iranian government the policy, advocated by the British government, of suspending payment from the General Reserve, resulting in hardship to Iran[535]. The company maintained that the only amount available to the Iranian government was 20% of its general reserve at the date of expiration of the concession or of its surrender[536]. Other

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531 BP 126422, Note of first meeting of the understanding committee on 1st May 1949, 9.
532 *Ibid*, 8.
533 BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.
534 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 5.
535 *Ibid*, 6.
536 Gidel Memorandum, 30.

reserves, it claimed, such as those for taxation, preference dividends and bad debts, could not be calculated 'with absolute accuracy' and were not likely to be payable to shareholders unless they were found to have been overstated[537]. As for the Iranian claims that depreciation should be divided between properties inside and outside Iran; the AIOC argued that the assets in Iran were contained in different accounts and that depreciation was provided separately for each company. The AIOC declared, however, that its accounts included, in addition to the Iranian assets, certain small assets outside Iran which amounted to less than 1% of the total gross value[538]. Their implication was that only trivial amounts of non-Iranian asset depreciation were being charged against Iranian profits.

As previously demonstrated, the AIOC paid much more in income taxes to the British government than it did in royalties to the Iranian government, and this was regarded with increasing concern in Iran[539]. The following section draws upon the arguments developed here to provide further evidence concerning the Iranian claims. Detailed financial analyses were conducted for the share of profits using data from the 1948 – 1950 AIOC Annual Report and Accounts, to contrast the profit shares for these periods and re-examine the distribution of the firm's pre-tax profit during the company's nationalisation to three stakeholder groups: the Iranian Government, the British Government and other AIOC shareholders. As discussed in the introduction, the British government had exploited the Iranian oil deposits according to its own interests (for example, the control of oil for its navy) and acquired a majority shareholding (51%) stake in the AIOC. Meanwhile, the AIOC shareholders had a 49% stake of ordinary shares not controlled by the British government and the owners of the preference shares. Tables (6), (7) and (8) compute a more detailed analysis of these shares of profits using data from the 1948, 1949 and 1950 AIOC Annual Report and Accounts to examine how compatible they are with the claims made by either side.

As can be seen, Table (6) computes a more detailed analysis of these shares of profits, using data from the 1948 AIOC Annual Report and Accounts, to examine the distribution of the firm's pre-tax profits to three stakeholder groups: the Iranian Government, the British Government, and other AIOC shareholders. The company's

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[537] *Ibid.*
[538] BP 72188, Royalty questionnaire and answers, 9.
[539] Keddie, *Modern Iran*, 124.

financial reports play a significant role for a number of reasons. They were analysed by both sides as evidence for and against changes to the basis on which the AIOC was taxed and also for the royalties paid under the concession. Moreover, a calculation of the other elements of the return made to Iran arising from the AIOC's activity is set out in the table below.

Table 6: Stakeholder shares of AIOC profits, 1948

A) Geographical distribution of AIOC activity

Country	Crude production (Tons)	Refined (Tons)	Total (Tons)	%
Iran (i)	24,871	20,936	45807	87.26%
Kuwait	3,146		3146	5.99%
Iraq	1,292	963	2255	4.30%
Qatar			0	0.00%
UK	43	1241	1284	2.45%
Total			**52492**	**100.00%**

B) Stakeholder shares of AIOC Profits

1948	£'000	£'000	£'000	£'000	£'000	£'000
	Iranian Gov.	**British Gov.**	**Other AIOC shareholders**	**Estimated Iranian**	**Estimated Non-Iranian**	**Total per accounts**
Royalties (ii)	9170			9170		9170
Ordinary dividend (iii)		2680	2575	5255	785	6040
Preference dividend			932	932	139	1071
Reserve Appropriations (iv)		7543	7247	14790	2210	17000
Retained profit (iv)		-21	-20	-41	-6	-47
Minorities and subsidiaries (iv)		181	174	354	53	407
UK taxation: profits		6158		6158	920	7078
UK taxation: dividend income tax		18473		18473	2760	21233
Total	**9170**	**35013**	**10907**	**55090**	**6862**	**61952**
% Share	16.65%	63.56%	19.80%	100.00%		
						9170
Accounting Profit (v)						52782

Sources: Annual Report, 1948

Notes:

i) Division of profits between Iranian and Non-Iranian activities allocated pro-rata from Panel A estimates

ii) Total Iranian royalties as disclosed in the notes to the accounts, Annual Report 1948. Iranian production royalties computed as the difference between total royalties and total ordinary dividend in excess of £671k x 20%. As these were charged to the accounts as a cost of production (Bamberg, p.325) they need to be added back to the profit available for distribution to the above stakeholders, so a deduction of £9,170 is made in the final column to reconcile to disclosed accounting profit.

iii) Remaining equity dividends attributable to Iran divided 51:49 British Govt, Other AIOC Shareholders.

iv) AIOC shareholders are non-Iranian shareholders.

v) Reserve appropriations, retained profit and minority interests are allocated in the same proportions. The effects of discounted pricing to the benefit of the British Admiralty and their consequence for reduced Iranian royalties are not factored in the calculations above.

vi) £52782 is the profit for the year before tax taken from the annual report and accounts 1948, p.8.

As shown above in Table (6) panel (A), an estimated 87% of the profit and other figures are attributed to Iranian activities in Iran. The main aim of the analysis in this panel is to show the oil contribution of each country and determine exactly where it came from. Panel (B) illustrates the distribution of the AIOC profits and how it was allocated among three different stakeholder groups: the Iranian government, the British government and other AIOC shareholders. From the accounting analysis shown in Panel (B), it is obvious that the British government received a massive amount in taxes in 1948- the British Treasury had accrued £35 million in tax revenue for that year. Iran, however received £9.1 million in royalties and taxation for the same year, whereas the proportions in 1947 were £16.8 million and £7.1 million respectively[540]. Moreover, it worth noting that the total shares for the Iranian government was 16.7%, implying that 83.3% accrued to British equity interests; with the British Government's share predominating.

It is crucial to note that, as argued by Penrose, when firms are vertically integrated, the entire integrated group is the relevant unit for the calculation of profitability and any profit or loss generating from the intermediate stages would be relevant only for internal accounting purposes or for taxation[541]. In this case, however, we do not have very complete and detailed historical financial information about the affiliates of AIOC in the underdeveloped countries and it is perhaps partly for this reason that the accounting analysis does not include the accounts generating from the AIOC subsidiaries. Meanwhile, the bulk of the AIOC income is derived from the production of crude oil and its refining, calculated on the basis of petroleum activities in Iran but the income has not been traced beyond that region to the final consumers. The analysis therefore does not include income derived from transport and marketing outside the region.

Similar analyses were conducted for financial years 1949 and 1950 illustrating that the total profits of AIOC constituted a formidable sum in the Iranian economy and the Iranian government's share in the profits was relatively very small, as illustrated in Tables (7) and (8).

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[540]1947 figures from Bamberg, *The History of the British Petroleum Company,* 325; 1950 figures calculated from table 4.

[541] Penrose, *The large International firm in developing countries*, 153.

Table 7: Stakeholder shares of AIOC profits, 1949

A) Geographical distribution of AIOC activity

Country	Crude production (Tons)	Refined (Tons)	Total (Tons)	%
Iran (i)	26,807	23245	50052	84.58%
Kuwait	5,625	118	5743	9.70%
Iraq	1348	132	1480	2.50%
Qatar			0	0.00%
UK	45	1857	1902	3.21%
Total	33825	25352	59177	100.00%

B) Stakeholder shares of AIOC Profits

1949	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Iranian Gov.	**British Gov.**	**Other AIOC shareholders**	**Estimated Iranian**	**Estimated Non-Iranian**	**Total per accounts**
Royalties	13489			13489		13489
Ordinary dividend		2618	2516	5134	906	6040
Preference dividend			910	910	161	1071
Reserve Appropriations		4769	4582	9350	1650	11000
Retained profit		121	116	237	42	279
Minorities and subsidiaries		23	22	46	8	54
UK taxation: profits		5614		5614	991	6605
UK taxation: dividend income tax		13800		13800	2435	16235
Total (ii)	**13489**	**26945**	**8146**	**48580**	**6193**	**54773**
% Share	27.77%	55.47%	16.77%	100.00%		
						13489
Accounting Profit (iii)						41284

Sources: Annual Report, 1949

Notes:

i) Division of profits between Iranian and Non-Iranian activities allocated pro-rata from Panel A estimates.

ii) Profits are allocated as 1948.

iii) £41,284 is the profit for the year before tax taken from the annual report and accounts 1949, p.6.

As shown above in Table (7), above, relating to 1949, the British government received a massive amount of taxes in this year: the British Treasury accrued £26.9 million in tax revenue, whilst Iran received £13.5 million in royalties and tax revenue. It is worth noting that the total share for the Iranian government was 27.8%, implying that 72.2% accrued to British equity interests; with the British Government's share predominating. However, it is worth highlighting the fact that the Iranian royalties increased in 1949 by 4.4 million and the British equity interests declined by 11.5%[542]. The above explains how the AIOC had enriched itself with the proceeds of their operations in Iran and failed to generate significant new loan or equity capital for the Iranians.

[542] As illustrated in Tables 3 and 4, the Iranian royalties increased from £9.1 million in 1948 to 13.5 million in 1949 and the British equity interests declined from 83.35% in 1948 to 72.2% in 1949.

Table 8: Stakeholder shares of AIOC profits, 1950

A) Geographical distribution of AIOC activity

Country	Crude production (Tons)	Refined (Tons)	Total (Tons)	%
Iran (i)	31750	24050	55800	80.15%
Kuwait	7367	1054	8421	12.10%
Iraq	1681		1681	2.41%
Qatar	380		380	0.55%
UK	46	3291	3337	4.79%
Total	**41224**	**28395**	**69619**	**100.00%**

B) Stakeholder shares of AIOC Profits

1950	£'000	£'000	£'000	£'000	£'000	£'000
	Iranian Gov.	**British Gov.**	**Other AIOC shareholders**	**Estimated Iranian**	**Estimated non-Iranian**	**Total per accounts**
Royalties	16032			16032		16032
Ordinary dividend		2464	2368	4832	1208	6040
Preference dividend			857	857	214	1071
Reserve Appropriations		10608	10192	20800	5200	26000
Retained profit		-3	-3	-6	-2	-8
Minorities and subsidiaries		268	258	526	131	657
UK taxation: profits		9368		9368	2342	11710
UK taxation: dividend income tax		31197		31197	7799	38996
Total (ii)	**16032**	**53902**	**13671**	**83605**	**16893**	**100498**
% Share	19.18%	64.47%	16.35%	100.00%		
						16032
Accounting Profit(iii)						84466

Sources: Annual Report, 1950

Notes:

i) Division of profits between Iranian and Non-Iranian activities allocated pro-rata from Panel A estimates.

ii) Profits are allocated as 1948 and 1949.

iii) £84,466 is the profit for the year before tax taken from the annual report and accounts 1950, p.6.

As can be seen in Table (8), relating to 1950, the total share for the Iranian government dropped to 19.2%, implying that 80.8% accrued to British equity interests, with the British Government's share predominating. The British government received a massive amount of taxes in 1950 because the British Treasury accrued £53.9 million in tax revenue (from AIOC) whilst Iran received £16.0 million in royalties and tax revenue. Thus, the above implies that in spite of the £2.5 million increase in royalties in 1950, the Iranian government share decreased by 8.6 % and the share of British equity increased by 8.8%, demonstrating that the AIOC had enriched itself with the proceeds from their operations in Iran. In addition to the above evidence, the Majlis deputy, Allahyar Saleh, addressed the fact that AIOC was accumulating exorbitant profits at Iran's expense enabling it "to self-finance a host of other profitable companies". He summarised his opinion by stating that Iran had earned from her oil no more than crumbs and said that Iranians "are not prepared… to finance other people's dreams of empire from our resources"[543]. In a similar vein, Makins, deputy under secretary at the Foreign Office, expected the company's statement to "cause a furore" because "the gross profit and the deduction of the United Kingdom taxation have more than doubled in relation to the figures of 1949". By contrast, Iranian royalties had increased from £13.5 million in 1949 to only £16 million[544].

In 1950, Northcroft met Musaddiq informally and took the opportunity to put the company's case. In a note of the meeting, Northcroft recorded that he gave Musaddiq figures that revealed that Iran's income was larger than that of the British Government and that he "suggested that the shareholders of the Company, who after all were the owners, were probably the most hard done by of all, as for the last year or so they had been only receiving something like 5% of the Company's annual profits as a return for their investment"[545]. However, as illustrated in Table 8(b), the empirical evidence illustrates that the contrary was true, because the shareholders were receiving 16.35% of the company's annual profits and not 5%.

The company seems to have deliberately misled the Iranians by giving them incorrect information. This was presumably because it was alert to the fact that the Iranian government would make made a strong case in support of their contention

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[543] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath, 180.*
[544] FO371/91611, Minute by Makins, 9 Nov, 1951.
[545] BP 126347, Interview with Dr Musaddiq, 9th August 1950

that the profit-sharing element of their royalty was not in practice working in the way they expected. This assumption would provoke in them a strong feeling of grievance[546]. Within the above context, it is clear that Fraser used his statement in the annual reports as a piece of propaganda to present the Iranian Government as unreasonable and to portray his generosity, by the proposed deal for increased royalty payments under the Supplemental Agreement of 1949, as "the most advantageous offered to any country then producing oil in the Middle East"[547].

Fraser criticised Razmara's secretive behaviour[548]. On the Iranian side, Razmara's objective was to avoid a conflict with the British and keep the details of the 50/50 discussions secret as a result, in part because he feared public opinion would be disappointed if aware that anything less than nationalisation were being considered[549].

On a literal reading of this statement in the context of the explosive situation, it can only be concluded that Fraser did not understand Razmara's royalist political objectives and the essential role of secrecy if they were to be achieved. As the AIOC was intended to be a principal beneficiary of the secrecy, it is difficult to comprehend the views of Fraser. Moreover, Shepherd later admitted that he had written 'the gist' of Razmara's speech to the Oil Committee on 3rd March[550]. Alternatively, and perhaps equally unlikely, is that Fraser simply misunderstood the mood of the Iranian people: such misjudgement was symptomatic of paternalist colonial attitudes. A more likely interpretation therefore is the role of the Chairman's statement as a piece of propaganda, in which the public face of a 'reasonable' company is portrayed, and, consistent with the wider British discourse, nationalism is treated as inconsequential and ephemeral[551].

Perceived unfairness of profit distribution and Iranians' strong mistrust of the AIOC led to deep bitterness against imperialism and were the precursor for the vigorous and ever-growing desire for autonomy and nationalisation. Britain feared that the existing political situation in Iran could threaten the flow of oil from Iran, which would negatively affect the production and exports of the company, and so

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546 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 48.
547 AIOC Annual Report and Accounts, 1950, 13.
548 *Ibid.*
549 Ansari, *Modern Iran since 1921*, 111.
550 Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 80.
551 Ansari, A. M. *Modern Iran since 1921*, 112.

considered nationalisation as a potential threat. In a similar vein, Morrison, Leader of the House of Commons and Foreign Secretary, asserted that

> If the Iranian oil supplies ceased to flow from Iran, the consequences upon the economy, the life, and the political and strategic future of wide areas throughout the world would be disastrous, since about a quarter of oil products which AIOC draws comes from Abadan[552].

A series of unsuccessful negotiations culminated in the subsequent ratification of nationalisation of AIOC's Iranian assets by Musaddiq on 1st May 1951. Musaddiq believed that the only means of escape from the company's oppression was to nationalise the AIOC's holdings[553]. The repercussions were potentially serious, not just for the company, which lost a significant proportion of its assets, but for wider regional, and indeed global, geopolitics.

4.3.4 Royalties

Royalties were paid by the AIOC to Iran in return for taking away minerals from their exhaustible natural deposits, and they should reflect either a proportion of mineral output or a fixed sum based on the volume of production[554]. The basis of calculation and the amount of royalties received by the Iranian Government were key issues. Penrose has pointed out that in the period 1930-9:

> Royalty and tax payments to the Iranian Government substantially exceeded income tax payments to the British Government and amounted in total to nearly two-thirds of the net profit after tax of the Company[555].

For the period, the tax and royalties paid to Iran were £22,134,000 compared with UK income tax of £8,749,000 and net profit of £35,754,000[556]. AIOC management argued that Iran was in a sound position financially and had always managed to balance her national budget, since royalties had formed a reserve on which the government could draw for special purposes[557]. But meanwhile, Jacks pointed out to

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552 House of Commons, Parliamentary debates 21 June 1951, 747.
553 BP 126349, press extracts No. 816, Dr. Musaddiq's letter to ITTILA'AT on 20th November 1950, 3.
554 Issawi and Yeganeh, *The Economics of Middle Eastern Oil*, 105.
555 Penrose, *The large International Firm in Developing Countries: the International Petroleum Industry*, 64.
556 Penrose, *The large International Firm in Developing Countries: the International Petroleum Industry*, 68.
557 BP 126345, Informal discussion at Britannic house on 20th October 1949, 2.

Fraser that, after the Second World War, the Iranian government became unhappy with the concession and with the Supplemental Agreement because it was eager to improve the royalty terms[558].

The Iranian government received royalties representing half of the company's post-tax proceeds, while the British government received over double this amount in taxes from AIOC. The proportions were then reversed, so that the AIOC paid much more company tax to the British government than it did in royalties to the Iranian government, a fact which was regarded with increasing concern in Iran[559]. The Iranian government was also conscious that the royalties paid for oil extraction in Saudi Arabia, Iraq and Venezuela were more favourable than those paid to the Iranian government. Therefore, Iranians thought that a comparison with the concessions granted in Venezuela during the same period would help to bring to light the poor bargain reached between the Iranian government and AIOC[560].

The Gidel Memorandum reiterated this point, claiming that:

> Total royalties earned by the Iranian government in the year 1933 amounted to 33% of the price of all the petroleum extracted while for the year 1947 this ratio was in the neighbourhood of 9%[561].

Katouzian described the fall in royalties as "ridiculous" and "inexplicable"[562]. The Memorandum also claimed that if the same basis had been used for Iranian as for Venezuelan royalties, the 1947 payment would have been more than three times higher[563]. Ali Mansur proved unwilling to defend the Supplemental Agreement and remarked to Shepherd that a gesture by the company would be expected involving an increase in royalty payments[564]. Ali suggested that it would be expedient for the AIOC and the Iranian government to revise the terms and conditions of the concession satisfactorily[565]. To reinforce the point, Table (9) below compares the cost of oil production in Iran with that in Venezuela to examine whether the concession in Venezuela compares favourably or not with Iran.

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558 BP 070266 Jacks to Fraser on 19th August 1934, 1.
559 Keddie, *Modern Iran,* 124.
560 Karshenas, *Oil, State and Industrialization in Iran*, 81.
561 Gidel Memorandum, 4.
562 Katouzian, *The Political economy of Modern Iran 1926-1979*, 118.
563 *Ibid.*
564 BP 126343, Reference No. 231, Northcroft to Rice on 3rd June 1950, 1.
565 BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.

Table 9: Comparison between the cost of oil production in Persia and that in Venezuela

	Persia ($)	Venezuela ($)
Cost of production per ton	1	4.65
Cost of transport to Europe	8.22	
Cost of transport to Europe and America		2.62
Royalty	2.88	5.88
Total	12.1	13.15
Price in Europe	20	
Price, 35% in Europe and 65% in America		18.7
Net profit of the companies	7.9	5.55

Sources: BP 126343 Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, p.1.

As noted from Table (9) above, the AIOC received $2.35 more per ton from Persia than the companies exploiting reserves in Venezuela, assuming that the Supplemental Agreement had been put into effect. This raises the question of why the AIOC's royalty payments to the Iranian government declined despite the company's higher profits in comparison to Venezuela? Was the AIOC's intention in this method of paying royalties to enhance the prosperity of the company alone?

AIOC Chairman, Sir John Cadman, was concerned not to carry discussion on the royalty matter beyond a certain point[566]. AIOC was worried that any revised deal would be less advantageous to them than the present one: Fraser for instance commented in 1948 that it was the very last thing the company desired, as no new concession could ever be as favourable to the company as the one then in existence[567]. Furthermore, Gass was aware of the injustice of AIOC and declared that "the company's 1947 financial results added fuel to the fire" because he knew that the profit-sharing method of calculating royalties would invite curiosity and a wish by the Iranian government to interfere with the company's commercial transactions and accounting systems.[568] The AIOC contended that it was unrealistic to make

[566] BP 68386, Report by Sir John Cadman, visit to Persia and Iraq, Spring 1926, 33.
[567] BP 101099, AIOC opinion on 20th June 1948, 6.
[568] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 49.

comparisons over time or between countries[569]. Moreover, the company argued that Iran also benefited from the high level of the company's investment, from the amount of Rials it purchased annually and from its subsidization of cheap oil supplied to the Iranian Government[570]. AIOC claimed that its role first and foremost was as a commercial undertaking, committed both to heavy royalty and taxation payments to the Persian government and to dividend returns to its shareholders[571].

To provide further evidence concerning the Iranian claims, a financial analysis is conducted in Table (10) to assess the royalty estimates under different negotiating assumptions, applied to profits subject to the 1933 Agreement.

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569 BP 126347, Supplemental Oil Agreement- further conversation between Sir F. Shepherd and Mr. Razmara, 10th October 1950.
570 Gidel Memorandum, 22.
571 BP 070266, Jacks to Fraser on 19th August 1934, 3.

Table 10: Royalty estimates under different negotiating assumptions

	A	B	C
Date	**Total Pre-tax Profits**	**Iranian government bid*:* 50/50 share of pre-tax profits**	**Royalties paid under 1933 Agreement**
1932	3.5	1.8	1.5
1933	3.1	1.6	1.8
1934	5.3	2.7	2.2
1935	5.3	2.7	2.2
1936	7.8	3.9	2.6
1937	9.8	4.9	3.6
1938	8.7	4.4	3.3
1939	7.4	3.7	4.3
1940	10.3	5.2	4.0
1941	11.5	5.8	4.0
1942	21.0	10.5	4.0
1943	22.7	11.4	4.0
1944	27.9	14.0	4.5
1945	23.4	11.7	5.6
1946	28.9	14.5	7.1
1947	37.3	18.7	7.1
1948	51.0	25.5	9.2
1949	41.2	20.6	13.5
1950	85.7	42.9	16.0
Total	**411.8**	**205.9**	**100.5**

Sources: Compiled from AIOC, *Annual Reports and Accounts* and Bamberg (1994), tables 1.2, 8.5, 10.3, 12.1.

Notes:

i) All figures in £m.

ii) Column A is compiled from Bamberg, *The History of British Petroleum,* table 1.2, 23; table 8.6, 228 and table 10.3, 275.

iii) Column A values are adjusted for inflation so this explains the difference in the computed *Accounting profit* figures in Tables 6, 7 & 8.

iv) Column B estimates calculated under the fifty-fifty (50:50) share of pre-tax profits

v) Column C is compiled from Bamberg, *The History of British Petroleum,* Table 12.1, 325.

Table (10) sets out the royalty shares under various negotiating assumptions. Column A shows the total pre-tax profits; column B illustrates the Iranian government bid to share 50% of total profits; and column C records the actual royalties paid under the 1933 Agreement. The Table highlights how the 1933 Agreement was of marginal benefit to the Iranian government because the royalties due to the Iranian government in 1948 under the 1933 Agreement were £9.2m whereas, had the Iranian government demanded a 50% share of the pre-tax profits, it would have resulted in a payment of £25.5m to Iran. Therefore, a difference of approximately £16.3m represented a large increase on the existing agreement. Moreover, the royalties paid in 1950 under the 1933 Agreement were £16m; if they were renegotiated line with the Iranian government 50/50 bid, this would have resulted in a payment of £42.9m to Iran, a difference of approximately £26.9m which was large enough, from the Iranian point of view, to terminate the agreement. Consequently, the Iranians' lack of trust in AIOC accounting, coupled with the former's understanding that their bargaining position had led them to forego the sum of £26.9m, provided two important reasons behind the Iranians' nationalisation sentiment.

4.3.5 Dividends

Dividends were restricted as a result of post war limitations imposed on British companies by the British Government and the AIOC "could not as one of Britain's most prominent businesses realistically break ranks with government policy"[572]. In view of the dividend limitations imposed on AIOC arising from UK fiscal policy, the Iranian government indicated to the company that they were not satisfied with the existing arrangement under the concession whereby they received a yearly payment equal to 20% of the sum distributed to the ordinary shareholders[573]. Penrose pointed out that early in 1948; the AIOC had planned discussions with the Iranian government to remedy the apparent prejudice to Iran of the British government's policy of limiting dividend payments[574].

The Memorandum called for dividends payable to the Iranian government to be exempt from this restriction, claiming that "the restriction imposed on the amount of dividend on the company's shares on the authority of instructions issued by the

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[572] Bamberg, *The History of the British Petroleum Company*, 326.
[573] BP 101099, AIOC opinion on 20th June 1948, 1.
[574] Penrose, *The large International firm in developing countries*, 66.

British government should not affect the shares of the Iranian government in the company's profits"[575]. Furthermore, Ali Mansur argued that the 20% rate paid to the Iranian government of dividend for ordinary shares had never been realised due to the British manipulation of their tax rate[576].

AIOC countered that the deferred participation in profits might not accord with the Iranian government's immediate interests because defining profits were a major difficulty which faced the company. The company pointed out that the amounts held back by the restriction were being held in reserve for the Iranian government and offered to make these funds available immediately[577]. Meanwhile, Fraser believed that the Iranian government might well be successful in bringing about an amendment to the concession so he proposed that an "ex gratia" payment should be made by the company to the Iranian government either by way of a loan or on account, being in effect a unilateral "gift" by the company without any sort of conditions, in order to forestall any problems[578]. Moreover, Gass aimed to convince the Iranian government that its share in the company's profits had been in no way affected by the policy of limiting dividends and claimed that the ex gratia payment offered by the company would be in the Iranians' best interests[579].

By restricting the dividend payments to shareholders and imposing taxes on the company, which were greater than Iranian royalties, British fiscal policy helped to fuel Iranian grievances about the AIOC's distribution of income[580]. This appears to provide evidence that Iranian claims were genuine, that certain features of the concession agreement were not operating in the way that was originally intended, and that AIOC, by making such claims, were merely defending their position.

4.3.6 Subsidiaries (Establishments outside Iran)

Iranians were dissatisfied with the insistence of AIOC on not consolidating the non-Iranian subsidiaries. Elm has pointed out that non-Iranian subsidiaries were not consolidated by the AIOC to deprive the Iranian government of profits generating from overseas operations[581]. Meanwhile, Penrose describes the exclusion of

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[575] Gidel Memorandum, 1.
[576] BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950.
[577] Gidel Memorandum, 8.
[578] BP 101099, AIOC opinion on 20th June 1948, 1.
[579] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 29.
[580] Bamberg, *The History of the British Petroleum Company*, 326.
[581] Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 53.

subsidiaries as "an important element of arbitrariness" in the realisation of profits, so that, for instance, profits might be realised in regimes with the lowest tax rates[582]. In fact, the company's statement of 1950 noted that

> The accounts of fifty-one subsidiary companies....have not been included in the Consolidated Accounts since your Directors are of the opinion that such consolidation would be misleading[583].

The above illustrates that the process of integrating subsidiaries is not only an economic process but also a political one and therefore affected by the main country's social and political dynamics. The AIOC produced 51 percent of the Middle East's oil, three-quarters of it from Iran and the other quarter shared between Iraq, Qatar and Kuwait. The remaining 49 percent was made up of 44.5 percent from American companies and 4.5 percent from Dutch and French companies[584]. This raises the question of why AIOC insisted on withholding profits earned outside Iran. The resource was Iranian, and the capital investment and other costs (except the initial historic costs) were met from the sale of Iranian resources- so why was the income retained by, or paid out to, Britons?

Clearly, the treatment of subsidiaries was a matter of concern because of its implications for AIOC's profitability. The Memorandum invoked the Government's right upon expiry of the concession with regard to the subsidiaries[585]. In 1949 Husayn Makki, who held office under General Zahedi (Musaddiq's successor), complained that the company accounts did not mention the capital employed in its 37 subsidiaries[586]. Moreover, in 1950 Musaddiq attacked the company's treatment of its subsidiaries from two angles. Firstly, AIOC could not withhold its profit from Iranian royalties on the basis that it had been earned outside Iran, bearing in mind that the majority of its earnings were Iranian. Musaddiq pointed out that, in its balance sheet for 1948, the AIOC had about £28,000,000 worth of shares in its subsidiary and combined companies and in respect of these shares it received only £2,000,000, which implied that the amount received was not above 7% of the

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[582] Penrose, *The large International Firm in Developing Countries: the International Petroleum Industry*, 43
[583] AIOC Annual Report and Accounts, 1950, 7.
[584] Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath,* 108.
[585] Gidel Memorandum, 2.
[586] BP 126346, AIOC concession supplemental agreement bill on 28th July 1949, 1.

investment which totally belonged to Iranian oil resources[587]. Secondly, Musaddiq argued that the subsidiaries were in any case financed with Iranian profits. For instance, the profits of the British Tanker company, (a shipping company for Iranian oil, whose capital had been provided by the AIOC) were at least £10,000,000 in 1949. From this amount it gave only £240,000 to the parent company, although £4,000,000 of the earnings from Iranian oil had been invested in that company[588].

The AIOC countered that it was willing to protect its overseas investments and maintain control over its assets, an idea as important to them as nationalisation was to the Iranians[589]. Gass was aware that the Iranian government was very concerned about the establishment of subsidiaries outside Iran, believing that the government was looking to maximise its revenue from expansion of operations and of refining capacity from within Iran. This would have been very desirable from the Iranians' viewpoint, furthering their policy of raising the level of employment and increasing the rate of foreign exchange[590]. However, the company responded by stressing that the "fundamental difference" between its establishments inside and outside Iran was that the former would revert to the Iranian government, but that there was no question of allowing the latter to do so[591]. In short, the AIOC was not willing to consolidate the non-Iranian subsidiaries to maintain control over their assets.

4.3.7 The financial inspection of the companys books

Ferrier has pointed out that, as part of Persia's dividend was based on 20% of the company's profits, the Iranian government must certainly be aware of the company's accounts and have the right to ask the company to furnish information similar to that given to auditors[592]. Sir William McLintock, a professional accountant and one of the leading figures in his profession, issued a report disclosing certain undoubted errors and irregularities of accounting which had resulted in underpayment of royalties to the Iranian government[593]. McLintock's report reflected unfavourably on the AIOC

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[587] BP 126349, press extracts No. 816, Dr. Musaddiq's letter to ITTILA'AT on 20th November 1950, 3.
[588] *Ibid.*
[589] BP 79673, Denis Wright to London, 6 January 1954**.**
[590] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 42.
[591] Gidel Memorandum, 14.
[592] Ferrier, *The History of the British Petroleum Company: Vol. 1, The Developing Years 1901-1932*, 366.
[593] *Ibid.*

but his comments were directed not so much towards the company as to the auditors who were, in a sense, his professional rivals.[594]

The Gidel Memorandum claimed that, in order to supervise the operation of the Concession and check the calculation of its royalty and dividend share, the Government needed to "examine the Company's books and accounts and should acquire prior information with regard to such transactions and decisions as affect the rights of Iran"[595]. Ali Mansur was astonished that the owner of oil wells should not be confined as much as the auditors were[596]. Makki complained in 1949 about the quality of AIOC reporting and he emphasised that, under the D'Arcy concession, Iran had had the right to examine all the technical and financial information of the company[597]. Razmara in 1950 called for the admission of a government auditor to their Head Office books[598].

These demands caused alarm for AIOC who argued that experts would always differ in defining gross profits because of the very many factors involved and that it would be quite impracticable to make the conclusion of purely commercial transactions subject to government approval[599]. British representatives were unhappy with the above-mentioned Iranian aims and consequently Gass claimed that Iranians were seeking control over their commercial transactions, accountancy, construction programme, the entry of foreign employees and even their management[600]. Meanwhile, Northcroft resisted the Iranian demands and stressed to Razmara that the books were kept in London and audited in accordance to British law by a firm of Chartered Accountants of unquestionable integrity, at the forefront of their profession[601]. He also pointed out that stockholders who had put all their money in the company had taken all the risk for nearly half a century and accepted the company's accounts without any question. These stockholders, he claimed, had received little enough in comparison with other participators[602].

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[594] *Ibid*, 367.
[595] Gidel Memorandum, 2.
[596] BP 126343, Notes on Supplemental Agreement handed by Ali Mansur to Shepherd on 3rd June 1950, 1.
[597] BP 126346, AIOC concession supplemental agreement bill on 28th July 1949, 1
[598] BP 126347, 28th September 1950.
[599] Gidel Memorandum, 12.
[600] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 43.
[601] BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950, 5.
[602] *Ibid.*

The discussion ended with Northcroft rejecting the idea of inspection of accounts, saying:

> If the Iranian government is allowed to access their central ledgers which contain confidential information about the affairs of other sovereign governments and large foreign commercial undertakings, it would mitigate the resentment of those parties because their affairs are being subjected to scrutiny by a foreign government[603].

According to the 1948 Companies Act[604], shareholders had the right to access companies' registers of shareholders and directors so they could see who these were, and also access audited accounts. The shareholders did not have access, however, to the financial accounts, so Iranian understanding of the performance of AIOC would depend on what the auditors considered "true and fair" information. Thus, the Iranian request was nevertheless reasonable in the context of Iranian willingness to make an assessment of the alternatives. The AIOC was alert to the fact that the Iranian government had made a strong case in support of their contention that the profit-sharing element of their royalty had not been fairly calculated and this was the main reason for their often repeated wish to scrutinise the company accounts.

4.3.8 The price of oil products

In view of the importance of cheap fuel in the economic life of Iran, it was necessary that the sale price of petrol in Persia should not be more than to the British Admiralty or to the American companies. As a result, the Memorandum highlighted the importance of reaching a decision in regards to the price of marketing of petroleum products within Iran[605]. The Iranian government representatives maintained their objection and continued to press for some formula which would ensure reduced prices to all Iranian consumers[606]. Moreover, Razmara said that their retail prices in Iran were too high and should not exceed the rates that are charged to the British Admiralty or the Royal Air Force[607].

Gass was aware of the Iranian attitude and was fairly sure that this objection was one that that Razmara hoped to announce to the Majlis, but he feared that this sort of

[603] *Ibid.*
[604] Companies Act 1948, Her Majesty's stationery office, reprinted 1965.
[605] Gidel Memorandum, 2.
[606] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 40.
[607] BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950, 6.

price adjustment could cost the company a huge sum of money per annum[608]. The AIOC countered, in the Memorandum, with claims that the company's intention under the concession was to ensure the sale of oil in Iran to yield to the suppliers a reasonable commercial return[609]. Meanwhile, the company argued that there were mutual benefits to buyer and seller to be obtained from concluding long term, large-scale contracts and by accepting a reduced price in return for an assured market[610].

The dispute over the price of oil indicates convincingly that the AIOC was master of the environment in which it operated, controlling the price of oil products to its own advantage. Because of this, there appeared to be very little opportunity for the Iranian government to control the pricing of oil.

4.3.9 Period of the concession

At the time of the amendment of the D'Arcy concession two matters received the attention of the two parties more than other subjects: on the part of the Iranian government the question of royalties and on the company's part the question of the period of the concession. As described in Chapter 2, the AIOC claimed that the Iranian oil industry had been built up on the strength of an agreement entered into freely between the Iranian Government and the company, to last until 1993 unless it was cancelled as a consequence of default by the company in performance of the agreement[611]. The company knew that it would be of great advantage to obtain a substantial extension to the D'Arcy concession[612]. Penrose has pointed out that it would be inconceivable for the Iranian government to extend the period of the concession

> Hence it is not feasible for any business firm to make a capital investment for a return on which it would have to wait 60 years where the present value of anything in 60 years would have little relevance for current investment decisions[613].

The Memorandum attached extreme importance to the negotiation of the period of the concession because the period of the D'Arcy concession would have expired in 1962, whereas the 1933 concession laid down that it should be valid for 60 years

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[608] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 41.
[609] Gidel Memorandum, 15.
[610] *Ibid*, 9.
[611] BP 126353, Reference No.728, Rice to Northcroft on 2nd March 1951.
[612] BP 71074, document sent to cabinet by government directors, c. September 1928, 2.
[613] Penrose, *The large International firm in developing countries*, 199.

from that date. Another point which the Iranians were willing to consider was that, with the D'Arcy concession, all the property and establishments of the company anywhere in the world would, on the expiry of the concession, revert to Iran but under the 1933 concession, this right was limited to the company's properties in Iran[614].

The AIOC was aware of the injustice that was facing Iran in respect of the period of the concession. In order to defend the company against such an accusation, Gass claimed:

> That it seemed to be improper to compare the relative merits of two concession agreements, one of which had replaced the other by mutual agreement[615].

Moreover, the company argued that extending the period of the existing concession certainly meant that the company would be able to draw on Iranian petroleum reserves for a further thirty years which would not be carried out free of charge but in return for payments which had been agreed between the company and the Iranian government[616].

The AIOC thus sought to remain in control of Iranian oil resources by planning to extend the period of the existing concession. Clearly, the AIOC was not prepared to give up any of its control and share power with the Iranians and as a consequence the company justified its position by arguing that its presence in Iran was not free of charge.

4.3.10 Company's shares

The Memorandum invoked the Iranian government's desire to convert Iran's participation in the company's reserves into the form of shares of the company, as in the case of shareholders[617]. The AIOC countered that the capitalisation of reserves by the issue of ordinary shares in no way enhanced the earning capacity of either a company or the total sums available for distribution to shareholders[618]. Moreover, the company contended that in any event the Iranian government's participation rights were fully secured, regardless of the nominal holding of shares "since these rights are

[614] Gidel Memorandum, 4.
[615] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 22.
[616] Gidel Memorandum, 20.
[617] *Ibid*, 6.
[618] *Ibid*, 24.

related to the total amount allocated for distribution to ordinary shareholders and not to the proportion paid out per individual share"[619].

The above illustrates that the AIOC was not willing to issue ordinary shares to the Iranian government and preferred to retain the money in the company's reserve. As always, the company was unwilling to compromise in order to satisfy the Iranian requirements, all the while giving reasons which defended its own point of view.

4.4 Tactical Plans of AIOC to face Iranian accusations: Empirical Evidence

Gass and other AIOC representatives attended the meetings in which the contents of the government's Memorandum were discussed and each party kept its own record of the detailed minutes of each meeting. The different items discussed in the Memorandum were grouped broadly by subject, by Gass[620]. It is important to note that the company was annoyed by the Memorandum, and that Gass was astonished when he learnt that the full version of the Memorandum occupied fifty pages. Gass pointed out that the summary was compiled from some fifty pages of detailed grievances against the company, including views expressed from time to time by deputies, the press and others. These grievances were symptomatic of the strong feeling of nationalism that had arisen in the country. It is a struggle which would unfold through the coming years[621].

In a similar vein, Gass highlighted that acceptance of some of the novel interpretations within this Memorandum would amount in fact to drastic revisions of the concession. He indicated that the AIOC should make it clear that it would not accept any novel interpretations of the concession or any suggestions of claims in regard to the past[622].

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[619] *Ibid*, 24.
[620] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 24.
[621] *Ibid*, 42.
[622] BP 071181, Reference no. 8585 A, Gass to Fraser on 29th September 1948, 1.

It is worth noting that Gass communicated with Fraser immediately after the 25-point Memorandum had been handed to him, asserting that

> It is a summary comprising 25 points for discussion and is a very rambling Memorandum drawn up in a rather rudimentary way. Some of the points for discussion are of a trivial and departmental nature such as payment of income tax by foreign contractors employed by us [AIOC] and safeguarding Iran's rights in respect of Naft-i-shah in view of its contiguity to Naft Ehaneh. Others are very radical and novel interpretations of the concession and comparisons between present concession and D'Arcy concession. Question of gold premium and taxation payable to the British government are prominent items[623].

Gass feared the dangers that could be brought up by the press and the consequent feeling of insecurity that might be created in the minds of shareholders. As a result he told the Prime Minister that the sense of antagonism between the government and the company portrayed to the rest of the world by the press could be responsible for the future insecurity of the company[624]. In the interim, he was aware that the Memorandum attracted nationwide attention not only from Iran and that many staunch friends and supporters of the company in Iran shared the same belief, even if to a lesser degree[625]. Therefore, Gass and the other AIOC representatives had clear aims and objectives in mind to justify the existence of the company's operations and they set a tactical plan. They started by convincing the Iranian government that it was in their interests to adhere to the existing methods of payments and principles established in the present concession. Moreover, they planned to resist retrospective claims, arguing that they had observed the terms of the concession and intended to decline to discuss legal or accounting questions[626].

The company planned to adopt a two-stage negotiation as a matter of caution, and advised Gass to act accordingly. From the tactical angle a two (or more) stage negotiation meant treating the discussions throughout as exploratory, extracting from the Iranian Government as much information as possible, to gauge its mood, whilst not revealing what the company might be prepared to do. The company could then

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623 *Ibid.*
624 BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 44.
625 *Ibid,* 33.
626 *Ibid*, 25.

use all its persuasive powers to convince the Iranian government that the principles and the methods in the existing concession were in the latter's best interests[627].

One of the tactical methods adopted by the AIOC management was to have a government which could be assured of a following in the Majlis, and a Minister of Finance who had the advantage of continuity of knowledge of the company's affairs[628]. Consequently, Gass maintained a close relationship with the British ambassador, Sir John Le Rougetel, who had been helpful and gave constructive suggestions on the current issues and who critically analysed political affairs[629]. He also maintained good relations with Abdul Husayn Hazhir, Prime Minister of Iran, June-November 1948, who declared to Gass that he had been most careful, whilst Minister of Finance, to deal departmentally with any differences with the company and to keep them away from the press[630]. After the removal of Hazhir as Minister of Finance, who was succeeded by Forouhar, the company made all efforts to keep in touch with the new Minister of Finance and to remain informed of committee proceedings. Forouhar met Northcroft weekly to give him the details of the discussions raised in the Majlis and of the personal views of Musaddiq that emerged during the meeting[631]. For instance, when Forouhar had been asked by Musaddiq about his opinion on the losses incurred by the AIOC in the 1933 concession and whether he would carry on with such losses or whether the concession should terminate, Forouhar had already discussed the matter exhaustively with Northcroft, to tell him privately whether he was in favour of any alterations, deletions or additions[632].

Forouhar distorted facts and defended the operations of the company, with the aim of getting the Supplemental Agreement ratified in the next Majlis. He told Northcroft that the deputies were now in a highly excitable and nervous state and he proposed to procrastinate a little[633]. Firstly, he claimed that the D'Arcy concession had been cancelled by Iran and replaced by a new agreement which left no opportunity for compromise regarding the means to be adopted in assessing the Iranian government's

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[627] *Ibid*, 18.
[628] BP 126407, Supplemental note on report on visit to Tehran 31st August to 26th October 1948, 4.
[629] *Ibid*, 5.
[630] BP 126407, Report on visit to Tehran 31st August to 26th October 1948, 11.
[631] BP 126349, Reference No. 465, Northcroft to Rice on 15th November 1950, 1.
[632] *Ibid*, 2.
[633] *Ibid*, 2.

share[634]. With regard to the Admiralty contract, Forouhar claimed that it was universal business practice to refrain from giving advantage to competitors by disclosing detailed figures of sales contracts entered into with other parties. Finally, he defended the performance of the company by claiming that the company's affairs were conducted in the interests of all the beneficiaries by the shrewdest judges in the world and it would be ridiculous to suppose that a management with such a record would conclude contracts at unjustifiably low rates, even if this would not have been to Iran's disadvantage[635].

Forouhar could be regarded as a puppet for the AIOC as he frequently updated the company with the news of the Majlis and asked the former's advice on what to do and say. Consequently, Musaddiq commented in the Iranian newspaper "ITTILA'AT" on Forouhar's misleading and incorrect attitude by asserting that:

> The Supplemental Agreement does not vindicate the rights of the nation. Not only does it not secure Iran's interests, but it will also deprive the nation of its rights. In spite of its defects and disadvantages in reply to my question, the Minister of Finance gave a misleading and incorrect reply in order to satisfy opponents and to deceive some of the members of the committee. As his reply could be used as evidence by those who are not competent to perform their national duties, and as I was ill and could not attend today's committee meeting for giving oral explanations, I wrote down my opinion for the information of committee members. In order that the nation may be aware of my last defence before the committee, I give the full text of my explanations for publication in your paper[636].

The AIOC management adopted various tactical plans to achieve their own interests and get the Supplemental Agreement Bill ratified in the next Majlis, to the detriment of Iranian rights.

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[634] *Ibid*, 1.
[635] BP 126349, Reference No. 465, Northcroft to Rice on 15th November 1950, 1.
[636] BP 126349, press extracts No. 816, Dr. Musaddiq's letter to ITTILA'AT on 20th November 1950, 1.

4.5 Response of Fraser to Iranian accusations: Empirical Evidence

Fraser was aware that the existing concession gave advantage to the AIOC. He therefore stressed that the company should not request the amendment of the current concession on the grounds that a new concession would never be as favourable to the company as the one now in existence[637]. Fraser feared Iranian claims for re-distributions of the company's profits in which the Iranian government should take part[638]. Historical evidence reveals that Fraser was keen to safeguard the current concession and that he did not wish for any change to the situation. For instance, Fraser had disclosed:

> I thought the fact was that we had favourable terms- our royalty payments, taxation position etc., all seemed favourable relative to others and I felt that if I had to open up the whole question of the concession I would very likely get demands from the Iranian government to bring the terms more in line with what is being paid in other countries…..I stated that my feeling was that the really important thing for us was to try to safeguard the terms of the concession for the post-war period. I mentioned that if concession terms were opened up doubtless the American advisers would now take a part in the negotiations[639].

Foreign Office officials, as well as the Americans, urged Fraser to propose to Iran a fifty-fifty profit-sharing but he remained unwilling to take this step and expressed his irritation towards the Americans, stating that they had not been helpful in Tehran[640]. In fact, Fraser was unwilling to accept the fifty-fifty profit sharing proposal and believed that there was no need to give Iran any concessions. He demonstrated this attitude by saying that "Fifty-fifty is a fine slogan, but it seems to be of dubious practicality"[641].

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[637] BP 101099, AIOC opinion on 20th June 1948, 6.
[638] *Ibid*, 15.
[639] BP 72188, Meeting between Sir Maurice Peterson, FO and Fraser on 17th February 1943, 2.
[640] FO371/91522, record of meeting held in Sir William Strang's Office with Treasury and AIOC officials, Jan 23, 1951.
[641] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath,* 86.

However, Fraser did not disclose the truth in his statement to stockholders and asserted:

> Despite the Company's endeavours to persuade the Prime Minister to make known in Iran both the company's offer to reopen negotiations for a fifty-fifty profit sharing scheme and its action in undertaking to make advances, General Razmara refused to do so and maintained the closest secrecy regarding both matters[642].

Razmara's objective was to avoid a conflict with the British authorities and keep the details of the fifty-fifty discussions secret, in part because he feared public opinion would be disappointed if aware that anything less than nationalisation were being considered[643]. Razmara was convinced that the present time was not opportune for securing the ratification of the Supplemental Agreement and it would be defeated if it were to be put in the next Majlis so he thought of waiting six months, at which time the ratification could be carried in the Majlis[644]. Razmara planned to set up an entirely a new Ministry under the title "Ministry of Mines" to be entrusted with the conduct of all matters concerning the AIOC, which, at that time, came within the province of the Ministry of Finance[645]. However, it can be concluded that Fraser did not understand Razmara's royalist political objectives and the essential role of secrecy to be achieved.

As previously discussed in Chapter 3, Fraser's strategy was to use financial reporting as propaganda to portray a reasonable company in front of the public whilst depicting nationalism as insignificant and short-lived[646]. Fraser was vigilant and influenced the lobbying process to counter the Iranian accusations and maintain various stakeholders' confidence by using the annual reports as a means of communication and a part of a wider propaganda battle. He was aware of the fact that Reports of listed company Annual General Meetings, at which the Chairman would also present the published statement, appear in the national press[647]. Fraser's

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[642] AIOC Annual Report and Accounts, 1950, 15. The advances referred to were concessional payments on account £5m as a lump sum and £2m per month throughout 1951.
[643] Ansari, Modern *Iran since 1921*, 111.
[644] BP 126347, Reference number 318, Northcroft to Rice, 29th July 1950, 6.
[645] BP 126343, Reference No. 261, Northcroft to Rice on 22nd June 1950, 2.
[646] Ansari, *Modern Iran since 1921*, 112.
[647] The AIOC 1950 statement for instance appeared in *The Economist* December 1st 1951, 59-65.

communication with the shareholders is an important issue and thus the key to an understanding of the company's portrayal of itself and its actions. Did he wish to appear resolute or accommodating, determined or responsive; how far was he aligning his behaviour with British interests generally; and, finally, was he open to further negotiation with Iran?

With reference to Fraser's statement in the 1950 report which was published in 19th November 1951[648], it is clear that he was aiming to avoid the wrath of AIOC shareholders and maintain their confidence. Fraser convinced the investors, both potential and actual, that the risk of nationalisation had decreased. He therefore advised the shareholders to be aware of the fact that nationalisation made the company less profitable for a while but claimed this would not affect their dividends. Fraser stated:

> However, after reviewing all the circumstances, I feel I can say that unless there is some wholly unforeseen happening in the remaining few weeks of this year the company will be in a position to pay the same rate of dividend on the ordinary stock for 1951 as has been paid for some years past[649].

Meanwhile, Fraser informed the shareholders that:

> New arrangements had been made because of the situation in Iran, described earlier in this statement; there have been important developments during the current year in the company's widespread interests and operations outside the country[650].

The momentum behind the AIOC's new strategy involved switching the company's exploration efforts towards Alaska and the North Sea to overcome any threats to its existence[651]. Fraser believed that the best chance of delivering something which would be of any value to the shareholders of the company would be by the company itself negotiating some new and quick bargain[652].

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[648] The publication of the 1950 report was delayed until November 1951 by the nationalisation crisis.
[649] AIOC Annual Report and Accounts, 1950, 30.
[650] *Ibid*, 29.
[651] Jones, *Multinational strategies and developing countries in historical perspective*.
[652] Cited in Elm, 242; FO371/98691, Minute by Fergusson, 18 July, 1951, with notes by Eden on the margin.

Consequently, he reported in his 1950 Chairman's Statement that on hearing of the improvements in the Saudi Arabian Agreement concession

> The company lost no time in communicating to General Ali Razmara, the prime Minister, its willingness to examine with the Iranian Government suggestions for a new agreement on similar lines…There was no question of the Company being behindhand or less generous[653].

However, the records show that the reverse is true and that again he distorted the facts in this statement to maintain the shareholders' confidence. For instance, he refused to improve the terms that the AIOC had offered to Iran by going beyond the Supplemental Agreement, claiming that "one penny more and the company goes broke"[654]. Moreover, he asserted that any more concessions "would leave nothing in the till"[655]. It worth noting that the view of the *Times* correspondent was that Fraser's statement of 19th November 1951 "is conciliatory and restrained in tone. It burns no bridges"[656].

As previously illustrated in Chapter 3, for more emphasis from the AIOC annual reports, counts of keywords for the annual reports published in 1950 and 1951 were examined to contrast Fraser's use of different groups of words and vocabulary that are particularly relevant to an understanding of the AIOC's self-presentation and response to the shareholders. The software DICTION[657] has been used, as indicated below, to examine the incidence of a number of significant terms in the AIOC's annual reports pre-and post-nationalisation, with the aim of investigating how far their vocabulary was adapted as a response to circumstances. Table (11) below gives a brief summary of a textual analysis of Fraser's Statement to the shareholders. It contrasts keyword counts for the annual reports published in 1950 and 1951, in order to examine the validity of the statements with reference to historical evidence from the AIOC annual reports.

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[653] AIOC Annual Report and Accounts, 1950.

[654] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 69.

[655]Kinzer, *All the Shah's Men*, 87-88; Elm, *Oil, Power and Principle: Iran's oil nationalisation and its aftermath*, 61. In response, an American briefing paper, showed the company's operations to be 'exceptionally profitable' (Heiss, *Empire and Nationalism*, 34), which can be confirmed by a cursory glance at the figures presented here and elsewhere, for example Bamberg, *The History of the British Petroleum Company*, table 10.3, 275, and table 4(below), and appendix.

[656] *The Times*, November 28, 1951, 9(c).

[657] DICTION is a computer-aided content analysis programme, developed from linguistic research that analyses unique aspects of a text (Hart, DICTION 5.0).

Table 11: Specific word counts

Keyword	Pre-nationalisation 1950	Post-nationalisation 1951
Profit	†	11
Agreement	19	**26**

Sources: AIOC *Annual Reports and Accounts*, 1949 and 1950, Statement to Stockholders by the Chairman, 11-19 and 9-30 respectively.

Notes:
Counts performed using DICTION software[658].
† counts of <3 (in a standard 500-word passage) are ignored by the DICTION software. Nouns only.

As shown in Table (11), the specific word counts contrast Fraser's use of different groups of words and vocabulary that are particularly relevant to an understanding of the AIOC's self-presentation. For instance, the word "**agreement"** was used 26 times during nationalisation (1951) compared with 19 times in 1950, suggesting that Fraser aimed to demonstrate to the public that he was seeking to reach an agreement with Iran which was difficult to achieve. For instance, he disclosed in his statement in 1951 that he found it impossible to make a deal with Musaddiq and "....all efforts to reach a friendly settlement having proved abortive"[659]. Furthermore, he asserted that

> There seemed no immediate prospect of reaching agreement with the Iranian government, either for arrangements to enable large scale activity of the industry to be restored, or for the assessment and payment of compensation to the company[660].

Moreover, according to the above table, the frequency of the word "**profit"** increased to 11 times in 1951, which was much higher than in 1950. This indicates that Fraser's use of the word "**profit**" was comparatively higher during nationalisation to reassure the investors.

From the above, it is clear that Fraser's tactical plan was to distort facts and not to reveal to the public his desire to maintain full control over Iran. He was willing to be seen as a key visible figure within the AIOC by making public statements and

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[658] Hart, *DICTION 5.0: The Text-analysis Programme that analyses rhetoric and was used in this research as a computerized content analysis approach.*
[659] AIOC annual report 1950, 16.
[660] AIOC Annual Report 1953, 16.

speeches which were not only calculated to enhance his own personal image, but also, crucially, to portray the company to the public as fair. In addition, the AIOC became more aggressive in buying advertising space in the newspapers[661] as a response to the nationalisation crisis, to publicize its preferred policies and to maintain a flourishing image to the public, regardless of nationalisation.

4.6 Summary

As the existence of the AIOC depended on power and control, the contrast of the powerful AIOC with the weak Iranian government provides interesting evidence about the AIOC's industrial dominance in Iran. To illustrate the role of the company as an arm of the British Empire, this chapter reviewed the evidence on accusations of unfairness in the distribution of profits from oil production with reference to the Memorandum and other major neglected documents to examine the Iranian claims and the AIOC counter claims.

The recurrent themes of the clash between the Iranian government and the AIOC were the unfairness of the royalty and tax payments made by the company. Iran stressed that the AIOC used an unfair basis – quantity of oil production rather than profit – to calculate royalties, and keep down the dividend payable to the Iranian Government, using accounting practices which overstated the charge to reserves. A related concern of the Iranian government was that the AIOC reports concealed the performance of subsidiaries. Iranians argued that it the AIOC's deliberate intention to adopt this method of royalty payments, thereby allowing the company to retain very large amounts of reserves. This would naturally result in a significant growth in the company's prosperity at the expense of Iran. Meanwhile, they argued that the process of integrating and ignoring the performance of subsidiaries was not only an economic process but also a political one, through which the British Government had an impact on the behaviour of the AIOC in Iran and deprived the Iranian government of profits it generated from overseas operations. The AIOC's argument was that the accounting records which the Iranians sought were potentially misleading because the data depended so heavily on judgement, explaining the company's consistent

[661] 1950 reports of AIOC Annual General Meetings, at which the chairman presented the published statement, appeared in different local newspapers such as the *Economist* and the *Times.* The AIOC 1950 statement for instance appeared in *The Economist* December 1st 1951, 59-65; *The Times*, November 28, 1951, 8(A), Issue 52170.

invocation of quantity rather than profit as a basis for royalties. In any case, AIOC representatives contended, Iran should be considering not solely its income from tax and royalties, but also the variety of other benefits conferred such as the level of investment that the AIOC had made in Iran, and the jobs it had created. However, as illustrated in Chapter 3, the AIOC failed to fulfil its Corporate Social Responsibility obligations towards the Iranian employees and Iranianisation never came into practice.

The AIOC management was alert to the reality that the company had an extremely good deal which they were willing to maintain, because their royalty payments and taxes paid to the British Government were evidently better relative to those of other countries. As a consequence of this, Fraser used his annual Chairman's statements as a tool to defend his position from the claims made by the Iranian government about unfairness in profit distribution to the Iranians and to portray the Iranian government as unreasonable. Fraser used the annual reports as a propaganda tool and, in doing this, succeeded in maintaining shareholders' confidence during nationalisation. This freed him of any blame for the international crisis. Allegations levelled at the Iranians, such as secrecy and the use of propaganda were made with great vigour by the AIOC.

In the light of reviewed empirical and historical evidence, the validity of the key Iranian claims and the AIOC counter claims are examined to justify and explain the major elements leading up to the nationalisation of AIOC's assets by Musaddiq in May 1951. The AIOC had a weak case as far as the equity of oil production was concerned, and the accusations against the AIOC of not sharing the profits from oil fairly can be upheld on the basis of the illustrated evidence. The financial analysis of profit shares between stakeholders clearly shows that AIOC shareholders and the British Government were increasingly benefiting at the expense of the Iranians. Unfairness of profit distribution and the Iranians' strong mistrust of the AIOC led to deep resentment of imperialism which was the precursor to the vigorous and ever-growing desire for autonomy and nationalisation.

In summary, the financial analysis of profit shares between stakeholders shows that AIOC shareholders and the British Government were increasingly benefiting at the expense of Iran. The AIOC clearly exploited Iranian oil resources for its own advantage. Moreover, it was unwilling to accept the Iranian argument that it should improve the concession in order to give them the chance to improve living conditions in their own country.

Chapter 5: The AIOC's Stock Market reaction to nationalisation: Event Analysis and empirical results

5.1 Introduction

This chapter examines the AIOC's stock market reaction to nationalisation. As previously discussed in Chapter 2, the AIOC operated in Iran on the basis of a concession for oil drilling rights granted by the Iranian Government and thus the company had the most noticeable and strongest British government connections, because it was dealing with a strategic asset in a strategic area. From 1947 onwards the renegotiation of the concession became a source of dispute between the AIOC and successive Iranian governments. The difficulty in reaching a reasonable solution that satisfied both parties was the precursor to the Bill approving the nationalisation of the AIOC's major assets by Musaddiq in May 1951. As a consequence, the impatience of political groups opposed to the company's domination of the country's oil resources intensified, providing momentum to Musaddiq's National Front coalition and the passage of the nationalisation act. Behind the scenes meanwhile, the AIOC worked closely through its channels of influence to undermine Musaddiq, including the abortive coup that preceded the successful one carried out by the CIA in 1953. These events worsened the relationship between Iran and AIOC, and the company never regained its previous influence in Iran.

From the point of view of the AIOC and its shareholders, nationalisation would appear to be explicitly bad news that implied a serious failure in the company's policy. In the months following nationalisation, however, the AIOC management, in public pronouncements at least, displayed confidence about the subsequent recoverability of the lost assets. Such confidence was potentially well grounded. Working through international legal and political institutions, and in Iran, through the Shah and other institutions, including the parliament (Majlis), the media and police, the AIOC exercised considerable influence in the period prior to nationalisation. Meanwhile in the shorter run, a further reason for the AIOC's confidence was its control of the oil industry through resources not subject to nationalisation legislation, such as technical expertise and control over refining, tankers and other distribution channels.

This chapter therefore examines how two key events associated with the nationalisation were perceived by the London Stock Market. These were the nationalisation itself on 1st May 1951, a major theme running over a longer course in the 1950's, and the publication of the AIOC annual report on 16th November 1951, which influenced shareholders' confidence regarding their investment in the company. The response of the London's Stock Exchange to nationalisation and to the information content disclosed by Fraser to the AIOC investors is important for several reasons. Firstly, as illustrated in the previous chapter, around 80% of the company's operational assets were affected by nationalisation. Secondly, from a range of evidence arising from the AIOC annual reports and historical sources including the British press, it can be clearly seen that Fraser regarded the shareholders' interests to be superior and taking preference over the interests of Iranian and other stakeholder groups. Thirdly, the first annual report to be published post nationalisation, 1950, was delayed so that Fraser and his advisors could draft a convincing response to the nationalisation, consistent with representing shareholders as being protected by international law. Finally, and perhaps most importantly, there is the possibility that the market priced shares according to sources beyond those immediately communicated by the company and the financial press. For example those with a detailed knowledge of the company's operation and diplomatic situation might have concluded that Musaddiq's medium- term position was very weak, notwithstanding the popular reaction in Iran to the nationalisation event itself.

To assess the potential threat to the AIOC's assets posed by the nationalisation legislation of May 1951, this chapter aims to evaluate the relative bargaining strength of the AIOC and Musaddiq's government in economic terms. To do so, it uses an event study methodology, comparing the stock market response with key events in the political negotiation calendar preceding and subsequent to the nationalisation. The AIOC stock price is used as a barometer to test the extent of belief in the long-run durability of the nationalisation act, factoring in the relative strength of the political positions of both sides.

Event studies involve constructing indices of relative share price performance around specific events and testing the statistical significance of their impact from an information and economic value point of view. Event studies are popular in various fields including accounting, finance and management, but nevertheless have not been widely applied in historical research. Nonetheless, historical analysis should feature prominently in empirical accounting research, a major motivation behind this analysis.

The importance of this investigation is threefold. Firstly, this examination provides the opportunity to assess the economic impact of nationalisation within a political context where studies linking stock market reaction to political events are rare. Secondly, this investigation is useful in evaluating and analysing the information content of annual report disclosure during the company's nationalisation (which was by all accounts a major political crisis during that era). Finally, this study gives indications of the level of market efficiency and tests how good the market is at anticipating bad news.

The structure of the chapter is as follows. Section 1.2 sets up the event study methodology with emphasis on the reasons behind its choice, then giving an explanation of the test procedures and the determinants of market efficiency. This section also discusses the market data used in more detail, followed by an explanation of the FT30 Index and the AIOC return index. Finally, the section explains the market adjusted model and outlines the hypothesis for testing. Section 1.3 presents the historical background for the major events leading to significant and insignificant losses in Iran during the 1950's, defines the event window and provides statistical evidence illustrating the stock market reaction of the AIOC during the political crisis. Finally, section 1.4 draws conclusions and summarizes the findings.

5.2 Methodology

The impact of nationalisation on the AIOC has been the subject of considerable debate among different scholars and this has provided motivation for this thesis to study its economic impact on the AIOC's security value, market efficiency and social welfare. The following section reviews event study methodology and market efficiency, highlighting their importance and the assumptions underlying their application.

5.2.1 Event Study

Since Ball and Brown (1968) and Fama et al. (1969), event studies have become a major part of empirical research in finance and many other disciplines. Indeed, event studies have been used in multiple settings[662]. McWilliams and Siegel (1997) argued

[662] For example, in accounting, see Toms, *Information content of earnings in an unregulated market: The cooperative cotton mills of Lancashire 1880-1900;* in management, see McWilliams and Siegel, *Event studies in Management research: Theoretical and Empirical issues;* in economics and finance, see Mackinlay, *Event studies in Economics and Finance*.

that the event study method is a powerful tool that can help researchers assess the financial impact of changes in corporate policy. Furthermore, the event study obviates the need to analyze accounting-based measures of profit. Event studies use financial market data to assess the impact of specific events on the value of the security. They provide an ideal tool for examining the information content of disclosures[663], and also act as a direct test of market efficiency[664]. Given the rationality of the efficient market and the immediate impact of an event on security prices, an event's economic impact can be constructed using stock prices over a short period of time[665].

The event study method has become popular because it responds to the need to analyze stock prices to reflect the true value of firms by incorporating all the relevant information. Furthermore, the method is relatively easy to implement, because the only data necessary are the names of publicly traded firms, event dates, and stock prices. Yet, there are demerits of using event study methodologies in assessing the financial impact of changes in corporate policy. For instance, the event study method has been criticised for not being a very good indicator of the true performance of the firms. Moreover, there are measurement problems associated with the difficulty of observing true stock prices and market index levels at the end of short measurement intervals. The sample used in event studies will typically be non-random and correcting for thin-trading may affect the results[666]. Furthermore, benchmark parameters are sometimes computed unconditionally without excluding the estimation and test period and then the estimated parameters will be biased[667]. However, it is well established that the event study method is a useful tool which has its own merits. It depends heavily on a set of rather strong assumptions[668] that are reviewed below:

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[663] Mackinlay, *Event studies in Economics and Finance*, 16.
[664] Brown and Warner, *Measuring security price performance*, 205.
[665] Mackinlay, *Event studies in Economics and Finance*, 13.
[666] Strong, *Modelling abnormal returns: a review article*, 542-544.
[667] *Ibid*, 539.
[668] Brown and Warner, *Measuring security price performance;* Brown and Warner, *Using daily stock returns.*

(a) Markets are efficient

Fama[669] asserted that the "cleanest evidence on market efficiency comes from event studies, especially event studies on daily returns". He explained that event studies can give a clear snapshot of the speed of adjustment of prices to information through the abstracts from expected returns to measure abnormal daily returns. Market efficiency implies that stock prices should incorporate any financially relevant information that is newly revealed to the market. It does this by identifying the period over which the impact of the event will be measured, which is commonly known as the "event window".

(b) The event was unanticipated

The second assumption is based on the idea that the market previously did not have information on the event and traders gained information from the announcement. Security prices may not adjust or anticipate the event beforehand and consequently the security prices will not adjust before the event date and may take a longer period to fully reflect the event's information, even after the "event date". Therefore, there is a possibility that the market price shares according to sources beyond those immediately communicated by the company and the financial press.

(c) Confounding Effects

The third assumption is perhaps the most critical assumption of the event study methodology; it is based on the impact of confounding events during the event window. By looking at a series of events, there is a confounding event problem because of the difficulty involved in measuring the impact of managerial decisions[670]. Therefore, it is crucial to control for the effect of confounding effects to avoid uncertainties about the validity of the empirical results and conclusions drawn. For instance, declaration of dividends is considered to be a major confounding event which might have an impact on the share price during an event window. Thus, the event study method was developed to measure the effect of an unanticipated event on stock prices. Using the event analysis method enables the researcher to assess the extent to which security price performance around the time of the event has been abnormal[671]. Therefore, the impact of an event can be investigated by measuring the

[669] Fama, *Efficient capital markets: II*, 1607.
[670] McWilliams and Siegel, *Event studies in Management research: Theoretical and Empirical issues,* 639.
[671] Brown and Warner, *Measuring security price performance,* 205.

security's return over the event date to enable us to compute the difference between the observed return on the event and the expected return before and after the event date. Any significant difference will be interpreted as an abnormal return or loss. With the determination of abnormal returns, the researcher can infer the significance of the event in order to assess managerial decisions and trace the course of managerial behaviour[672]. In a nutshell, these abnormal returns are assumed to reflect the stock market's reaction to the arrival of new information.

5.2.2 Market Efficiency

As previously mentioned, the event should be unanticipated and the magnitude of abnormal performance is consistent with market efficiency since it measures the impact of the event on the wealth of the firm's shareholders[673]. Toms[674] argued that testing for market efficiency is an approach that allows the investigator to look behind technical conditions for the reasons why accounting disclosures might or might not have information content. The major role of the capital market is allocation of ownership of the economy's capital stock. The ideal is a market in which firms can make production-investment decisions, and investors can choose among the securities that represent ownership of firms' activities under the assumption that security prices at any time fully reflect all available information[675]. If information fails to be quickly and fully reflected in the stock market prices then the stock market is said to be inefficient because those who had privately gained access to such information can benefit by anticipating the course of such prices. Hence, the lack of efficiency in stock markets does not allow price mechanisms to work correctly.

Fama[676] determined the conditions at which the capital market is efficient. First of all, there should be no transaction costs in trading securities. Second, all available information should be available, without cost, to all market participants. Finally, all agree on the implications of current information for the current price and distributions of future prices of each security. Hence, in such a market, the stock prices fully reflect available information.

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[672] McWilliams and Siegel, *Event studies in Management research: Theoretical and Empirical issues,* 626.
[673] Brown and Warner, *Measuring security price performance*, 205.
[674] Toms, *Information content of earnings in an unregulated market: The cooperative cotton mills of Lancashire 1880-1900*, 189.
[675] Fama, *Efficient capital markets: A review of theory and empirical work*, 383.
[676] *Ibid*, 387.

The Efficient Market Hypothesis (EMH) assumes that the stock prices adjust rapidly to the arrival of new information, and consequently, current prices fully reflect all available information and should follow a random walk process.[677]This means that stock returns are independently and identically distributed (IID), and therefore future price changes cannot be forecasted from historical price changes. Fama[678] formalized the theoretical and empirical evidence on efficient market hypothesis and divided it into three levels. First, the weak-form EMH, states that current stock prices fully reflect all historical market information such as prices, trading volumes, and any market-oriented information. Second, the semi-strong form EMH asserts that prices fully reflect not only the historical information but also all public information including non-market information, such as earning and dividend announcements, economic and political news. Finally, the strong-form EMH contends that stock prices reflect all information from historical, public, and private sources, so that no one investor can realize abnormal rates of return. To sum up, the categorization of the tests into weak, semi-strong, and strong form will help in testing the null hypothesis and determining the level of information at which the hypothesis breaks down.

Stock market efficiency is an essential component of the performance of capital markets and their contribution to the development of a country's economy. The EMH has significant implications for both investors and authorities. For instance, if the stock market is efficient, the prices will represent the correct values of the stocks and in turn this will serve in a way that benefits both the individual investors and the country's economy as well. The Random Walk Model (RWM) is one of the mathematical models that assume that consecutive price changes are independent of identically distributed random variables so that future price changes cannot be predicted from historical price changes. A number of statistical tests have been used in the literature to examine the validity of weak-form EMH and the RWM. Autocorrelation tests are the most popular ones, so this study employs serial correlation to test the statistical independence between rates of return. Serial correlation is a parametric test assuming normality of the stock price time series and hence measures the association between two elements of returns time series,

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[677] Samuelson, *Proof that properly anticipated prices fluctuate randomly.*
[678] Fama, *Efficient capital markets: A review of theory and empirical work.*

separated by a fixed number of time periods. Fama[679] explained that tests enrich our knowledge of the behaviour of returns across securities and through time and that stock index returns may show positive autocorrelation if some of the securities in the index trade infrequently.[680] Statistically, the absences of statistical significance in autocorrelations tests indicate that the market is efficient at weak-level which implies that the market prices follow a random walk. Thus, the RWM has some testable implications for the weak-form EMH.

To test for weak form efficiency, the study employs the random walk model and serial correlation (or autocorrelation) tests to measure the correlation coefficient between a series of returns and lagged returns in the same series. An autocorrelation is the slope in a regression of the current return on a past return. A significant positive serial correlation implies that a trend exists in the series, whereas a negative serial correlation indicates the existence of a reversal in price movements. A return series that is random will have a zero serial correlation coefficient. The beta coefficient from the following regression equation measures the serial correlation of stock *i* with a lag of *K* periods:

$$r_{i,t} = \alpha_i + B_i r_{i,t-k} + \varepsilon_{i,t} \qquad (1)$$

Where $r_{i,t}$ represents the return of stock *i* at time t, α_i and B_i are constants, $\varepsilon_{i,t}$ represents random error, and *k* represents different time lags. The serial correlation tests assume normal distribution for the stock price changes (or returns). The independence of increments implies not only that increments are uncorrelated, but that any nonlinear functions of the increments are uncorrelated. Changes in stock price are used as the dependent variable in linear regression while one lag of change in stock price is the independent variables.

Semi-strong form tests of efficient market models are concerned with whether current prices "fully reflect" all publicly available information. The test is concerned with the adjustment of security prices to one kind of information generating event (e.g. publication of AIOC annual reports on 16th November 1951 and announcement of nationalisation on 30th April 1951). Hence, the test brings supporting evidence for the impact of the release of information on the current stock prices.

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679 Fama, *Efficient capital markets: II*, 1577.
680 Fama, *The behaviour of stock market prices.*

5.2.3 Data

The study will focus on the AIOC return index and the daily security return index for 30 firms in the FT30 Industrial Index over the period from May 1950 to May 1951. This period was chosen for two reasons. Firstly, May 1950 was the date of the nationalisation of the AIOC so this period covers the influential events leading up to nationalisation and ends with the event itself on 1st May 1951. Secondly, this period is essential because it assists in defining the control period which is needed for undertaking the event study methodology. We need to bear in mind that the market price during the control period was before any nationalisation would have taken place. The process of data collection involving the AIOC index and FT30 index will be explained thoroughly in this section.

The daily prices of the AIOC employed in this event study are generally "closing" prices which represent the prices at which the last transaction occurred during the trading day. The company's stock price quoted on the stock exchange is assumed to present the "fair" value of the stock and when the stock exchange values all the stocks fairly then it is considered as an "efficient market". The dividends paid are assumed to convey important information to the market concerning the management's policy and dividend-paying potential. In view of this expectation, the AIOC return index is adjusted with the dividends paid to the shareholders during the period because it might be expected to have stock market information content. It must be noted that the AIOC left its dividend unchanged for a period of five years from 1947 to 1951 where the annual net payment to the shareholders was 16 pence per share in these years[681].

Thus, the stock price daily returns for AIOC are calculated as follows,

$$R_{it} = \frac{P_{it}+D_{it}}{P_{it-1}} - 1, \qquad (2)$$

Where, R_{it} is daily stock price return stock i on day t, P_{it} is price of stock i on day t, P_{it-1} is price of stock i on $t-1$, D_{it} is dividend payment for stock i associated with day t.

The Stock Exchange has been progressive in disclosing information from the companies whose shares are quoted and traded[682]. The Stock Exchange publishes a daily "Official List" that prints for all shares the different prices at which bargains

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[681] Bamberg, *British Petroleum and Global Oil 1950-1975*, 40.
[682] Littlewood, *The Stock Market: 50 years of capitalism at work*, 13.

had been struck during the previous business day[683]. The Financial Times Industrial Ordinary Shares Index (FT30) was the first major UK share index on the London Stock Exchange and its computation began on the 1st July 1935[684]. The index consists of 30 heavily traded securities chosen to provide almost 30% of the market value of the securities quoted on the London Stock Exchange and to this extent they reflect movements of the whole market quite effectively. The principal purpose of the index was to measure market movements over the short term and not to provide any estimates of market return or to act as a benchmark portfolio. Nonetheless, the FT30 index has the advantage that it is the only one which is readily available, it has a small base and thus this may potentially lead to some inaccuracy. However, AIOC tends to be one company out of 30 companies from the list and for any price increase the difference computed will be relatively very small[685]. The FT30 index was initially adopted from Loughborough University[686] and for the purpose of this research it was modified by defining the corresponding dates for the Index values and also by excluding weekends and public holidays from the index for the period under study[687].

Using daily data takes into account the market's daily reaction to the signal during the event month. Daily returns for FT30 index are calculated as follows,

$$R_{mt} = \frac{P_{it}}{P_{it-1}} -1, \qquad (3)$$

Where, R_{mt} is the daily return on market portfolio, P_{it} is price index of stock *i* on day t, P_{it}-1 is price index of stock *i* on *t*-1.

Comparing the AIOC's Return Index (RI) with the FT 30 will provide a clear picture about the performance of AIOC in relation to the market, which is very useful for assessment of the company[688]. Therefore, the FT30 index is ideal for investigating the performance of AIOC during its nationalisation.

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683 *Ibid*.
684 Arsad and Coutts, *Security price anomalies in the London International Stock Exchange: a 60 year perspective*, 456.
685 FT30 includes 29 companies in addition to AIOC. Thus, when prices increase by 10% this means that 0.1/30= 0.0003 will correspond to AIOC's proportion. Obviously, the computed value is very small and will have a minor impact and will not lead to biasness and inaccuracy.
686 For review of FT30 index, see *Terence C. Mills and Raphael N. Markellos, The Econometric Modelling of Financial Time series, Data Appendix*.
687 For review, see *Appendix.*
688 FT30 did not contain information about dividend payments due to the unavailability of the data in the London Stock Exchange but any dividend bias which occurs from not employing dividend adjusted returns will relatively be small and will not have an impact on the statistical significance of

5.2.4 Market Adjusted Model

There are three different models used in event study literature to estimate *ex ante* expected returns[689]. These are *Mean Adjusted Returns*, *Market Adjusted Returns* and *Market and Risk Adjusted Returns.*

The *Mean Adjusted Returns* assumes that the *ex-ante* expected return E (R_{it}) is constant for each security over time however it differs across securities[690]. It assumes that the return on security *i* at any point of time is a function of the average past time series of returns. The *Mean Adjusted model* is consistent with the Capital Asset Pricing Model (CAPM) which assumes that the stock has a constant systematic risk and thus the expected return is constant. The *Market Adjusted Returns* assumes that the *ex-ante* expected returns are constant across securities but not necessarily constant over time for a given security since all securities in the sample are assumed to be equal in terms of the size and the risk. The *ex-ante* expected returns for any security at a point of time E(R_{it}) equals the expected market return at that particular point of time, i.e. E(R_{mt}) = Σ R_{it}, where t = [1,2,3…,T][691]. Finally, the *Market and Risk Adjusted Returns* model is based upon the market model estimates for each security in the sample and the abnormal returns are calculated as the difference between the actual stock return and the expected return relative to the market. Abnormal returns result when an event is unanticipated. It worth highlighting that CAPM controls for security risk as well as for the market and assumes non-zero intercept terms through the use of a single factor, β, to compare the excess returns of a portfolio with the excess returns of the market as a whole[692]. This in turn may lead to simplifying the complex market. However, Fama and French[693] added two factors to CAPM to reflect a portfolio's exposure to these two classes:

$$r = R_f + \beta_3(K_m - R_f) + bs \cdot SMB + bv \cdot HML + \alpha \quad (4)$$

Here r is the portfolio's rate of return, R_f is the risk-free return rate, and K_m is the return of the whole stock market. The "three factor" β is analogous to the classical β

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any results. However, sensitivity tests were conducted for AIOC return including and excluding dividend payments and there was relatively a very small difference in the results.

[689] For more details about these models, see for example Mackinlay, *Event studies in Economics and Finance;* Brown and Warner , *Measuring security price performance* and *Using daily stock returns.*

[690] Campbell et al., *The Econometrics of Financial Market,* 151.

[691] *Ibid*.

[692] Strong, *Modelling abnormal returns: a review article,* 536.

[693] Fama and French, *Common risk factors in the returns on stocks and bonds*.

but not equal to it. SMB measures the historic excess returns of small caps over big caps and of value stocks over growth stocks. These factors are calculated with combinations of portfolios composed by ranked stocks and available historical market data which can bias the results. There is no doubt that the Fama French model works better than the single factor market models in empirical tests. However, these tests are based on longer run windows for portfolios of large samples of stocks. In an event study of this kind, with a shorter window and single firm case study, there are insufficient observations of book value to operationalise the tests in a three factor framework.

Brown and Warner (1980) argued that there are a variety of ways of measuring abnormal returns under different Asset Pricing models. They asserted that the *Market Model* and *Market Adjusted Model* had the same power where the specification and power of the actual tests for abnormal performance is similar to that obtained with the OLS market model[694]. They explained that the *Market Adjusted Model* takes into account market-wide movements which occurred at the same time as the firm experienced the event. Moreover, they asserted that the *Market Adjusted Model* is also consistent with the Asset Pricing model if all securities have a systematic risk of unity. When the return on a security and the return on the market index are each measured over a different trading interval, ordinary least squares (OLS) estimates of market model parameters are biased and inconsistent[695]. Furthermore, OLS estimates of market model β might be biased and inconsistent due to non-synchronous trading. By constructing OLS residuals for a security sum to zero in the estimation period, a bias in the estimate of β is compensated for by a bias in α[696]. Therefore, they assume that there is a stable linear relationship between the market return and the security return where market model parameters are adjusted as α=0 and β=1 assuming the same risk level among the market and sample security. Thus, the expected value of the difference between the return on a security and the return on market index should in an asset pricing model framework be equal to zero which indicates that the expected return is equal to the market return.

Appraisal of the event's impact requires a measure of the abnormal return. A security's price performance is considered to be abnormal relative to a particular

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[694] Brown and Warner, *Using daily stock returns,* 25.
[695] *Ibid,* 5.
[696] *Ibid,* 16.

benchmark[697]. The abnormal return for a given security in any time period t is defined as the actual *ex post* return of the security minus the normal return of the firm over the event window. Estimates of daily abnormal returns (AR) for the $_{i}$th firm will be calculated as follows:

$$AR_{it} = R_{it} - R_{mt} \tag{5}$$

Where, R_{it} is daily stock price return stock i on day t *and* R_{mt} is the daily return on market portfolio. In this context, the variable of interest is the difference between the return on the individual security and the corresponding market return on the index. The abnormal returns (AR_{it}) represent returns earned by the firm after the analyst has adjusted for the "normal" return process. Any significant difference is considered to be an abnormal, or “excess return”. Therefore, (AR_{it}) is the difference between the actual and expected rates of return on the security at time (t) during the event window (t_0 to t+T).

Cumulative average abnormal returns (CAR) are then calculated by aggregating the abnormal returns over the event period whilst dividends are not ignored.

$$CARi = \sum_{t=I_1}^{I_2} AR_{it} \tag{6}$$

Where, CAR_i is the i^{th} stock’s cumulative abnormal return, I_1 is the start date of the event window and I_2 is the end date of the event window.

The basis for inference in event studies is a test statistic for the significance of the empirical results and there is no general agreement on the *t*-test formula. Therefore, the statistical significance of short term CARs over the event window applied in this study are adopted from Dodd and Warner[698], Kothari and Warner[699] and Goergen and Renneboog[700] who computed the test statistic as the ratio of the mean of CAR to the estimated standard deviation of abnormal returns over the estimation window as follows:

$$t = \frac{\overline{CAR}}{\sigma(AR)} \tag{7}$$

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[697] Brown and Warner, *Measuring security price performance*, 207.
[698] Dodd and Warner, *On corporate governance- a study of proxy contests*, 437.
[699] Kothari and Warner, *Measuring long-horizon security price performance,* 308.
[700] Goergen and Renneboog, *Shareholder wealth effects of European Domestic and Cross-border takeover bids*, 18.

Where, $\overline{CAR}$ is the mean of CAR and σ (AR) is the estimated standard deviation of abnormal returns which was computed using estimation period (-244 days to -6 days) as follows:

$$\sigma(AR) = \sqrt{\sum_{t=-244}^{t=-6}(AR_t - \overline{AR})^2 \Big/ 238} \qquad (8)$$

$$\overline{AR} = \frac{1}{239}\sum_{t=-244}^{t=-6} AR_t \qquad (9)$$

Brown and Warner (1985) explained the above t-statistic for testing one day abnormal return. However, if the event window has multi day intervals, then the t-statistics will be calculated differently by multiplying the standard deviation of abnormal returns by the square root of the number of event windows as follows:

$$t = \frac{\overline{CAR}}{\sigma(AR)\sqrt{T}} \qquad (10)$$

Where, *T* is the number of days in the event window and other terms are explained above. It is important to aggregate the abnormal returns for the event window and across observations of the event. The aggregation should be considered through time without any overlap in the event windows of the included security.

5.2.5 Hypotheses Testing

This section proposes three related and alternative hypotheses to be examined using a data set of historical quantitative variables. The first hypothesis involves investigating the economic impact of nationalisation on AIOC investors by comparing the loss in market value with the book value of the assets nationalised as disclosed in the 1950 AIOC Annual report and Accounts. Thus, the null and alternative hypotheses are:

H_0: Nationalisation event has no economic impact on the AIOC investors

H_1: Nationalisation event has an economic impact on the AIOC investors (1)

The second hypothesis involves testing the impact of announcement of nationalisation in 30th April 1951 on AIOC investors

H_0: Announcement of nationalisation has no information impact on AIOC investors

H_1: Announcement of nationalisation has an information impact on AIOC investors (2)

The third, and related, hypothesis involves testing the impact of the publication of the AIOC annual report in November 1951 on AIOC investors.

H_0: There was no information content of annual report disclosure during the publication of AIOC report

H_1: There was information content of annual report disclosure during the publication of AIOC report (3)

Finally, a subsequent and essential hypothesis arising from the previous hypotheses, involves testing whether the Market is weak and semi strongly efficient during both events or not.

H_0: Market was inefficient at weak-form and semi strong level

H_1: Market was efficient at weak-form and semi strong level

(4)

These hypotheses follow from the clear features of the capital market that were discussed in the previous section. To test the information content hypotheses, I will employ the event study as a tool to investigate the impact of nationalisation on AIOC investors by measuring their abnormal returns and to test whether they can anticipate bad news. Abnormal returns are calculated with reference to day t_0. Daily returns are used to compute abnormal returns. Abnormal returns are measured in circumstances where the availability of data is restricted by using the market adjusted return model rather than the market model[701]. Consequently, this study aims to measure the short-term wealth effects for AIOC shareholders using the *Market Adjusted Model,* examine the response of the stock market to the information content disclosed by Fraser in the published AIOC annual report in 16th November 1951. And finally test for weak form efficiency and semi strong efficiency.

[701] Campbell et al., *The Econometrics of Financial Market*, 156.

5.3 Analysis

The AIOC share price was compared with the first major UK stock market index, the Financial Times Industrial Ordinary Shares Index (FT30), over the period 1950 to 1951. Comparing the AIOC's Return Index (RI) with the FT30 will provide a clear picture of the performance of the AIOC in relation to the market which is very useful for assessing the AIOC's security prices reaction to nationalisation event. In the interim, this study examines the efficiency of the UK stock exchange at the weak level and semi-strong level for the AIOC stock listed in the market by using daily observations of the FT30 index. Parametric testing will be used to test for serial dependence in the AIOC returns.

The event study involves various procedural steps. It starts by defining the event and specifying the event date, then estimating the expected returns and observing the realised ones within the event window. It then involves measuring the abnormal return (AR) which refers to the shareholder return over and above the average return on the market. Finally, it aggregates the abnormal returns over the event window (CAR). In order to define the event window, a historical analysis including a timeline of events has to be defined – here the background to the nationalisation crisis.

5.3.1 Historical Analysis

Iran's investment and growth rate flourished in the second half of the 1940s but the recovery was short-lived due to the high level of political instability during those years, reflected in frequent demonstrations and strikes as well as the assassination attempt on the Shah[702]. In October 1947, the Iranian government committed to renegotiate the concession, demanded a fair compensation for the British 'expropriation' of the oil resources and was keen to increase the amount of royalties paid to them. The Iranian government's control was largely confined to revenue taxation and minimal maintenance of order due to the influence of internal and external forces resulting from British imperialism. As previously indicated in Chapter 4, Iranian grievances were well explored and justified in Gidel's Memorandum: Iranians were dissatisfied because they did not have control over the allocation of net profits between dividends and reserves[703].

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[702] Esfahani and Pesaran, Iranian *Economy in the Twentieth Century: A global perspective*, 6-7.
[703] Elm, *Oil, Power, and Principle: Iran's oil nationalisation and its aftermath*, 37.

The development of the Iranian economy was affected by international price movements, international market trends and by the ebbs and flows of events occurring in Iran during the 50's. The worldwide demand for oil increased throughout most of the 1946 to 1951 period which resulted in profit increases for the major oil companies[704]. However, Iran suffered periods of economic decline when non-economic concerns became overwhelming, during the political turmoil of the first decades of the 20th century or at times of domestic and international conflict (e.g. 1940-1945, 1950-1953)[705]. In the early 1950s, political conditions had changed considerably and new nationalisms started to emerge because the Iranian government wanted to develop policies with which the country could earn higher returns from its oil production.

On 7 March 1951, Prime Minister Razmara was assassinated after his broadcast to the nation, which seemed to be urging the Iranians to support the AIOC and continue to produce handicrafts rather than trying to run an oil industry[706]. By this time, nationalism and democracy had become constant features of the Iranian political landscape. The Nationalisation Bill was ratified and had important implications for the performance of the AIOC in that it aimed to secure for the Iranian government rights to nationalise its resources and excluded foreign companies from exploitation[707]. Consequently, on 9 March 1951, the parliament of Iran approved the nationalisation of the British-owned AIOC – one of the largest companies quoted on the Stock Exchange. Nationalisation resulted in a decline in AIOC's share price by 3/8 to 5 3/8, which was the lowest price for its stock since 1946[708].

Nationalisation was a special economic event and, as could be expected, AIOC stock prices were influenced[709]. In a similar vein, nationalisation was a living illustration of the structural problems facing the British government and the AIOC. While Iran's oil exports declined in the 1950s and the AIOC's assets in Iran were nationalised, the British government was anxious to negotiate a solution with

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[704] Unerman, *An investigation into the development of accounting for social, environmental and ethical accountability: a century of corporate social disclosures at Shell,* 169.
[705] Esfahani and Pesaran, *Iranian Economy in the Twentieth Century: A global perspective*, 2.
[706] Elm, *Oil, Power, and Principle : Iran's oil nationalisation and its aftermath*, 80.
[707] *Ibid*, 48.
[708] Littlewood, *The Stock Market: 50 years of capitalism at work,* 44.
[709] Investors tend to recall stock market events and their outside political and economic influences by reference to the course of a bull or bear market.

Musaddiq in a reasonable atmosphere[710]. The *Times* reported that nationalisation was "accomplished by one of the most rapidly completed measures ever passed by the often dilatory Persian Parliament"[711]. However, in a more positive vein, the *Times* declared that "it is natural and right that the Persian people should now take a greater share in the operation of their main industry"[712].

The movement to nationalise the oil industry was a major issue and the country came to face an economic embargo from outside and political instability from inside. Oil revenues dropped and brought investment to an end. There were attempts to increase non-oil exports and to keep the level of imports at a minimal level. Regardless of this plan, the non-oil exports became costly to maintain and imports outpaced exports. This kind of ambition naturally generated conflict with the British government which had its own agenda. The way the conflict evolved and the kind of actions the Iranian government took were, however, determined by the type of regime each of the nations lived under. These events lead us, therefore, towards an examination of the impact of the nationalisation crisis on the value of shareholders' investments and an investigation of how successful they were in managing their expectations during such a crisis.

Table (12) below summarises the major events dealing with the negotiations between the Iranian government and the AIOC for the revision of the existing concession and the introduction of the Supplemental Agreement to be ratified by the Iranian Majlis. The timeline below started in May 1950 and ended in May 1951, providing a complete picture of the major events that took place before the company was nationalised. This time frame was chosen because there tended to be a crucial build-up towards nationalisation since negotiations were intensified by the National Front party during May 1950, which finally resulted in the nationalisation of the company's major assets, including the world's largest refinery in Abadan, by Musaddiq on the 1st of May 1951.

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[710] *The Times*, May 2nd, 1951, 6(A), Issue 51990.
[711] *The Times*, April 30, 1951, 4(C), Issue 51988.
[712] *The Times*, May 2nd, 1951.

Table 12: Time line of events for AIOC, for the period May 1950- May 1951

Date	Commentary and related events
May 1950	Increased National Front representation on Majlis Oil Committee (MOC) - Elections to Majlis.
June 1950	General Ali Razmara had become Prime Minister and he was in favourite of British and opposes nationalisation.
29th September 1950	In 1950, AIOC offered an increased share of profits to the Iranian Government but not the fifty-fifty (50:50) sharing that the Majlis wanted.
26th December 1950	The Supplemental Agreement was not again discussed and was referred to a special Majlis Oil Commission. The Oil Commission reported early in December 1950 that the agreement did not safeguard Persian rights and in consequence the Persian Government withdrew the Bill on 26th December, 1950. Subsequently, the Oil Commission was approved by the Majlis on 11th January 1951.
10th February 1951	The AIOC informed the Persian Prime Minister that they were ready to negotiate an entirely new agreement based on equal sharing of profits in Persia.
19th February 1951	Dr. Musaddiq, the chairman of the Majlis Oil Commission, formally proposed in the commission that the oil industry throughout Persia should be nationalised.
24th February 1951	Shepherd (His Majesty's Ambassador in Tehran) handed the Persian Prime Minister a note stating that in the view of His Majesty's Government, that the Company's Concession Agreement prevented its legal termination by an act such as nationalisation and added that the company could not negotiate under threat of nationalisation.
28th February 1951	Negotiations between Northcroft and Razmara offer 25 Million and fifty-fifty (50:50) share of Iranian profits.
7th March 1951	Assassination of the Prime Minister M. Ali Razmara.
8th March 1951	The day after the assassination of the Prime Minister M. Ali Razmara, the Oil Commission passed a resolution concerning nationalisation.
14th March 1951	His Majesty's Government sent a note to the Persian Government to set out their views and restated the company's readiness to discuss a new agreement on the basis of an equal sharing of profits in Persia.
15th March 1951	The Majlis approved a "**Single Article Bill**" which confirmed the Majlis Oil Commission's decision of 8th March 1951 and approved the extension of the Commission's term of office but this took place before the British note on 14th of March had been communicated to them.
20th March 1951	The senate approved the **"Single Article Bill".**
8th April 1951	The Persian Government replied to the British note sent on 14th March 1951 and maintained that the question of nationalisation lay solely between the Persian Government and the AIOC.

Date	Commentary and related events
26th April 1951	Shepherd put to the Persian Prime Minister M. Ala, tentative proposals for reaching a settlement and these embraced a new United Kingdom Company to run the oil industry in Persia and to be owned by AIOC but with some Persian directors, the profits of the company to be shared equally between the Persian Government and the Company, if the Persians wished a purely Persian company would be set up for the distribution of oil products within Persia. On the same day, the Majlis Oil Commission approved a solution calling for the formation of a mixed board of Senators and Deputies with the Minister of Finance or his deputy to implement the decision of the two Houses of Parliament for oil nationalisation throughout the country and setting out in nine articles the method of this implementation called "**Nine Point Law".**
28th April 1951	AIOC protested to the Persian Government over their intended nationalisation measures.
29th April 1951	Dr. Musaddiq became the Iranian Prime Minister.
30th April 1951	**"Nine Point Law"** for nationalisation received the approval of both Majlis and Senate.
1st May 1951	**"Nine Point Law"** for nationalisation was promulgated by His Imperial Majesty the Shah.

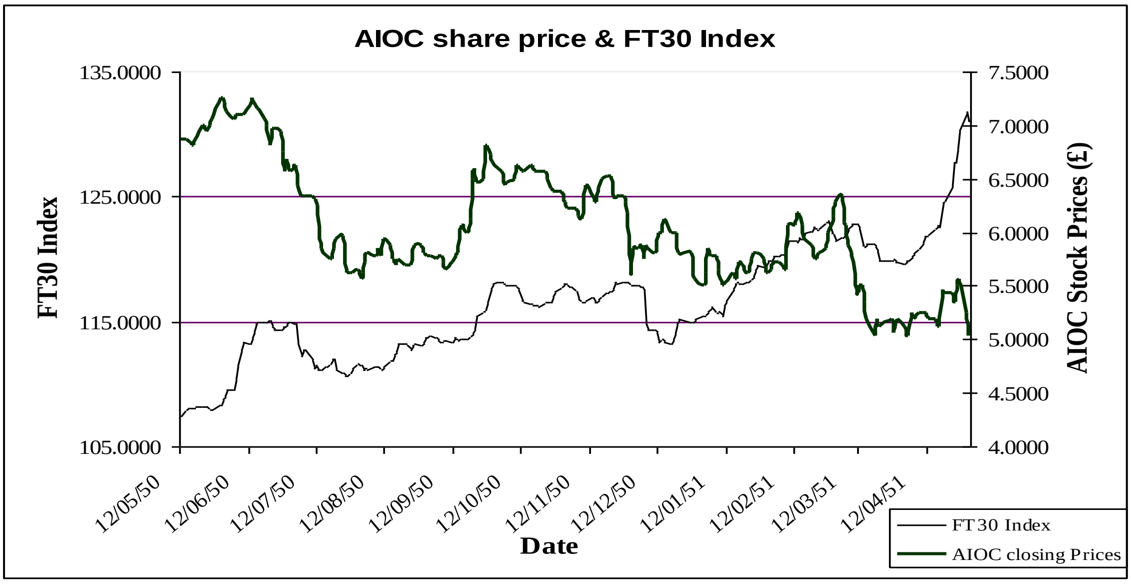
Sources: Compiled from Cmd 8425, 'Explanatory Memorandum' *Correspondence between His Majesty's Government*; AIOC *Annual Report and Accounts*, 1950, 11-22; Bamberg, *The History of the British Petroleum Company*, chapters 15-18.

As clearly shown in Table (12), due to increased National Front representation on the Majlis Oil Committee (MOC) in May 1950, the AIOC offered the Supplemental Agreement to increase the Iranian share in profits in September 1950, but this was not an agreement for an equal division of profits. Consequently, the Oil Commission produced an adverse report in December 1950 explaining that the Supplemental Agreement did not safeguard Persian rights and interests and the Persian Government withdrew the Bill on 26th December, 1950. During February of the following year, the AIOC proposed to negotiate a new agreement based on equal profit sharing but Musaddiq formally proposed to nationalize the oil industry in Iran to safeguard Iranian rights and interests. Eventually, on 7th March 1951, the Iranian Prime Minister, Razmara, was assassinated and this induced the Oil Commission to pass a resolution concerning nationalisation. Finally, after Musaddiq became the Iranian Prime Minister on 29th April 1951, nationalisation was approved by both the Majlis and Senate on 30th April 1951.

In addition to the timeline of events explained above, the AIOC share price reaction in relation to the stock market is explained by the following graphs. First, Figure (2) below presents the AIOC share prices along with the FT30 index for May

1950 and May 1951 to illustrate the company's performance in relation to the market during nationalisation.

Figure 2: AIOC share prices and FT30 Index for the period 12/05/1950 to 01/05/1951



Source: AIOC stock prices are compiled from *The Times and Manchester Guardian newspapers*; FT30 Index is compiled from Loughborough University Website, see *Appendix 1 & 2.*

Figure (2) illustrates that there was a steep decline in the trading range of the AIOC share prices during May-July 1950 which is most likely to be attributed to the influential role of the National Front in Iran. The National Front was willing to safeguard Iranian rights and thus was in favour of nationalisation. AIOC stock prices started to recover between August 1950 and November 1950, reflecting the company's willingness to negotiate an agreement and increase the share of profits to the Iranian government. Finally and most importantly, it can be clearly seen that AIOC stock prices gradually fell and reached their minimal value on May 1951. It was at this point that the Majlis first demanded nationalisation and created the MOC, headed by Musaddiq, and the company lost 80.15% of its operational assets[713]. Mid 1951 showed a version of oil nationalism influenced by the events in Iran and consequently this had a negative impact on AIOC stock prices.

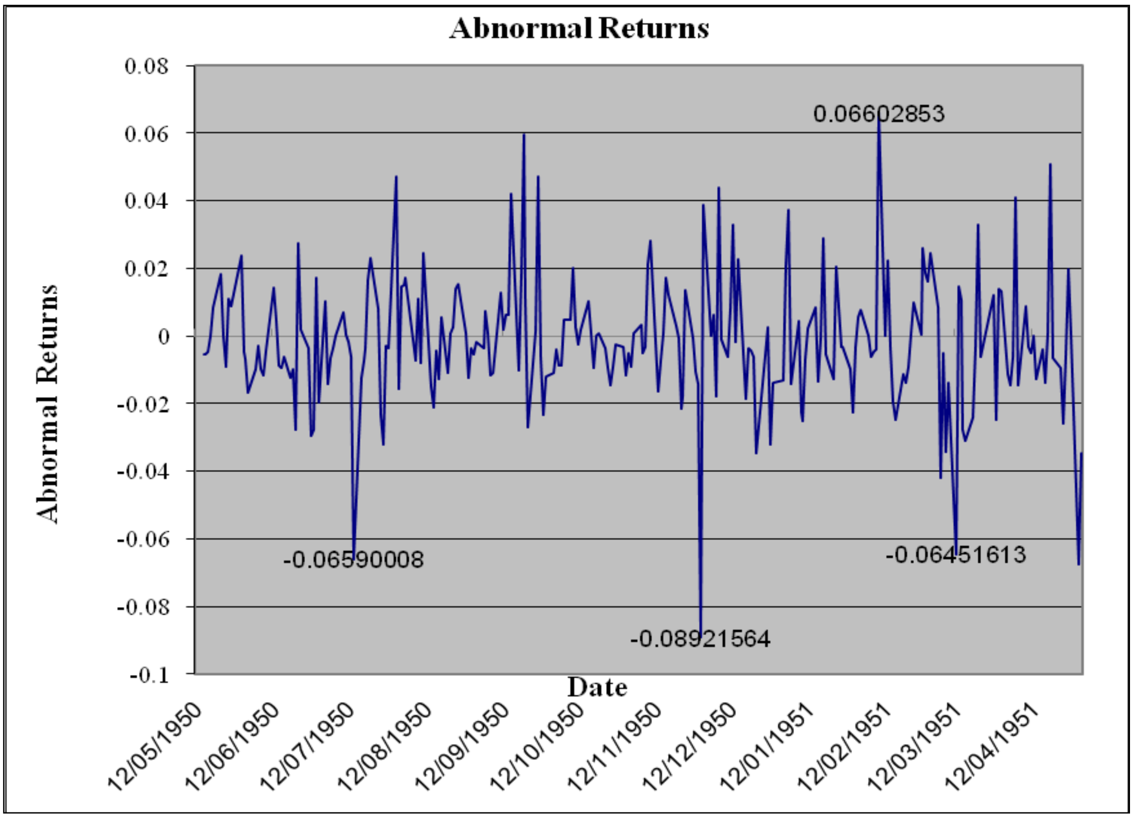
On the other hand, Figure (2) shows that there was a gradual increase in the FT30 index value from May to July 1950, where it rose slightly from 107 to 115, offsetting the decline in AIOC stock prices that was encountered during this period. Later on in

[713] Geographical distribution of AIOC activity is calculated from 1950 annual report as illustrated previously in chapter 5; the Iranian activity 80.15% and non -Iranian activity 19.85%.

December 1950, the index declined, thus reflecting the collapse of the Supplemental Agreement and revealing the negative impact of the Majlis Oil Commission on the performance of AIOC. Although the events of 1951 were more dramatic, with the assassination of Razmara and the formalisation of the nationalisation legislation, the FT30 index shows an increase in its value, reaching its peak at 130.9 on 1st May 1951.

For further illustration, Figure (3) below demonstrates the abnormal returns calculated for the period May 1950 to May 1951.

Figure 3: Abnormal returns for the period 12/05/1950 to 01/05/1951

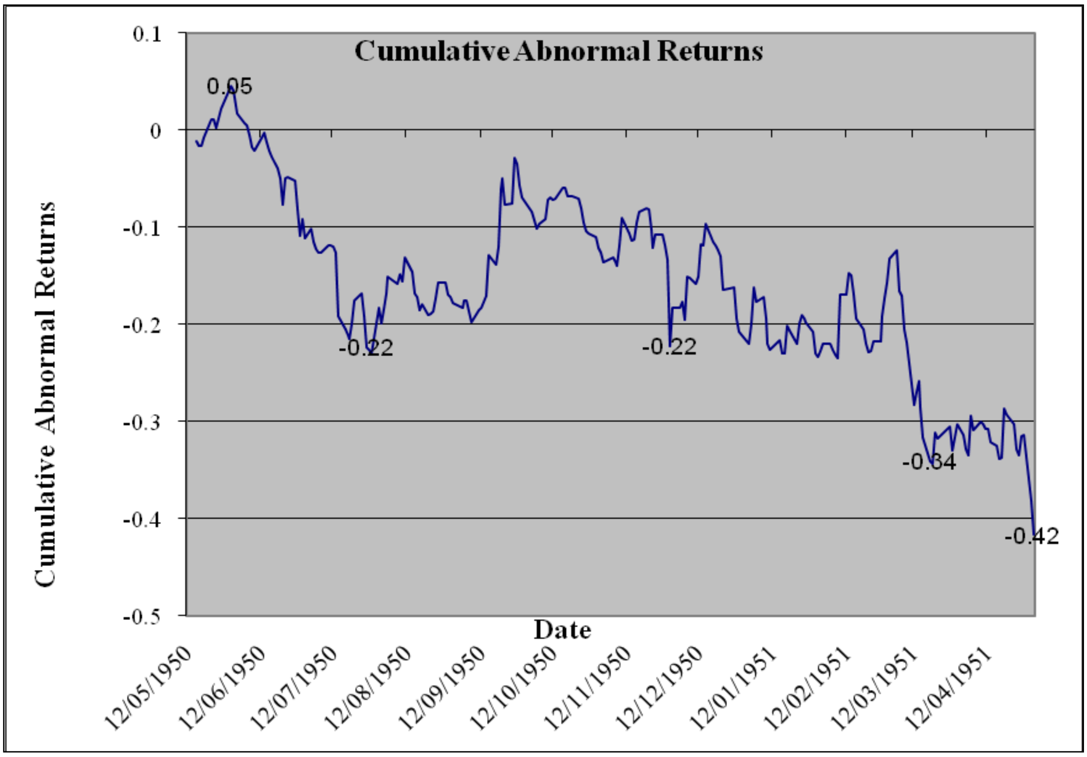


Source: Calculated using the AIOC return index and FT30 Return Index- See *Appendix 1 & 2*

Figure (3) shows that the abnormal returns fluctuated between May 1950 and May 1951, reflecting the difference between the expected rates of return of AIOC stock and the actual market rates of return computed from the FT30 Index. By December 1950, the abnormal returns declined significantly by almost -0.08 because the AIOC shares had lost their value, reflecting the collapse of the Supplemental Agreement. Also, it can be clearly seen that the abnormal returns steeply increased in February 1951 reflecting the rise in AIOC stock prices, perhaps due to the negotiations between the company representatives and the Iranian Prime Minister, Razmara. In the period immediately prior to nationalisation, March-May 1951, the abnormal returns decreased, reflecting the significant decline in AIOC stock returns. It was at this point that the Majlis approved the "Single Article Bill" by the Iranian Senate and consequently nationalisation was headed by Musaddiq on 1st May 1951.

Furthermore, Figure (4) below presents the cumulative abnormal returns calculated for the period May 1950 to May 1951.

Figure 4: Cumulative abnormal returns for the period 12/05/1950 to 01/05/1951



Source: Calculated from the abnormal returns using AIOC return index and FT30 Return Index- See *Appendix 1 & 2.*

Figure (4) shows that the cumulative abnormal returns were negative throughout 1951, with a marked decrease in the values in March 1951 and in May 1951. This may explain that nationalisation had a negative impact on the investors of the AIOC. However, it is worth noting that, notwithstanding the assassination of Razmara in March 1951, the appointment of Musaddiq as Prime Minister in May 1951 and the worsening of the AIOC's trading position following the huge amount of profit for 1950, the reaction was far less than might have been expected.

5.3.2 Event Window

Defining the event of interest and identifying the event window are important reasons why we should examine the period over which the stock prices of the AIOC involved in the event responded to the new information released to the market. It is important to note that there is no consensus regarding the definition of the event or about the start of the period for the measurement of the short term wealth effects. It is assumed that the event date could be identified with certainty but using narrow windows might lead to significant error if there was a leakage of information before the first mention in the press. In this case, the event window is defined as the period from the transaction itself (t_0) which is the event date through the presumable dates after the event date (t+T) to investigate the period beyond the disclosure dates. For instance, Mackinlay[714], Ajlouni and Toms[715] suggested that the common approach to handle this matter of uncertain event date is to define the event window to be larger than the specific period of interest and to examine the periods surrounding the event whilst controlling for other event effects.

The event date in this study is 30th April 1951 when nationalisation was approved by the Majlis and Senate and this was denoted as (t_0). It is worth noting that the news about nationalisation was released, and announced by the *Times,* on 30th April 1951, confirming that the AIOC under Persian law had become the property of the Persian nation[716]. This study extends the event window long enough beyond the event date whilst controlling for other events, such as the announcement of dividends, to test the impact of news releases on the investors and test the effect of nationalisation on the price of the AIOC's securities. Therefore, the control period will start 240 trading days before the event date, 12 May 1950 to 20 April 1951, to capture the impact of nationalisation on the shareholders. It should be noted that the control period covers transactions by the AIOC before its nationalisation and includes the announcement of nationalisation. For instance, it includes the point when the Majlis first demanded nationalisation and created the Majlis Oil Committee headed by Musaddiq in 19th February 1951 and the announcement of nationalisation by the Majlis in March 1951.

5.3.3 Economic impact of nationalisation on AIOC investors

The discussion above has several implications for empirical testing. Given the data availability and the history of the AIOC, empirical evidence is reported in this section to explain the reaction of the AIOC share price to political events in Iran in

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[714] Mackinlay, *Event studies in Economics and Finance*, 14.
[715] Ajlouni and Toms, *Signalling characteristics and information content of directors' dealings on the London Stock exchange.*
[716] *The Times*, April 30, 1951, 4(C), Issue 51988.

relation to the stock market. The empirical results will lead to insights relating to understanding the sources, the causes and effects of nationalisation on AIOC stock prices.

Table (13) below computes a more detailed analysis of the market and book value of AIOC assets during nationalisation from the 1950 AIOC Annual Report in order to examine the long run effects and economic value impact of nationalisation on AIOC investors.

Table 13: Loss of Market Value due to nationalisation

Explanation	Date	Book Value (£)	Market Price (£)	Market value reflected permanent nationalisation
Value of share before nationalisation	12/05/1950	5.35	6.88	6.88
Value of share after nationalisation	01/05/1951	1.06	5.03	1.37****
Loss of value per share		4.29	1.85	5.51
		£'000	**£'000**	**£'000**
Capital before nationalisation	12/05/1950	107.72	138.49**	138.49
Capital after nationalisation	01/05/1951	21.34*	101.25***	27.58*****
Loss of value for capital		86.38	37.08	110.91
Loss of value in %		80.19%****	26.89%*****	80.09%******

Sources: Annual Report, 1950; *The Times* and *The Manchester Guardian.*

Notes:

Book value of AIOC capital is £107,719,810 as disclosed in the notes to the accounts, Annual report 1950 and 1951.

Ordinary Stock is £20,137,500 as disclosed in the notes to the accounts, Annual Report 1950and 1951.

Book Value per share =107,719,810 / 20,137500= £5.35

Geographical distribution of AIOC activity is calculated from 1950 annual report as illustrated previously in chapter 4; the Iranian activity was 80.15% and non-Iranian activity was 19.85%.

Book Value per share after AIOC assets were nationalised= 5.35* 19.85%= £1.06

* Book value of AIOC capital after nationalisation=1.06*20.13=21.34

Market price of AIOC share prices were compiled from *The Times newspapers and The Manchester Guardian* newspapers during 12 May 1950- 1st May 1951.

** Market price of AIOC capital after nationalisation=5.03*20.13=101.25

Market value per share reflected permanent nationalisation=6.88*19.85%=1.37

*** Market value of AIOC capital reflected permanent nationalisation= 1.37*20.13=27.58

****Loss of B.V in %= 4.29/5.35=80.19%

*****Loss of Market price %= 1.85/6.88=26.89%

******Loss of Market value reflected nationalisation= 5.51/6.88=80.09%

As shown in Table (13), the book value per share dramatically declined from £5.35 to £1.06 after the AIOC's nationalisation, which is most likely attributed to the loss of 80.15% of the profits arising from Iranian activity. As a consequence, the AIOC's capital declined dramatically after nationalisation and amounted to £21.34 million. As mentioned above in the notes, the market prices of AIOC stocks were compiled from *The Times* and *The Manchester Guardian* newspapers and the value of capital was calculated accordingly. Quite clearly, the loss in market value of £37.08m is substantially less than the book value of the assets nationalised of £86.38m. However, if the market price is adjusted to reflect the impact of nationalisation and the loss of 80.15% of the company's assets then the loss in Market value would have been £110.91m. In a similar vein, the percentage loss reflecting the impact of nationalisation would have been 80.09% instead of a loss of only 26.89%. Consequently, this explains that there is the possibility that the market priced shares according to sources beyond those immediately communicated by the company and the financial press and as a result the market was ascribing greater value to other factors such as the value of private information. Therefore, those with a detailed knowledge of the company's operation and diplomatic situation might have concluded that Musaddiq's position was very weak, notwithstanding the popular reaction in Iran to the nationalisation event itself.

5.3.4 Information impact of nationalisation on AIOC investors

Empirical tests are carried out in this section, to investigate the correlation between the release of information to the market place and the observed change of AIOC stock prices as a response to the event. Moreover, empirical findings in relation to the research hypothesis are examined. The tests are devised to identify information content in nationalisation and in the publication of AIOC annual reports and note changes through time in weak form and semi-strong form market efficiency. Hence, the study aims to compare relative efficiency at two different points in time by varying the length of the event window.

To test for weak form efficiency, the serial correlation for AIOC stock and FT30 are computed to measure the correlation coefficient between a series of returns and lagged returns in the same series. Table (14) shows the serial correlation for AIOC stock and FT30 index for time period *t*-1.

Table 14: Serial Correlation for AIOC stock and FT30 Index for one time lag

	Time Lags	*Correlation*	*t-statistics*
AIOC Stock	***One Day***	0.0589	0.90
FT30 Index	***One Day***	0.3568	5.88

Source: The AIOC return index for the control period and one time lag within the publication of AIOC annual report

The results from Table (14) show that the serial correlation is consistently close to zero at *t*-1 (one time lag) for AIOC stock, implying that the AIOC shares are weak form efficiently priced. However, the results for the FT30 Index show a significant serial correlation for the Index, implying that the FT30 Index is not weak form efficient and that the shares were thinly traded. To avoid sampling errors, the FT30 Index has been checked for a longer period (1946-1953) but the results also illustrate that the Index is not weak form efficient and the AIOC shares are thinly traded. As a consequence, the AIOC and FT30 data are checked for normality using the Shapiro Wilk test and it was found that the data are highly non-normal. Therefore, the above implies that there have been market limitations on the ability of the shareholders to dispose of shares in response to bad news, had they wished to do so. This restriction may have tended to increase the evident loyalty of the shareholders, who tended to believe that the company would recover from nationalisation following the reassurances of Fraser in his Chairman statements.

To test for semi-strong efficiency, cumulative abnormal returns were calculated in varying event windows to explore the impact of nationalisation and publication of annual reports on the investors. For instance, cumulative abnormal returns were calculated with reference to the publication date (t_0) of the annual reports of the AIOC, for the period surrounding the announcement *t*-n, *t*+n. Moreover, cumulative abnormal returns were calculated with reference to nationalisation of the AIOC, for the period surrounding the event *t*-n, *t*+n. To extend the tests to a longer event window, the above tests were repeated for days between $t_{0,}$ *t*-5, *t*+5 and *t*+10. Since nationalisation was announced to the public on 30th of April 1951, it was possible to specify the exact date of disclosure for the event. The estimated standard deviation of abnormal returns was computed using the control period (12 May 1950 to 20 April 1951) as previously explained in equations (6) and (7), so that it would not overlap in the event windows of the included security. Then, to examine the statistical significance of the CAR during the event period, the test statistics were computed. The interval was set to one day, and thus daily stocks are used. Tables (15) and (16) below report the CARs over 10 days before and after the event date and report their significance at a one-tailed significance level.

Table 15: Cumulative Abnormal returns and Test Statistic for nationalisation-Semi-strong market efficiency

	Pre-announcement tests	Post announcement tests	Full Period
t-5, t_0	-0.0415		
	(-0.9087)		
t-1, t_0	-0.0672***		
	(-2.5499)		
t+1, t_0		-0.1025***	
		(-3.8912)	
t+5, t_0		-0.1015**	
		(-2.2239)	
t+10, t_0		-0.0861*	
		(-1.3935)	
t-1, t+5			-0.0954**
			(-1.9343)
t-1, t+10			-0.084*
			(-1.3005)
t-5,t+10			-0.0851
			(-1.1423)
t-5,t+5			-0.08191*
			(-1.32548)
t-1,t+1			-0.0846***
			(-2.6217)

Notes: Mean of the cumulative abnormal returns (CARs) are reported for different event windows. Moreover, t statistics are reported in parentheses illustrating the significance of the results. *** indicates significance at the 0.01 level, ** indicates significance at the 0.05 level, *significant at the 0.1 level (applying one-tailed tests according to the hypothesis).

The results in Table (15) illustrate that the mid 1951 point showed a version of oil nationalism influenced by the events in Iran and consequently this had a negative impact on the AIOC stock price. A summary of the above extensive body of empirical evidence shows that there is an abnormal return on the day prior to nationalisation, which is cumulatively significant at about 6.7% in the period *t*-1. Thus, the results suggest that the market experienced an abnormal return at *t*-1 of about 6.7 % as bad news prior to nationalisation, which suggests semi-strong efficiency, because stock prices responded adversely to the announcement of nationalisation. Meanwhile, the results show that nationalisation yielded significant and persistent cumulative abnormal returns (CARs) immediately after the event, at the end of the assumed day of disclosure (t+1) and this finding is consistent with the event definition. Hence, Fama[717] argued, as the typical result in event studies on daily data is that stock prices seem to adjust within a day to event announcements, the market recognized nationalisation and reflected the signal as soon as it had been disclosed. CARs are also significant at (t+5, t_0), (t+10, t_0), (t-1, t+5), (t-1, t+10), (t-5, t+5) and (t-1, t+1).

It is important to note that shareholders holding their investments until 1st May 1951 would have suffered a negative cumulative return of 10.25%. Meanwhile, shareholders holding their investment until 5th May 1951 would have suffered a negative cumulative return of 10.15% and negative cumulative return of 8.6% if they had kept their investment until 10th May 1951. This may in turn explain how nationalisation had a negative impact on the investors of the AIOC, as illustrated in their negative cumulative returns. AIOC stock prices were marked by a new period of more problematic relations between the company and the host country, communicated via diplomatic channels – which had intimidated the investors. However, the reaction of the stock market was far less dramatic than might have been predicted.

[717] Fama, *Efficient capital markets: II*, 1601.

Table 16: Cumulative Abnormal Returns and Test Statistic for publication of annual reports- Semi-Strong market efficiency.

	Pre-announcement tests	Post announcement tests	Full Period
t-10, t_0	0.0084		
	(0.1360)		
t-5, t_0	-0.0087		
	(-0.1922)		
t-1, t_0	0.0459**		
	(1.7412)		
t+1, t_0		0.0349*	
		(1.3235)	
t+5, t_0		0.0408	
		(0.8950)	
t+10, t_0		0.0553	
		(0.8943)	
t-10,t+10			0.0342
			(0.4009)
t-5,t+5			0.0067
			(0.1089)
t-1,t+1			0.0474*
			(1.4687)

Notes: Mean of the cumulative abnormal returns (CARs) are reported for different event windows. Moreover, t statistics are reported in parentheses illustrating the significance of the results. ** indicates significance at the 0.05 level, * significant at the 0.1 level (applying one-tailed tests according to the hypothesis).

The results from Table (16) show that there is statistical significance close to the announcement date. There are no cases of statistical significance beyond this immediate window. Although the proportion of CARs registering significance is therefore small, the results thereby confirm that the market incorporated the effects of the event into the share price very rapidly. Within the above context, the event study results imply that the publication of the annual report in 1951 was received positively and the market anticipated its contents. However, the statistically significant cumulative abnormal returns only exist for very short periods. A summary of the above extensive body of empirical evidence shows that there was an abnormal return on the day before the annual report was published, which is cumulatively significant by 4.5 % in the period *t*-1. Thus, the results suggest that the market was pricing in an abnormal return at *t*-1 of about 4.5% in anticipation of good news prior to publication of the AIOC annual reports. This suggests that there was information content in Fraser's announcement and semi-strong efficiency because stock prices reflected the publication of annual reports. Furthermore, the results show that CARs were cumulatively significant after the event, at the end of the assumed day of disclosure (*t*+1) but none of the returns were significant during the remaining days. In general, the longer the event window, the more difficult it was to detect relationships between CARs and so the results tended to be insignificant. In the shorter t-2 window, the market adjusted model was significant.

Obviously, Fraser was concerned to protect British interests in Persia and maintain the confidence of the stockholders because he was aware of the fact that the interests of stockholders were paramount[718]. Fraser used the British press to promote shareholders' confidence, and asserted in the *Times*[719], after the publication and release of the company's annual reports in 19th November 1951, that the results for the year are of "great prosperity in the oil industry and of full operation of the Persian properties"[720]. Furthermore, to maintain shareholders' confidence at the time of crisis for the company, he emphasised in the *Times* that:

> One-quarter of the company's trading activities were based on supplies of oil from non-Persian sources, and naturally a much larger proportion than that was earned outside Persia by virtue of the company's widespread shipping, refining, and marketing activities[721].
>
> 1951 had the benefit of a superlatively good trading period during the first half of the year, while the company was operating in Persia as usual. And the extra cost imposed by sudden changes will gradually diminish[722].

[718] Elm, *Oil, Power, and principle: Iran's oil nationalisation and its aftermath*, 66.
[719] *The Times*, November 28, 1951, 9(C), Issue 52170.
[720] *Ibid.*
[721] *Ibid.*
[722] *Ibid.*

Not only that, but in order to align the performance of the AIOC with the behaviour of British interests, Fraser disclosed in his statement to the public[723] as well as the *Times*[724] that:

> Unless there is some wholly unforeseen happening in the remaining few weeks of this year, the company will be in a position to pay the same rate of dividend on the ordinary stock for 1951 as has been paid for some years past.

It is worth noting that Fraser was eager to increase the dividends paid to the ordinary shareholders even during the nationalisation crisis. Meanwhile, the British government did not reject Fraser's opinion and was also interested in adopting the company's dividend policy, since the company's activities could affect Britain's foreign relations and economic position[725]. Hence, the British Government was willing to show the public that:

> The AIOC genuinely desire to see a reasonable settlement reached between the company and the Persian government which takes fully into account not only the rights of the company but also the wish of the Persians to take a fuller part in the development of the industry[726].

Furthermore, Fraser undertook a review of the company's supply position, which reflects the growing response by Britain to the possible loss of Iran's oil industry[727]. He established the Future Programme Committee in July 1951 to study and plan alternative market outlets, such as Kuwait, Iraq and Qatar, to supply oil instead of those forgone by Iran. Obviously, Fraser aimed to increase production from other Middle Eastern countries to offset the loss of Iranian oil during nationalisation and thus prove to "the Iranians and to other potential miscreants that they could quite well do without their oil"[728]. Since Fraser's role came into sharp focus as the subject of claims and counter-claims from the AIOC board and Iranian nationalist opinion, this study presents an empirical investigation of the AIOC's daily stock returns to examine their behaviour during the company's nationalisation.

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[723] AIOC *Annual Report and Accounts*, November 16, 1951.
[724] *The Times*, November 28, 1951.
[725] Bamberg, *British Petroleum and Global Oil 1950-1975*, 41.
[726] *The Times*, May 1st, 1951, 4(E), Issue 51989.
[727] Bamberg, *British Petroleum and Global Oil 1950-1975*, 20.
[728] Sampson, *The Seven Sisters: The Great Oil Companies and the world they made*, 135-136.

Finally, 1950 reports of the AIOC Annual General Meetings, at which the Chairman presented the published statement, appeared in different local newspapers such as the *Economist* and the *Times*[729]. Fraser's statement, which was produced in full elsewhere, was conciliatory and restrained in tone: it burned no bridges but built up a strong factual defence against Persia[730]. For instance, the *New York Times*, the *New York Herald Tribune*, and the *Wall Street Journal* were among the newspapers which "carried the full text – in 12 columns – of the statement to the shareholders of the Anglo Iranian Oil Company by Sir William Fraser, the Chairman"[731]. Given Fraser's involvement, it might be expected that extensive publication of the 1950 annual report and press discussion of accounting data and results might have led to a closer relationship with the stockholders.

In a nutshell, the empirical results clearly and significantly reject the null hypotheses that the nationalisation event and information disclosed in the published AIOC annual reports had no impact on AIOC investors. Neither did the stock prices respond to the event. Instead, the test results suggest that with respect to AIOC-specific events, the market was semi strongly efficient and discounted not only the short run negative impact of nationalisation, but also explain the AIOC's control of the Iranian oil industry value chain beyond mere drilling, refining and distribution. Moreover, the results explained the weak medium term position of the Iranian government from a diplomatic and political point of view. This leads one to the conclusion that the nationalisation episode tended to be more damaging to British pride than to the stock market.

5.4 Summary

Oil, with its enormous geographical spread and political consequences, had been a major source of contention and gave the AIOC power of control over the Iranian resources. In fact, the introduction of nationalisation resulted in short episodes of high growth but AIOC policies were not geared towards maintaining the momentum. Hence, the AIOC feared that the political situation in Iran during 1951 could threaten the flow of oil from Iran which would negatively affect the production and exports of

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[729] The AIOC 1950 statement for instance appeared in *The Economist* December 1st 1951, 59-65; *The Times*, November 28, 1951, 8(A), Issue 52170.
[730] *The Times*, November 28, 1951.
[731] *The Times*, November 29, 1951, 3(D), Issue 52171.

the company. The AIOC naturally considered nationalisation as a potential threat. Therefore, Fraser and the AIOC board aimed to fight for control of Iranian oil resources without destroying their industry by maintaining a flourishing and progressive picture for the AIOC during nationalisation. They went to great lengths to hide the true nature of the political situation in Iran and to defend themselves against the Iranian claims. In short, Fraser and the AIOC board took great risks with the shareholders' assets, yet the shareholders were kept in ignorance of the political situation in Iran was affecting the company. It is possible that investors were misled by the British press, which shared many of the pre-conceived colonial attitudes of the AIOC. It is possible that this also included the complacency that accompanied these attitudes. By promoting ignorance (and with the support of certain elements in the British Press) Fraser was able to manipulate facts to promote shareholder confidence, and in this respect at least, he was successful.

The impact of specific events on the security prices of the affected firms has been the subject of great number of studies[732]. This study examines the behaviour of AIOC stock prices during different event windows. For instance, it examines the impact of nationalisation and management of information on the AIOC investors over 1950 and 1951, employing an event study methodology to measure Cumulative Abnormal Returns. As previously mentioned, event study has continued to be a valuable and widely used tool in accounting and finance. Using the *Market Adjusted Model*, the results revealed that nationalisation had a negative impact on the shareholders and there is an impressive body of empirical evidence in this study which indicates that the market adjusts rapidly to new information as soon as it is disclosed.

Within the above context, the event study has shown that AIOC daily stock data responded in a measurable way to nationalisation and publication of the company's annual reports. Three important conclusions are suggested by the above statistical and historical analysis. These are as follows. First, disclosure and announcement of nationalisation resulted in negative cumulative abnormal returns for the investors immediately after the event. Second, the announcement of nationalisation produced significant statistical results for the earlier days of the event window whilst controlling confounding events, which suggests that the market reacted significantly

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[732] Brown and Warner, *Measuring security price performance*, 205.

sooner and faster to bad than to good news. Third, the statistical analysis for market efficiency suggests that the market is efficient for the AIOC at the weak and semi strong form, which in turn implies that we can rely on the market data.

By adopting the event methodology to examine the impact of political events on stock market returns, the study makes a robust contribution to knowledge for the following reasons. First of all, this study uses daily data which is advantageous in estimating the market model terms with shorter event windows. For instance, Brown and Warner[733] argued that the power for estimating the market model terms is much greater with daily than monthly data. Second, this study uses the security's return instead of share prices. The statistical tests have greater power when using daily data, which in turn will provide more accurate results and allow a precise measurement of the speed of the stock-price response, which is a major issue for market efficiency. Third, this study provides empirical evidence on the impact of nationalisation on the AIOC shareholders using the Market Adjusted Return model. An understanding of the stock market reaction to the events in Iran is important for assessing the performance of the Iranian economy and gaining insights into Fraser's role of maintaining stockholders' confidence. Finally, historical analysis is an essential complement to the statistical process, so press discussions that took place along with the published annual reports of the company were used to increment the quantitative analysis.

To conclude, the results suggest that the stock market's reaction was proportionately small, relative to the scale of the assets potentially at risk, reflecting a strong endorsement of the political bargaining power of the company. Indeed, following the overthrow of Musaddiq in the CIA sponsored coup of 1953, and the end of an Iranian democratic experiment already thoroughly undermined, the company fully recovered its assets. With respect to the prior literature, the evidence suggests that the strength of Musaddiq's position had probably been overstated, even in 1951, and that in this case at least, the power of big oil remained undiminished in the post-colonial era.

[733] Brown and Warner, *Using daily stock returns*, 25.

Chapter 6: Conclusion

6.1 Introduction

This chapter commences by drawing conclusions that are linked to the thesis objectives and the research questions set out in chapter 1. Section 6.2 presents a set of detailed objectives to highlight the social, economic and political impact of the AIOC's operations on Iran. Furthermore, this section explains how the research questions were investigated, emphasises the issues that have been revealed in the thesis and addresses how the AIOC and Iran responded to each of the issues. Then section 6.3 demonstrates the reflections on the detailed objectives. Section 6.4 highlights the usefulness of the research methods that are adopted in this thesis. Section 6.5 discusses some limitations of the research. Finally, section 6.6 makes suggestions for future research.

6.2 Conclusions from the study

The principal aim of this thesis was to contribute towards the understanding of AIOC practices in Iran thereby providing a clear picture of how nationalisation evolved on 1st May 1951 and how it was perceived by the stock market. The AIOC oil concession in Iran had never been free of controversy. Generally, there was a clash between the AIOC's claim to be a well managed company playing a progressive and developmental role in Iran and the Iranians' view of the company as a rapacious exploitative representative of British imperialism. Whether or not the AIOC contributed towards the Iranian economy, the parties to the dispute were so far apart that no compromise settlement would have been considered as agreeable by both sides. The AIOC failed to close off opportunities for economic nationalists in such a way that the dispute between the AIOC and Iranian government culminated in the nationalisation crisis in 1951. Nationalisation brought into sharp focus issues affecting key AIOC stakeholder groups, including Iranian employees, Iranian government and UK investors which became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. As a consequence of these disputed claims, a propaganda battle became a crucial ingredient of the crisis, not least because a key objective of the AIOC management was to maintain investor confidence in the face of a major threat to its asset base but also reflecting the AIOC's ability to defend itself from the claims made by the Iranian government about unfairness in the sharing of proceeds, and discrimination against Iranians. In fact, this was crucial in absolving the company from any blame for the international crisis. Given the above context, this research addresses the claims by the Iranians against the AIOC and the company's counter claims drawing on a wide range of historical evidence and documents that have previously been neglected to explain the social, political and economic impact of AIOC existence on Iran as well as the Iranians.

Based on a review of evidence of the empirical chapters, the history of the AIOC in Iran reveals a number of distinctive features. The first is the prevailing role the AIOC played in transmitting British attitudes of racial discrimination towards the Iranian employees. A second important feature is Iran's historical legacy and the dominant position held by the company in the economy which led to unfairness in the distribution of the proceeds of oil production to the Iranian government. Finally and perhaps most importantly, the AIOC management and financial reporting play a major role in improving the company's image as a socially conscious employer, reassuring various stakeholder groups and maintaining the share price to overcome the negative consequences of the nationalisation crisis.

As discussed in the introduction, the discovery of oil in Iran and the formation of the AIOC have played a central role in shaping a model of development of political and social relations in Iran. Iran's location associated with its strategic oil reserves were influential factors that promoted the AIOC to get a share of what looked an incredible growth opportunity for the company. By the 1950s, the AIOC had consolidated its power as the world's major oil producing company because it was operating in an oil rich country, Iran, which had little political independence. The impact of AIOC's operation on Iran has been tremendous because of its social and economic domination and its deliberate involvement in the region which consequently had a major influence on the social, cultural and political life of the Iranians. While some scholars have argued that the AIOC contributed to the development of the Iranian economy, others have an alternative view, promulgated typically but not exclusively by Iranian historians, that the AIOC paid only lip service to the Iranianisation process and the Iranian government's demands regarding the unfairness of profit distribution. So was it, as Abrahamian[734] suggests, the company considered Iran as their own town and discriminated against the Iranians? As Keddie suggests, was the company's main objective until nationalisation to be "the largest single employer, the contributor of a significant royalty to the government, and an essentially untouchable foreign enclave within Iran"[735]. This thesis makes a contribution by addressing the social, economic and political impact of AIOC operations in Iran by identifying three detailed objectives. These objectives were defined to help this study meet its principal objective.

1) Examine the CSR policies adopted by the AIOC in the period prior to nationalisation using new evidence on anti-Iranian discrimination (AIOC's social impact)

The first detailed objective was to determine the policies adopted by the AIOC during nationalisation and to re-examine the evidence on anti-Iranian discrimination through the use of contemporary evidence obtained from the press, secondary literature, archival records and also from the disclosures made in the company's financial statements. Clearly, the AIOC had a negative social impact on Iranian employees and anti-Iranian discrimination in the company's employment policies became an important question which requires an answer. In the light of the evidence of chapter 3, this thesis succeeded in investigating the relations among different governmental British authorities with the local communities and the Iranians to ascertain the policies of inequality and differentiation[736]. Whatever the AIOC's merits, it is perfectly possible to argue from the reviewed evidence of chapter 3 that the AIOC paid little attention to Iranianisation and the company's charge of discrimination against the Iranian employees was seen as a major precursor to the nationalisation of the AIOC's Iranian assets by Musaddiq government in 1951. Therefore, this research analysed the social attitude of AIOC towards the Iranian Government and Iranian employees illustrating how the politics of the company developed important consequences for British and US foreign policy culminating in the CIA backed coup of 1953.

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[734] Abrahamian, *The 1953 coup in Iran.*
[735] Keddie, *The Iranian power structure and social change 1800-1969: an overview,* 11.
[736] For more emphasis review Chapter 3.

Particular attention was given to the AIOC's alleged programme of CSR (Iranianisation) which was a crucial ingredient of the unsuccessful pre-nationalisation negotiations. The AIOC resisted the full implications of Iranianisation because the redistribution of employment in favor of Iranians, including at senior level, threatened to compromise the control of the business. The Iranian government was seeking to implement this CSR programme aimed at giving Iranian employees increased status and access to the benefits of employment, housing and education with the aim that all posts in Iran except very top management ones should be held by Iranians. The AIOC, had taken steps to fulfil its CSR obligations to employees, but it did not pay much attention to the Iranianisation process, and its attitude fuelled the nationalisation crisis. AIOC's formation influenced Iran's geographic, social, political and economic existence because it managed to create its own culture in Iran which carried a negative political and social attitude towards the Iranian employees leaving them as mere cheap labour. AIOC discriminated against Iranians, reflecting a negative attitude to their technical potential as well as traditional colonial stereotyping. AIOC experienced a lot of the alleged liabilities of foreignness in Iran because it has been seen by the public that the company has captured many of the benefits of being insiders in the host country not only because of social and cultural connections to colonial regimes but also due to its close connections with the British government.

As highlighted in chapter 3, the AIOC did not engage much with its social responsibilities under the terms of the 1933 Agreement. The company enjoyed incredible lobbying power in Iran in relation to the fair treatment of the Iranian labour force and in determinant of the company's performance to advocate for their existence and exploitation of Iranian resources. However, there was no concept of shared partnership because AIOC had the opportunity to direct employment and transmit its culture to Iran. AIOC had been a large employer of labour but expatriates held all the skilled and managerial posts because the company managed to hinder the ability of the Iranians to respond to their external challenges. AIOC's social and economic domination entailed inequality and violation of Iranian sovereignty because the company always looked to them as low-grade and not deserving to be treated like the British. The company treated the Iranian region as a reserve of unskilled labour and brought everyone else from the outside because the company had always a belief that the Iranian workers are inferior in skill and did not want to provide them with training. In order to justify the operation of the company in Iran, it kept lobbying with its belief that the locals did not have the skills, talents, competence and the character to run their own affairs. Literally, the AIOC made the situation more difficult for the Iranian labour force by offering them lower salaries than the British workforce.

Clearly, the company missed opportunities to offer better conditions, break down social barriers and mix more with the Iranians so there was no chance for Iranian and British solidarity because of class differentiation convention. The result was the creation of an enclave community. Johnson[737] has pointed out that layers and hierarchies of corporate structure were manifest in the AIOC, where boundaries were formed for leadership and economic power by the prevailing distinction of race and nationality that existed through vertical segregation (local people could not progress higher than a certain grade) and horizontal segregation (they tended to be concentrated in particular low status areas or jobs). The AIOC succeeded in building company towns in the oil-producing areas which, amongst other things, segregated the European and Iranian populations. More pragmatically, the existence of segregation in the Iranian community was apparent inside and outside work which resulted in the lack of assimilation in the local culture. There was also discrimination in housing, wages and medical facilities which resulted in antipathy toward the AIOC.

It is important to mention that the AIOC was positively implicated in imperial economic, political and social formation which was reflected in the backgrounds of its chairman and board of management. The AIOC director Fraser, was influenced by the Empire and therefore became an imperial element in the leadership of AIOC. Fraser's position was potentially difficult and the forces ranged against the AIOC were very powerful. To assess the extent the claim of anti-Iranian discrimination against the AIOC is upheld, Fraser's subsequent defence of the company's activities was more precisely evaluated in this research. In fact, Fraser lobbied with the claim of providing support to the Iranians because his main desire was to maintain stakeholders' confidence and defend himself against the Iranian claims. There was every incentive for Fraser to fight for control of Iranian oil without destroying the industry and by maintaining a flourishing and progressive picture of the AIOC

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[737] Johnson, *British multinationals, culture and empire in the early Twentieth century*, 225.

during nationalisation. Fraser was vigilant and influenced the lobbying process to counter the Iranian accusations and maintain various stakeholders' confidence by using the annual reports as a means of communication and a part of a wider propaganda battle. Fraser was successful by controlling his reference to the Iranians as "employees" in his statement to the public and replaced it with the word "staff" which had a less subversive connotation[738]. Obviously, Fraser was willing to avoid the wrath of stakeholders' to be seen as a key visible figure in AIOC with public statements and speeches that enable him to be a hero and to portray the company as fair in front of the public.

2) Evaluate the Iranian accusations of unfairness in the distribution of profits from the oil production in Iran and the policy of dividend limitation (AIOC's economic impact)

In relation to the second detailed objective, this thesis builds a detailed picture of the key factors which have influenced the development of the Iranian economy and offers a deeper understanding of the Iranian government case over the renegotiation of the 1933 Concession Agreement. Furthermore, it addresses the tactics of the senior management of the AIOC in avoiding or limiting the impact of fresh terms and highlights how the AIOC accounts and financial reporting were used to sustain the political economy of the company. As discussed in chapter 4, AIOC was looking to put shareholders first ignoring the negative impact of their existence on the life of the Iranians. The 1933 concession and the Supplemental Agreement offered by the AIOC were not, however, sufficient to guarantee the Iranian government's satisfaction. The AIOC was not prepared to give up any of its control and share its power with Iran. This chaotic situation was worsened by the permanent political instability in the region. The Iranian proposals to revise the Concession Agreement of 1933 were set out in detail in Gidel's Memorandum which consisted of 25 points to require rectification in the Supplemental Agreement to be drafted for signature by the Majlis. The Memorandum therefore was concerned with attempting to identify the main conflicts between the AIOC and the Iranian government that might have been important in this respect. In reviewing this fundamental neglected document, the thesis assesses the justification of the claims made by both sides by comparing the assertions of the AIOC annual reports with the private views which were

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[738] For more emphasis review chapter 3.

reflected in private correspondence and minutes of meetings; thus giving supporting evidence about the motive and extent of the AIOC's adopted methods for profit distribution.

Gidel's Memorandum indicated that Iranian accusations were numerous in regards to the unfairness and injustice of the AIOC. The Memorandum has pointed out that the AIOC was benefiting at the expense of the Iranians demonstrating how Iran had gone through perceived unfairness in terms of the share of oil wealth. As previously mentioned in chapter 4, the AIOC's preliminary statement was unhelpful because it disclosed neither trading profit nor the taxation provision for the year, ignoring a major Stock Exchange requirement. Thus this illustrates and reflects to a certain extent, the AIOC's anxiety to avoid disclosure. Furthermore, the AIOC developed various subsidiaries in different countries to increase the territories under its sway. The treatment of subsidiaries was one of the major bones of contention between Iran and the company because the exclusion of subsidiaries was an important element of arbitrariness in the realisation of profits.

Other points of conflicts included the British Government's insistence on dividend limitations which by increasing AIOC's taxes decreased the company's net profits and reduced Iran's 20 percent share in dividends and general reserves. The Iranian government was largely confined to imposing taxation and carrying out minimal maintenance of order due to the influence of internal and external forces resulting from British imperialism. Iranians disliked the fact the company was making large profits from their oil industry in which they saw themselves as having no real share of adequate reward. The Iranian government tried to control the AIOC's excessive control of their economy and was attempting to monitor their manipulation for the tax and royalties figures. But the company contended that there were difficult accounting issues in arriving at an assessment of such profits which could not be calculated with absolute accuracy.

In this respect, further evidence is gathered by analysis of AIOC annual reports and stock market data. Analysis of the annual reports includes the accounting analysis of the financial statements and content analysis of the narratives of the chairman statement. The AIOC's financial reports play a significant role in the cycle of accountability and are important in this research for a number of other reasons. Firstly, the annual reports are analysed by both sides as evidence for and against changes to the basis on which the AIOC was taxed, royalties were paid under the concession. Secondly, other elements of the return made to Iran for AIOC's activity are calculated, thus providing a new level of detail and explanation in supporting AIOC's advocacy of its manipulating case.

Annual reports were used by Fraser to respond to public pressure; thus persuading the readers of the statement of his views. Furthermore, Fraser used his statement in annual reports to defend the company's activities and to advance arguments in favour of his interests. Fraser was willing in an efficient manner to maintain shareholders' confidence to enhance the credibility of the AIOC. For example, Fraser was disclosing information about the strong returns that the company would make regardless of the nationalisation crisis. Also, Fraser was declaring the tendency of the company to pay the same rate of dividend on the ordinary stock for 1951 despite of the crisis; reflecting his understanding of the shareholder's position and their preference for having frequent dividends[739]. Meanwhile, a review of AIOC's internal papers makes it clear that the company's executives were aware that they enjoyed a very favourable deal, and they had no wish to do anything that might weaken their position. The evidence would seem to support Elm's view, that notwithstanding the economic and military importance of Iran, British politicians and the senior management of the AIOC displayed complacency and colonial arrogance[740].

As shown in chapter 4, detailed financial analyses was conducted of the share of profits using data from the (1948 – 1950) AIOC Annual Report and Accounts to contrast the profit shares for these periods and re-examine the distribution of the firm's pre-tax profit during the company's nationalisation to three stakeholder groups: the Iranian Government, the British Government and other AIOC shareholders. In the context of the reviewed accounting evidence, the financial analysis of profit shares between stake-holders shows AIOC shareholders and the British Government to be increasingly benefiting and the Iranians doing increasingly badly. The AIOC had a weak case as far as the equity in allocation of oil production was concerned: the company was misleading the Iranians and giving them incorrect information. The Iranian government headed by different Iranian prime ministers including Ali Mansur, Razmara and Musaddiq have made a strong case in support of

[739] For more emphasis, review chapter 4.
[740] Elm, *Oil Power and Principle: Iran's oil nationalisation and its aftermath;* Heiss, *Empire and Nationhood.*

their contention that the profit sharing element of their royalty has not in practice worked in the way they expected. As a consequence, the empirical evidence and the use of accounting information revealed the manipulations by the AIOC violating Iranian rights and maintaining control over their natural resources. Also, from the Iranian point of view, the lack of trust in AIOC accounting is a possible reason for ultimate nationalisation since either the AIOC had the wherewithal, or at least the Iranians believed it to be the case, that accounting profits could be manipulated within these ranges. Another possible reason is that the Iranians had a good understanding of their bargaining position. The 1933 Agreement was therefore of marginal benefit to the Iranian government, particularly given the British Government's ability to claw back royalties. Therefore, Iranian accusations against the AIOC of the limitations and drawbacks of the 1933 concession and unfairness in the distribution of profits from oil production can be upheld on the basis of the evidence reviewed here.

There is evidence that the chairman's narrative was important and needs further investigation. As far as narrative and content analysis were concerned, an innovative methodology (DICTION software) has been used in chapters 3 and 4 to analyse the annual reports, which although used elsewhere in the social sciences, has not been extensively employed in historical studies generally nor in business and economic history in particular. The software has been utilised in evaluating semantics in a variety of social discourse areas such as politics and communication, strategic management research and business ethics research[741]. DICTION software was used in this research to analyse the content of the chairman statements of the AIOC. Fraser's response is analysed in detail using comparative textual analysis of his communications to shareholders revealing his enthusiasm and desire to maintain their confidence and thus retaining their investments in the company.

Fraser was alert to the reality that the company had an extremely good deal which they were willing to maintain so he used his statements as a tool to defend his position from the Iranian claims about the unfairness in profit distribution to the Iranians. In short, lack of confidence in the AIOC and monitoring of its profit

[741] See for example, Hart and Jarvis, *Political Debate: Forms, Styles, and Media*; Short and Palmer, *The Application of DICTION to content analysis research in strategic management*; Rogers, Dillard and Yuthas, *The accounting profession: substantive change and/or image management*; Yuthas, Rogers and Dillard, *Communicative action and corporate annual reports.*

allocation between the company and the Iranian government was a major factor behind nationalisation.

3) Examine the reaction of the AIOC share price to the nationalisation (AIOC's political impact)

In relation to the implications of the third detailed objective, the AIOC was not only dealing with nationalisation, but was also suffering from the devastating effects of the crisis on the company's stock prices. Thus, by 1951, conditions facing the AIOC investors had changed dramatically. AIOC stock prices were affected by the a new period of more problematic relations between the company and Iran that was communicated via diplomatic channels which intimidated the investors. Political conditions had changed considerably and new nationalisms started to emerge because the Iranian government wanted to develop policies with which the country could earn higher returns from its oil production. Nationalisation was a living illustration of the structural problems facing the British government and AIOC. Although the attempt to nationalise the AIOC in 1951 has been dissatisfied by the Iranians but there was a rising pressure from them and from the Iranian government for more control over their own resources and for more participation in the benefits of oil. The question we must ask of ourselves is this: was Musaddiq mistaken to ensure the long term success of the Iranian people and their political economy?

The answer is that nationalisation is only a strategy for sovereignty and was a step towards the democratic transformation of Iranian society. It would have been impossible to carry out any serious reform prior to the settlement of the oil dispute to raise the Iranian's standard of living and maintain independence. From the point of view of the AIOC and its shareholders, nationalisation would appear to be explicitly bad news and thus implying a serious failure in the company's policy. As previously mentioned in chapter 5, using event study analysis, this research analyzes the AIOC stock prices reflecting the true value of the firm by incorporating all the relevant information to examine how nationalisation on 1st May 1951 and the publication of the AIOC annual report in 16th November 1951 were perceived by London stock exchange for several reasons. The main reason is to examine Fraser's role in maintaining the confidence of AIOC shareholders during the nationalisation crisis. Second, to explain the delay in publication of the annual report highlighting the possibility of drafting a convincing response by the chairman to nationalisation consistent with representing shareholders as being protected by international law.

Finally, to address the possibility of pricing shares by the market according to sources beyond those immediately communicated by the company and the financial press.

In the context of stock market reaction, the AIOC's vulnerability to the nationalisation crisis was addressed by studying the economic impact of nationalisation on AIOC's security value, market efficiency and social welfare. The economic impact of nationalisation is assessed within a political context using financial data to examine the impact of nationalisation and management of information on the stock market. Such an assessment is of particular importance to shareholders who have an interest in identifying the performance of the company within which they invest their resources. As mentioned in chapter 5, examining managerial performance is important to investigate how successful they were in managing the shareholders' expectations during nationalisation which will give indications on the level of market efficiency and tests how good the market was at anticipating bad news. The AIOC share price was compared with the UK stock market index, the Financial Times Industrial Ordinary Shares index (FT30), over the period 1950 to 1951. Comparing the AIOC's Return Index (RI) with the FT30 provides a clear picture about the performance of AIOC in relevance to the market which is very useful for assessing the AIOC's security prices reaction to nationalisation event.

From the financial analysis illustrated in chapter 5, it was noted that the AIOC stock prices gradually decreased and reached their minimal value in May 1951 which explains that the rising pressure for oil nationalism had a negative impact on the AIOC stock prices. Nonetheless, the events of 1951 were more dramatic, with the assassination of Razmara and the formalisation of the nationalisation legislation; the FT30 index shows an increase in its value on 1st May 1951. Within the above context, the cumulative abnormal returns were negative throughout 1951 with a marked decrease in the values in March 1951 and in May 1951. This explains that nationalisation had a negative impact on investors in the AIOC. However, the reaction was far less than might have been expected. Also, it is important to note that the financial analysis revealed that the loss in market value was substantially less than the book value of the assets nationalised. Thus, this suggests that there is the possibility that the market priced shares according to sources beyond those immediately communicated by the company and the financial press and as a result the market was ascribing greater value to other factors such as the value of private information. Those with a detailed knowledge of the company's operation and diplomatic situation might have concluded that the Musaddiq's position was very weak, notwithstanding the popular reaction in Iran to the nationalisation event itself.

Furthermore, based on the empirical analysis illustrated in chapter 5, the mid 1951 showed that oil nationalisation in Iran had a negative impact on the AIOC stock price. For instance, the market priced an abnormal return at *t*-1 of about 6.7 % as bad news prior to nationalisation which suggests semi-strong efficiency because stock prices responded to the announcement of nationalisation. Shareholders holding their investments until 1st May 1951 would have suffered a negative cumulative return of 10.25% which illustrates that nationalisation had a negative impact on the investors of AIOC as illustrated in their negative cumulative returns. AIOC stock prices were affected by the launch of a new period of more problematic relations between the company and Iran. With regards to the publication of the annual reports, the financial analysis conducted in chapter 5 revealed that the publication of the annual report in 1951 was received positively and the market anticipated its contents; the results suggests that the market priced an abnormal return at *t*-1 of about 4.5% as good news prior to publication of AIOC annual reports which explains that there is information content in Fraser's announcement and semi-strong efficiency because stock prices reflected the publication of annual reports. Generally, investors respond to signals sent by the market about the profitability of their investments in the company by either responding correctly to the signal or by ignoring it. Inevitably, Fraser was successful and reduced the shareholders' incentive to switch their investments from AIOC to another company despite the negative consequences of the crisis. Thus, the above explains that the reaction by the stock market was far less than might have been predicted and that the AIOC survived during nationalisation by finding new channels for oil, by diversifying its activities during the crisis and also by becoming more aggressive in buying advertising space in the newspapers as a response to the nationalisation crisis to publicize its preferred policies and to maintain a flourishing picture in front of the public regardless of nationalisation. As a result the reaction by the stock market was far less than might have been predicted.

6.3 Reflections

As the existence of the AIOC depended on power and control, the contrast of the powerful AIOC with weak Iranian government provides interesting evidence about the AIOC's industrial dominance in Iran. To illustrate the role of the 'imperial' company operating outside the 'formal Empire', this research evaluated the power balance between the AIOC and Iran to study the extent to which the company exploited and manifested Iranian rights during the Twentieth Century through social, economic, political domination and inequality in profit allocation in their own favour[742].

The above illustrations represent a brief outline of AIOC operations in Iran during nationalisation, with the purpose of presenting different dimensions of its social and economic impact which have previously been neglected in prior research; namely discrimination against Iranians, unfair profit distribution and AIOC's managing stock market reaction to events with reference to the relationship between AIOC managers and shareholders. Realised profitability and stock market analysis, the main empirical ingredient of earlier chapters, provide the means to examine the Iranian claims against the AIOC counter claims. Accounting profits and share prices sent to investors via the capital markets played a major role in determining the position of AIOC during the nationalisation crisis. The analysis of AIOC profitability and investigation of AIOC stock market reaction provided in previous chapters deemed to reflect the powerful position of AIOC in sustaining its situation in the market and in manipulating its accounts taking advantage of the international law. Clearly the AIOC management tried to hide the true nature of the political situation in Iran and defend themselves against the Iranian claims which contributed importantly to the company's financial robustness. AIOC was not vulnerable to the world market because it overcame the negative impact of nationalisation illustrating the failure of local nationalist elites in establishing national control over the AIOC.

Considering Iran's position from a counterfactual point of view, if there had been no AIOC, would the country have been the same? This is difficult to assess and there has been little evidence that the AIOC have had any great appeal to the Iranian employees who were seeking to enjoy a better life in their country. However, the

[742] Review chapter 3 for AIOC's anti-Iranian discrimination; Review chapter 4 for AIOC's inequality in profit distribution; Review chapter 5 for AIOC's stock market reaction.

review of evidence in this thesis for anti-Iranian discrimination suggests that the AIOC had a weak case as far as CSR was concerned and the accounting evidence of unfairness in profit allocation strengthened the political case further. Iran had significantly suffered from Britain's exploitation of their oil resources and had gone through perceived unfairness associated with the share of oil wealth. The relation between political power and capital accumulation was reflected in the exploitative relation between the AIOC and Iran where the oil sector was a major aspect in AIOC's capital finance. Clearly, there has long been a consensus about the importance of Iran to the existence of the AIOC and influence on the country's treasure resources but the AIOC failed to develop political and economic structures in Iran to maintain their dominance and unequal relations with local populations. Inevitably, Fraser played a major role and influenced the lobbying to counter the accusations of the Iranian nationalists[743].

Obviously, the AIOC was master of the environment in which it operated and was involved in matters which extended beyond narrow commercial activities. There was very little to help the Iranian government to control its resources. British actions in Iran reinforced Iranian preconceptions and anti-British sentiment because the Iranians viewed the ownership of national industries by foreign interests as an infringement of their country's sovereignty. The widespread resentment at the colonial treatment of the Iranians by the AIOC and its monopolistic propensity had been a feature of AIOC since originating in Iran and it was not until 1951 when the Iranian government brought a substantial shift in the distribution of oil income to the country's benefit. Through imperialism and manipulation, the AIOC became a deliberate dominant economic player in Iran and was seen as a symbol of British imperialistic presence. The British government and the AIOC did not always come together for a smooth relationship but it is worth noting that both of them gained an economic advantage for their operation in Iran. To sum up, this research has put considerable emphasis on illustrating the reasons for nationalist outbursts; labour discontent and unfairness in income distribution which have set Iran on a divergent

[743] Bamberg highlighted that without "Fraser's fearlessly staunch defence of the company's interests, the company would have been sold out by the western powers for the sake of bringing the dispute to a swift conclusion which might open the door for communist control of Iran"; See Bamberg, *The History of the British Petroleum Company,* 520.

decolonising path. It seems that in Iran the politics might be of nationalisation but the invisible empire of oil remained.

6.4 Usefulness of research methods

A triangulation approach was adopted in this thesis to examine the events leading up to nationalisation and assess the performance of the company during the political crisis. This approach proved to be an appropriate method and convenient for the validation process because the weakness of one approach was complimented by the strength of another. Meanwhile, different qualitative and quantitative data collection methods were adopted to examine the same dimension of a research problem.

The main research methods used in this thesis were the financial analysis of the annual reports, content analysis of the narratives of the chairman statements and event analysis of the stock market data. Financial analyses of the annual reports proved to be useful for illustrating the split of profits between the British government and Iranian government which provided the researcher with the opportunity to measure different relationships and changes occurring among different numbers in the financial statements. Additionally, the analyses highlighted the inequality of treatment of Iran through the demonstration of the amount of taxes paid to both governments. Secondly, computerised content analysis using DICTION software provided a clear picture of the disclosures made by the chairman thus enabling the researcher to evaluate the results and identify disclosure patterns. Thirdly, the event analysis of the stock market data widened the scope of the evidence available for analysis of the AIOC’s economic and political impact on Iran thus adding relevant empirical body of evidence. Finally, it is also worth noting that the secondary literature and archival data were invaluable tools because they provided abundant evidence by drawing new insights and assisted the researcher to perform further analysis and go beyond the existing literature.

Having outlined the questions addressed, methodology used and conclusions reached, the next section of this chapter considers the limitations of the work done and the scope for further research.

6.5 Limitations of this study

Methodological limitations lie in the gaining of permission to use the archival collections and physical access. Despite advances in digitisation, I had to visit the archives much of which are located in Warwick and other centres, where the collections are held. A second limitation is the possibility of missing papers where the creators of the documents are not available to supply them. Another limitation might be that the quality of disclosure is not assessed, although care was taken in the interpretation of the chairman statement disclosed in the annual report. For instance, conclusions drawn regarding the managerial motivations for disclosing information in the financial statements may be subjective because they are based on the historical context within which these announcements were made and management may deliberately not disclose information on a specific adverse situation while increasing the level of positive disclosures on related issues. However, the triangulation approach helps to alleviate some of these concerns because it helps in presenting a richer picture of the research topic by providing possible alternative explanations and interpretations. Also, the use of different research methods helps in overcoming the limitations of reliance on a single method and achieves a deeper understanding of accounting phenomena.

6.6 Contribution to knowledge

The AIOC oil concession in Iran had never been free of controversy. Nationalisation brought into sharp focus issues affecting key AIOC stakeholder groups, including Iranian employees, the Iranian government and UK investors which became the subject of claim and counter-claim from the AIOC board and Iranian nationalist opinion. Therefore, by using the AIOC as a historical case study and by using accounting and financial evidence, this thesis makes a contribution to the social, economic and political impact of AIOC operations in Iran. First, this study examines the extent to which the company engaged with the CSR agenda and in particular with regard to the treatment of its Iranian employees (Iranianisation). Second, this study investigates the actual sharing of oil revenues because there was a great deal of dispute about how profits generating from the AIOC were shared unevenly with the Iranian government. Furthermore, this research contributes to our knowledge by providing a valuable insight into the nature, and extent of the AIOC's managerial response during nationalisation and their motivation towards maintaining stakeholders' confidence. Finally, this study assesses the relative bargaining power of the AIOC's management and Musaddiq's government with reference to nationalisation and other major political events. In fact, this will be helpful in examining the influence of the AIOC on decolonisation and the success or failure of local nationalist élites in establishing national control over the AIOC.

This research has shown through an investigation of political and diplomatic private correspondence that although the company was ready to make concessions on non-controversial aspects of Iranianisation, it was determined not to compromise on demands that threatened the control of the incumbent British management. By making concessions on certain aspects of Iranianisation such as housing the company could nonetheless use such initiatives to create the impression of progress in negotiations and create confidence amongst investors. Even in public documents however, traditional colonial attitudes were still revealed, in spite of the company's attempts to show that it was responding positively through the medium of the Chairman's statement. Although the company met certain requirements of Iranianisation, for example housing and health care, such developments were subject to control through spatial zoning and reinforcement of hierarchy. The company accordingly maintained and developed a readily available workforce with skills commensurate with specialized activities but which would not give the Iranians the capacity to run the industry independently of the British management. Segregation by skill grade fueled nationalist demands for control of the industry whilst reducing the Iranian capacity to manage the assets post-nationalisation. As the evidence suggests, there are interesting contrasts in the attitude of senior management, reflecting the context and mode of communication. If it is assumed that the private views of Fraser and other AIOC officials correspond more closely to the truth and that public pronouncements were intended to serve some purpose of benefiting the negotiating stance or underpinning stock market confidence, then the above evidence provides some useful insights into the utility of CSR for senior executives. CSR can be used productively to enhance negotiating and bargaining positions whilst promoting social control and norms of behavior, whilst its scope needs to be carefully defined and limited to prevent a more general loss of control. In short, this research provides a clear picture of the AIOC claims of tolerance and supportiveness to the Iranian workers and also deepens our understanding of the relations between the AIOC and the British government.

If this was the policy of the AIOC in the events leading up to nationalisation in May 1951, it was one that was insufficient to prevent the crisis that followed and the loss of the large majority of the firm's overseas assets. Even so, it contributed to a strong position in the confrontation with the Musaddiq government that followed. The Iranians lacked the capacity to manage the industry and the embargo was made all the more effective as a result. Of course many other factors were important in sparking the crisis and influenced its resolution. On the basis of the evidence presented here, the AIOC's CSR policy appeared to weaken Musaddiq's position, although the actual strength of the negotiating positions is a matter for further research. Furthermore, this research provides the opportunity to study other periods in the AIOC using the same methodology. For instance, DICTION software could be applied to the subsidiaries' corporate reports with the aim of analysing their responses to CSR and investigating their disclosure interests towards various stakeholder groups to compare it with the results of this study. Last but not least, this research also provides the potential to undertake research and study other companies in the same period of collapsing imperialism (e.g. Africa) to discover the success or failure of local nationalist élites in establishing national control over their resources.

6.7 Suggestions for further research

There are a number of suggestions for future research arising from this study. Firstly, the evidence in the empirical chapters suggest that accounting and financial analysis do merit further exploration in business history. A detailed study of the AIOC's subsidiaries could be conducted to identify their practices and allocate the profits generated from overseas operations. From this study, there will be a potential to discover any differences between the Iranian claims and AIOC counter claims regarding the motivations of AIOC in not consolidating the non-Iranian subsidiaries.

Further research that is worthy of investigation might also include a consideration of the remaining points in the Gidel Memorandum (such as: agreement for sale to the British Navy and American companies, exports of crude, oil distribution establishments, sale of oil for export and prevention of the wastage of gas) which are not explored in this thesis. Among other possibilities, research could be conducted to study who were the shareholders that kept their investment in the AIOC during nationalisation. This might result in providing further insights on the perceptions and interests of shareholders who kept their investments in the company during this crisis. A final suggested direction for future research projects might include reappraising the history of AIOC in the years following nationalisation with the hope that there will be continuity and the dialectic of Iranian history will be well explored.

So does the history of AIOC explain the present? The past and the present are not exclusively one thing or another because they are related to each other. This research is meant to analyse the social, economic and political position of AIOC with understanding to bring out the implications of this tragic lesson for the present position and the future prospects of Iran. Generally, the history of oil nationalisation and the AIOC provide a deeper and richer understanding of the present by tracing the history of the company and by developing accounting evidence with reference to major key points and periods of crisis. Social and economic domination are crucial to our understanding of the progress of the AIOC which brought exploitation and had chairmen and board members who attempted to influence the lobbying process and news agenda to counter the accusations of the Iranian nationalists.

Appendices

Appendix 1: AIOC Index values from 12/05/1950-16/11/1951

Date	AIOC Closing prices	Dividends	AIOC daily return
12/05/1950	6.8750	0.0000	
15/05/1950	6.8750	0.0000	0.0000
16/05/1950	6.8438	0.0000	-0.0045
17/05/1950	6.8125	0.0000	-0.0046
18/05/1950	6.8125	0.0000	0.0000
19/05/1950	6.8750	0.0000	0.0092
22/05/1950	7.0000	0.0000	0.0182
23/05/1950	7.0000	0.0000	0.0000
24/05/1950	6.9375	0.0000	-0.0089
25/05/1950	7.0000	0.0000	0.0090
26/05/1950	7.0625	0.0000	0.0089
30/05/1950	7.2500	0.0000	0.0265
31/05/1950	7.2500	0.0000	0.0000
01/06/1950	7.2188	0.0000	-0.0043
02/06/1950	7.1250	0.0000	-0.0130
05/06/1950	7.0625	0.0000	-0.0088
06/06/1950	7.0938	0.0000	0.0044
07/06/1950	7.0938	0.0000	0.0000
08/06/1950	7.0938	0.0000	0.0000
09/06/1950	7.0938	0.0000	0.0000
12/06/1950	7.1875	0.0000	0.0132
13/06/1950	7.2500	0.0000	0.0087
14/06/1950	7.2188	0.0000	-0.0043
15/06/1950	7.1875	0.0000	-0.0043
16/06/1950	7.1563	0.0000	-0.0043
19/06/1950	7.0625	0.0000	-0.0131
20/06/1950	7.0000	0.0000	-0.0088
21/06/1950	6.8125	0.0000	-0.0268
22/06/1950	6.9688	0.0000	0.0229
23/06/1950	6.9688	0.0000	0.0000
26/06/1950	6.9375	0.0000	-0.0045
27/06/1950	6.7500	0.0000	-0.0270
28/06/1950	6.5625	0.0000	-0.0278
29/06/1950	6.6875	0.0000	0.0190
30/06/1950	6.5625	0.0000	-0.0187
03/07/1950	6.6250	0.0000	0.0095
04/07/1950	6.4375	0.0000	-0.0283
05/07/1950	6.3438	0.0000	-0.0146
06/07/1950	6.3438	0.0000	0.0000
07/07/1950	6.3438	0.0000	0.0000
10/07/1950	6.3438	0.0000	0.0000
11/07/1950	6.3125	0.0000	-0.0049
12/07/1950	6.3125	0.0000	0.0000
13/07/1950	6.2500	0.0000	-0.0099

Date	AIOC Closing prices	Dividends	AIOC daily return
14/07/1950	5.8438	0.0000	-0.0650
17/07/1950	5.7813	0.0000	-0.0107
18/07/1950	5.7500	0.0000	-0.0054
19/07/1950	5.7500	0.0000	0.0000
20/07/1950	5.8438	0.0000	0.0163
21/07/1950	5.9375	0.0000	0.0160
24/07/1950	5.9688	0.0000	0.0053
25/07/1950	5.8125	0.0000	-0.0262
26/07/1950	5.6250	0.0000	-0.0323
27/07/1950	5.6250	0.0000	0.0000
28/07/1950	5.6250	0.0000	0.0000
31/07/1950	5.6563	0.2500	0.0500
01/08/1950	5.5625	0.0000	-0.0166
02/08/1950	5.6250	0.0000	0.0112
03/08/1950	5.7188	0.0000	0.0167
04/08/1950	5.8125	0.0000	0.0164
08/08/1950	5.7813	0.0000	-0.0054
09/08/1950	5.8438	0.0000	0.0108
10/08/1950	5.7813	0.0000	-0.0107
11/08/1950	5.9375	0.0000	0.0270
14/08/1950	5.8750	0.0000	-0.0105
15/08/1950	5.7500	0.0000	-0.0213
16/08/1950	5.7500	0.0000	0.0000
17/08/1950	5.6875	0.0000	-0.0109
18/08/1950	5.7500	0.0000	0.0110
21/08/1950	5.6875	0.0000	-0.0109
22/08/1950	5.6875	0.0000	0.0000
23/08/1950	5.6875	0.0000	0.0000
24/08/1950	5.7813	0.0000	0.0165
25/08/1950	5.8750	0.0000	0.0162
28/08/1950	5.8750	0.0000	0.0000
29/08/1950	5.8125	0.0000	-0.0106
30/08/1950	5.8125	0.0000	0.0000
31/08/1950	5.7813	0.0000	-0.0054
01/09/1950	5.7813	0.0000	0.0000
04/09/1950	5.7500	0.0000	-0.0054
05/09/1950	5.7813	0.0000	0.0054
06/09/1950	5.7813	0.0000	0.0000
07/09/1950	5.7188	0.0000	-0.0108
08/09/1950	5.6563	0.0000	-0.0109
11/09/1950	5.7188	0.0000	0.0110
12/09/1950	5.7500	0.0000	0.0055
13/09/1950	5.7813	0.0000	0.0054
14/09/1950	5.8125	0.0000	0.0054
15/09/1950	6.0625	0.0000	0.0430
18/09/1950	6.0000	0.0000	-0.0103
19/09/1950	6.1250	0.0000	0.0208
20/09/1950	6.5000	0.0000	0.0612
21/09/1950	6.5938	0.0000	0.0144

Date	AIOC Closing prices	Dividends	AIOC daily return
22/09/1950	6.4688	0.0000	-0.0190
25/09/1950	6.5000	0.0000	0.0048
26/09/1950	6.8125	0.0000	0.0481
27/09/1950	6.8125	0.0000	0.0000
28/09/1950	6.7188	0.0000	-0.0138
29/09/1950	6.6563	0.0000	-0.0093
02/10/1950	6.5938	0.0000	-0.0094
03/10/1950	6.5625	0.0000	-0.0047
04/10/1950	6.5000	0.0000	-0.0095
05/10/1950	6.4375	0.0000	-0.0096
06/10/1950	6.4688	0.0000	0.0049
09/10/1950	6.5000	0.0000	0.0048
10/10/1950	6.6250	0.0000	0.0192
11/10/1950	6.6250	0.0000	0.0000
12/10/1950	6.5625	0.0000	-0.0094
13/10/1950	6.5625	0.0000	0.0000
16/10/1950	6.6250	0.0000	0.0095
17/10/1950	6.6250	0.0000	0.0000
18/10/1950	6.5625	0.0000	-0.0094
19/10/1950	6.5625	0.0000	0.0000
20/10/1950	6.5625	0.0000	0.0000
23/10/1950	6.5625	0.0000	0.0000
24/10/1950	6.5000	0.0000	-0.0095
25/10/1950	6.4063	0.0000	-0.0144
26/10/1950	6.3750	0.0000	-0.0049
27/10/1950	6.3750	0.0000	0.0000
30/10/1950	6.3750	0.0000	0.0000
31/10/1950	6.3125	0.0000	-0.0098
01/11/1950	6.2813	0.0000	-0.0050
02/11/1950	6.2188	0.0000	-0.0100
03/11/1950	6.2188	0.0000	0.0000
06/11/1950	6.2188	0.0000	0.0000
07/11/1950	6.1563	0.0000	-0.0101
08/11/1950	6.1250	0.0000	-0.0051
09/11/1950	6.2500	0.0000	0.0204
10/11/1950	6.4375	0.0000	0.0300
13/11/1950	6.3438	0.0000	-0.0146
14/11/1950	6.2813	0.0000	-0.0099
15/11/1950	6.2813	0.0000	0.0000
16/11/1950	6.4063	0.0000	0.0199
17/11/1950	6.5000	0.0000	0.0146
20/11/1950	6.5313	0.0000	0.0048
21/11/1950	6.5313	0.0000	0.0000
22/11/1950	6.4063	0.0000	-0.0191
23/11/1950	6.3125	0.0000	-0.0146
24/11/1950	6.3438	0.0500	0.0129
27/11/1950	6.3438	0.0000	0.0000
28/11/1950	6.2813	0.0000	-0.0099
29/11/1950	6.1875	0.0000	-0.0149

Date	AIOC Closing prices	Dividends	AIOC daily return
30/11/1950	5.6250	0.0000	-0.0909
01/12/1950	5.8438	0.0000	0.0389
04/12/1950	5.8438	0.0000	0.0000
05/12/1950	5.8750	0.0000	0.0053
06/12/1950	5.7500	0.0000	-0.0213
07/12/1950	5.8750	0.0000	0.0217
08/12/1950	5.8438	0.0000	-0.0053
11/12/1950	5.8125	0.0000	-0.0053
12/12/1950	5.8438	0.0000	0.0054
13/12/1950	6.0000	0.0000	0.0267
14/12/1950	6.0000	0.0000	0.0000
15/12/1950	6.1250	0.0000	0.0208
18/12/1950	6.0000	0.0000	-0.0204
19/12/1950	6.0000	0.0000	0.0000
20/12/1950	6.0000	0.0000	0.0000
21/12/1950	6.0000	0.0000	0.0000
22/12/1950	5.8125	0.0000	-0.0313
27/12/1950	5.8125	0.0000	0.0000
28/12/1950	5.6250	0.0000	-0.0323
29/12/1950	5.5625	0.0000	-0.0111
02/01/1951	5.5000	0.0000	-0.0112
03/01/1951	5.6250	0.0000	0.0227
04/01/1951	5.8438	0.0000	0.0389
05/01/1951	5.7813	0.0000	-0.0107
08/01/1951	5.7813	0.0000	0.0000
09/01/1951	5.6563	0.0000	-0.0216
10/01/1951	5.5000	0.0000	-0.0276
11/01/1951	5.5000	0.0000	0.0000
12/01/1951	5.5313	0.0000	0.0057
15/01/1951	5.6250	0.0000	0.0169
16/01/1951	5.5625	0.0000	-0.0111
17/01/1951	5.5625	0.0000	0.0000
18/01/1951	5.7188	0.0000	0.0281
19/01/1951	5.6875	0.0000	-0.0055
22/01/1951	5.6250	0.0000	-0.0110
23/01/1951	5.7500	0.0000	0.0222
24/01/1951	5.8125	0.0000	0.0109
25/01/1951	5.8125	0.0000	0.0000
26/01/1951	5.8125	0.0000	0.0000
29/01/1951	5.7500	0.0000	-0.0108
30/01/1951	5.6250	0.0000	-0.0217
31/01/1951	5.6250	0.0000	0.0000
01/02/1951	5.6563	0.0000	0.0056
02/02/1951	5.7188	0.0000	0.0110
05/02/1951	5.7188	0.0000	0.0000
06/02/1951	5.6875	0.0000	-0.0055
07/02/1951	5.6563	0.0000	-0.0055
08/02/1951	5.6563	0.0000	0.0000
09/02/1951	6.0625	0.0000	0.0718

Date	AIOC Closing prices	Dividends	AIOC daily return
12/02/1951	6.0625	0.0000	0.0000
13/02/1951	6.1875	0.0000	0.0206
14/02/1951	6.1875	0.0000	0.0000
15/02/1951	6.0625	0.0000	-0.0202
16/02/1951	5.9375	0.0000	-0.0206
19/02/1951	5.8750	0.0000	-0.0105
20/02/1951	5.8125	0.0000	-0.0106
21/02/1951	5.7500	0.0000	-0.0108
22/02/1951	5.7500	0.0000	0.0000
23/02/1951	5.8125	0.0000	0.0109
26/02/1951	5.8438	0.0000	0.0054
27/02/1951	6.0000	0.0000	0.0267
28/02/1951	6.0625	0.0000	0.0104
01/03/1951	6.1563	0.0000	0.0155
02/03/1951	6.2813	0.0000	0.0203
05/03/1951	6.3438	0.0000	0.0100
06/03/1951	6.0938	0.0000	-0.0394
07/03/1951	6.0625	0.0000	-0.0051
08/03/1951	5.8750	0.0000	-0.0309
09/03/1951	5.8125	0.0000	-0.0106
12/03/1951	5.4375	0.0000	-0.0645
13/03/1951	5.5000	0.0000	0.0115
14/03/1951	5.5000	0.0000	0.0000
15/03/1951	5.3438	0.0000	-0.0284
16/03/1951	5.1875	0.0000	-0.0292
19/03/1951	5.0625	0.0000	-0.0241
20/03/1951	5.0385	0.0000	-0.0047
21/03/1951	5.1875	0.0000	0.0296
22/03/1951	5.1250	0.0000	-0.0120
27/03/1951	5.1875	0.0000	0.0122
28/03/1951	5.0625	0.0000	-0.0241
29/03/1951	5.1250	0.0000	0.0123
30/03/1951	5.1875	0.0000	0.0122
02/04/1951	5.1250	0.0000	-0.0120
03/04/1951	5.0625	0.0000	-0.0122
04/04/1951	5.0313	0.0000	-0.0062
05/04/1951	5.2500	0.0000	0.0435
06/04/1951	5.1875	0.0000	-0.0119
09/04/1951	5.2500	0.0000	0.0120
10/04/1951	5.2500	0.0000	0.0000
11/04/1951	5.2500	0.0000	0.0000
12/04/1951	5.2500	0.0000	0.0000
13/04/1951	5.1875	0.0000	-0.0119
16/04/1951	5.1875	0.0000	0.0000
17/04/1951	5.1250	0.0000	-0.0120
18/04/1951	5.1250	0.0000	0.0000
19/04/1951	5.4688	0.0000	0.0671
20/04/1951	5.4375	0.0000	-0.0057
23/04/1951	5.4375	0.0000	0.0000

Date	AIOC Closing prices	Dividends	AIOC daily return
24/04/1951	5.3750	0.0000	-0.0115
25/04/1951	5.3438	0.0000	-0.0058
26/04/1951	5.5000	0.0000	0.0292
27/04/1951	5.5625	0.0000	0.0114
30/04/1951	5.2500	0.0000	-0.0562
01/05/1951	5.0313	0.0000	-0.0417
02/05/1951	5.0625	0.0000	0.0062
03/05/1951	5.0313	0.0000	-0.0062
04/05/1951	5.0625	0.0000	0.0062
07/05/1951	5.1250	0.0000	0.0123
08/05/1951	5.2500	0.0000	0.0244
09/05/1951	5.3750	0.0000	0.0238
10/05/1951	5.3750	0.0000	0.0000
11/05/1951	5.3750	0.0000	0.0000
15/05/1951	5.3125	0.0000	-0.0116
16/05/1951	5.1563	0.0000	-0.0294
17/05/1951	5.1563	0.0000	0.0000
18/05/1951	5.0625	0.0000	-0.0182
21/05/1951	5.0000	0.0000	-0.0123
22/05/1951	4.8750	0.0000	-0.0250
23/05/1951	4.8750	0.0000	0.0000
24/05/1951	5.0000	0.0000	0.0256
25/05/1951	5.0000	0.0000	0.0000
28/05/1951	5.0938	0.0000	0.0188
29/05/1951	5.1250	0.0000	0.0061
30/05/1951	5.1875	0.0000	0.0122
31/05/1951	5.2500	0.0000	0.0120
01/06/1951	5.3438	0.0000	0.0179
04/06/1951	5.2500	0.0000	-0.0175
05/06/1951	5.4375	0.0000	0.0357
06/06/1951	5.5000	0.0000	0.0115
07/06/1951	5.5625	0.0000	0.0114
08/06/1951	5.5625	0.0000	0.0000
11/06/1951	5.7188	0.0000	0.0281
12/06/1951	5.5938	0.0000	-0.0219
13/06/1951	5.5938	0.0000	0.0000
14/06/1951	5.5000	0.0000	-0.0168
15/06/1951	5.3750	0.0000	-0.0227
18/06/1951	5.2500	0.0000	-0.0233
19/06/1951	5.1250	0.0000	-0.0238
20/06/1951	5.0313	0.0000	-0.0183
21/06/1951	5.1250	0.0000	0.0186
22/06/1951	5.2188	0.0000	0.0183
25/06/1951	5.1250	0.0000	-0.0180
26/06/1951	5.1250	0.0000	0.0000
27/06/1951	5.0938	0.0000	-0.0061
28/06/1951	5.1875	0.0000	0.0184
29/06/1951	5.5000	0.0000	0.0602
02/07/1951	5.5000	0.0000	0.0000

Date	AIOC Closing prices	Dividends	AIOC daily return
03/07/1951	5.4688	0.0000	-0.0057
04/07/1951	5.5000	0.0000	0.0057
05/07/1951	5.4375	0.0000	-0.0114
06/07/1951	5.4375	0.0000	0.0000
09/07/1951	5.4063	0.0000	-0.0057
10/07/1951	5.2500	0.0000	-0.0289
11/07/1951	5.3125	0.0000	0.0119
12/07/1951	5.2813	0.0000	-0.0059
13/07/1951	5.4375	0.0000	0.0296
16/07/1951	5.3438	0.0000	-0.0172
17/07/1951	5.3125	0.0000	-0.0058
18/07/1951	5.3125	0.0000	0.0000
19/07/1951	5.2500	0.0000	-0.0118
20/07/1951	5.1875	0.0000	-0.0119
23/07/1951	5.0625	0.0000	-0.0241
24/07/1951	5.3125	0.0000	0.0494
25/07/1951	5.4063	0.0000	0.0176
26/07/1951	5.4688	0.0000	0.0116
27/07/1951	5.4688	0.0000	0.0000
30/07/1951	5.4375	0.0000	-0.0057
31/07/1951	5.4375	0.2500	0.0460
01/08/1951	5.3125	0.0000	-0.0230
02/08/1951	5.3125	0.0000	0.0000
03/08/1951	5.3438	0.0000	0.0059
07/08/1951	5.3438	0.0000	0.0000
08/08/1951	5.3125	0.0000	-0.0058
09/08/1951	5.3125	0.0000	0.0000
10/08/1951	5.3750	0.0000	0.0118
13/08/1951	5.5313	0.0000	0.0291
14/08/1951	5.6563	0.0000	0.0226
15/08/1951	5.6875	0.0000	0.0055
16/08/1951	5.5938	0.0000	-0.0165
17/08/1951	5.5938	0.0000	0.0000
20/08/1951	5.5000	0.0000	-0.0168
21/08/1951	5.4688	0.0000	-0.0057
22/08/1951	5.4063	0.0000	-0.0114
23/08/1951	5.4063	0.0000	0.0000
24/08/1951	5.2813	0.0000	-0.0231
27/08/1951	5.2500	0.0000	-0.0059
28/08/1951	5.2188	0.0000	-0.0060
29/08/1951	5.3438	0.0000	0.0240
30/08/1951	5.5000	0.0000	0.0292
31/08/1951	5.5625	0.0000	0.0114
03/09/1951	5.5313	0.0000	-0.0056
04/09/1951	5.5000	0.0000	-0.0056
05/09/1951	5.4688	0.0000	-0.0057
06/09/1951	5.4688	0.0000	0.0000
07/09/1951	5.4063	0.0000	-0.0114
10/09/1951	5.3750	0.0000	-0.0058

Date	AIOC Closing prices	Dividends	AIOC daily return
11/09/1951	5.3750	0.0000	0.0000
12/09/1951	5.5000	0.0000	0.0233
13/09/1951	5.5000	0.0000	0.0000
14/09/1951	5.4688	0.0000	-0.0057
17/09/1951	5.4063	0.0000	-0.0114
18/09/1951	5.4063	0.0000	0.0000
19/09/1951	5.3750	0.0000	-0.0058
20/09/1951	5.3125	0.0000	-0.0116
21/09/1951	5.4375	0.0000	0.0235
24/09/1951	5.5000	0.0000	0.0115
25/09/1951	5.4375	0.0000	-0.0114
26/09/1951	5.4063	0.0000	-0.0057
27/09/1951	5.3438	0.0000	-0.0116
28/09/1951	5.3125	0.0000	-0.0058
01/10/1951	5.3125	0.0000	0.0000
02/10/1951	5.2813	0.0000	-0.0059
03/10/1951	5.2813	0.0000	0.0000
04/10/1951	5.3125	0.0000	0.0059
05/10/1951	5.4063	0.0000	0.0176
08/10/1951	5.5625	0.0000	0.0289
09/10/1951	5.6250	0.0000	0.0112
10/10/1951	5.5938	0.0000	-0.0056
11/10/1951	5.6250	0.0000	0.0056
12/10/1951	5.5938	0.0000	-0.0056
15/10/1951	5.5625	0.0000	-0.0056
16/10/1951	5.5313	0.0000	-0.0056
17/10/1951	5.4688	0.0000	-0.0113
18/10/1951	5.4063	0.0000	-0.0114
19/10/1951	5.4063	0.0000	0.0000
22/10/1951	5.4063	0.0000	0.0000
23/10/1951	5.4375	0.0000	0.0058
24/10/1951	5.4375	0.0000	0.0000
25/10/1951	5.5313	0.0000	0.0172
26/10/1951	5.7188	0.0000	0.0339
29/10/1951	5.7188	0.0000	0.0000
30/10/1951	5.7500	0.0000	0.0055
31/10/1951	5.6875	0.0000	-0.0109
01/11/1951	5.6250	0.0000	-0.0110
02/11/1951	5.5000	0.0000	-0.0222
05/11/1951	5.4063	0.0000	-0.0170
06/11/1951	5.5000	0.0000	0.0173
07/11/1951	5.5625	0.0000	0.0114
08/11/1951	5.5313	0.0000	-0.0056
09/11/1951	5.5313	0.0000	0.0000
12/11/1951	5.4688	0.0000	-0.0113
13/11/1951	5.3750	0.0000	-0.0171
14/11/1951	5.3125	0.0000	-0.0116
15/11/1951	5.3750	0.0000	0.0118
16/11/1951	5.5625	0.0000	0.0349

Appendix 2: FT30 Index values from 12/05/1950-16/11/1951

Date	FT30 Index	FT30 Daily return
12/05/1950	107.4000	
15/05/1950	108.0000	0.0056
16/05/1950	108.1000	0.0009
17/05/1950	108.1000	0.0000
18/05/1950	108.1000	0.0000
19/05/1950	108.2000	0.0009
22/05/1950	108.2000	0.0000
23/05/1950	108.2000	0.0000
24/05/1950	108.2000	0.0000
25/05/1950	108.0000	-0.0018
26/05/1950	108.0000	0.0000
30/05/1950	108.3000	0.0028
31/05/1950	108.8000	0.0046
01/06/1950	109.1000	0.0028
02/06/1950	109.5000	0.0037
05/06/1950	109.6000	0.0009
06/06/1950	110.4000	0.0073
07/06/1950	111.5000	0.0100
08/06/1950	112.8000	0.0117
09/06/1950	113.3000	0.0044
12/06/1950	113.2000	-0.0009
13/06/1950	113.7000	0.0044
14/06/1950	114.2000	0.0044
15/06/1950	114.8000	0.0053
16/06/1950	115.0000	0.0017
19/06/1950	114.9000	-0.0009
20/06/1950	115.0000	0.0009
21/06/1950	115.1000	0.0009
22/06/1950	114.6000	-0.0043
23/06/1950	114.4000	-0.0017
26/06/1950	114.3000	-0.0009
27/06/1950	114.6000	0.0026
28/06/1950	114.6000	0.0000
29/06/1950	114.8000	0.0017
30/06/1950	114.9000	0.0009
03/07/1950	114.8000	-0.0009
04/07/1950	113.2000	-0.0139
05/07/1950	112.3000	-0.0080
06/07/1950	112.7000	0.0036
07/07/1950	112.7000	0.0000
10/07/1950	111.9000	-0.0071
11/07/1950	111.3000	-0.0054
12/07/1950	111.5000	0.0018
13/07/1950	111.1000	-0.0036
14/07/1950	111.2000	0.0009
17/07/1950	111.4000	0.0018
18/07/1950	111.6000	0.0018
19/07/1950	112.0000	0.0036
20/07/1950	112.0000	0.0000

Date	FT30 Index	FT30 Daily return
21/07/1950	111.2000	-0.0071
24/07/1950	110.9000	-0.0027
25/07/1950	110.6000	-0.0027
26/07/1950	110.6000	0.0000
27/07/1950	110.9000	0.0027
28/07/1950	111.3000	0.0036
31/07/1950	111.6000	0.0027
01/08/1950	111.5000	-0.0009
02/08/1950	111.1000	-0.0036
03/08/1950	111.3000	0.0018
04/08/1950	111.2000	-0.0009
08/08/1950	111.4000	0.0018
09/08/1950	111.4000	0.0000
10/08/1950	111.1000	-0.0027
11/08/1950	111.4000	0.0027
14/08/1950	111.9000	0.0045
15/08/1950	111.9000	0.0000
16/08/1950	112.4000	0.0045
17/08/1950	112.6000	0.0018
18/08/1950	113.2000	0.0053
21/08/1950	113.2000	0.0000
22/08/1950	113.1000	-0.0009
23/08/1950	112.8000	-0.0027
24/08/1950	113.1000	0.0027
25/08/1950	113.2000	0.0009
28/08/1950	113.1000	-0.0009
29/08/1950	113.3000	0.0018
30/08/1950	113.7000	0.0035
31/08/1950	113.7000	0.0000
01/09/1950	113.9000	0.0018
04/09/1950	113.7000	-0.0018
05/09/1950	113.5000	-0.0018
06/09/1950	113.4000	-0.0009
07/09/1950	113.5000	0.0009
08/09/1950	113.5000	0.0000
11/09/1950	113.3000	-0.0018
12/09/1950	113.7000	0.0035
13/09/1950	113.6000	-0.0009
14/09/1950	113.5000	-0.0009
15/09/1950	113.6000	0.0009
18/09/1950	113.6000	0.0000
19/09/1950	113.9000	0.0026
20/09/1950	114.1000	0.0018
21/09/1950	114.5000	0.0035
22/09/1950	115.4000	0.0079
25/09/1950	115.8000	0.0035
26/09/1950	115.9000	0.0009
27/09/1950	116.6000	0.0060
28/09/1950	117.7000	0.0094
29/09/1950	118.0000	0.0025
02/10/1950	118.2000	0.0017

Date	FT30 Index	FT30 Daily return
03/10/1950	118.1000	-0.0008
04/10/1950	118.0000	-0.0008
05/10/1950	117.9000	-0.0008
06/10/1950	117.9000	0.0000
09/10/1950	117.9000	0.0000
10/10/1950	117.8000	-0.0008
11/10/1950	117.5000	-0.0025
12/10/1950	116.7000	-0.0068
13/10/1950	116.5000	-0.0017
16/10/1950	116.4000	-0.0009
17/10/1950	116.3000	-0.0009
18/10/1950	116.3000	0.0000
19/10/1950	116.3000	0.0000
20/10/1950	116.2000	-0.0009
23/10/1950	116.6000	0.0034
24/10/1950	116.6000	0.0000
25/10/1950	116.6000	0.0000
26/10/1950	117.1000	0.0043
27/10/1950	117.4000	0.0026
30/10/1950	117.8000	0.0034
31/10/1950	118.0000	0.0017
01/11/1950	118.0000	0.0000
02/11/1950	117.9000	-0.0008
03/11/1950	117.8000	-0.0008
06/11/1950	117.4000	-0.0034
07/11/1950	116.8000	-0.0051
08/11/1950	116.6000	-0.0017
09/11/1950	116.5000	-0.0009
10/11/1950	116.7000	0.0017
13/11/1950	116.9000	0.0017
14/11/1950	116.6000	-0.0026
15/11/1950	116.5000	-0.0009
16/11/1950	116.8000	0.0026
17/11/1950	117.1000	0.0026
20/11/1950	117.3000	0.0017
21/11/1950	117.4000	0.0009
22/11/1950	117.7000	0.0026
23/11/1950	118.1000	0.0034
24/11/1950	118.0000	-0.0008
27/11/1950	118.1000	0.0008
28/11/1950	118.2000	0.0008
29/11/1950	118.1000	-0.0008
30/11/1950	117.9000	-0.0017
01/12/1950	117.9000	0.0000
04/12/1950	117.9000	0.0000
05/12/1950	117.8000	-0.0008
06/12/1950	117.4000	-0.0034
07/12/1950	114.8000	-0.0221
08/12/1950	114.3000	-0.0044
11/12/1950	114.4000	0.0009
12/12/1950	114.1000	-0.0026

Date	FT30 Index	FT30 Daily return
13/12/1950	113.4000	-0.0061
14/12/1950	113.6000	0.0018
15/12/1950	113.4000	-0.0018
18/12/1950	113.2000	-0.0018
19/12/1950	113.6000	0.0035
20/12/1950	114.1000	0.0044
21/12/1950	114.8000	0.0061
22/12/1950	115.2000	0.0035
27/12/1950	114.9000	-0.0026
28/12/1950	114.9000	0.0000
29/12/1950	115.2000	0.0026
02/01/1951	115.4000	0.0017
03/01/1951	115.6000	0.0017
04/01/1951	115.8000	0.0017
05/01/1951	116.2000	0.0035
08/01/1951	115.7000	-0.0043
09/01/1951	115.8000	0.0009
10/01/1951	115.5000	-0.0026
11/01/1951	116.3000	0.0069
12/01/1951	116.7000	0.0034
15/01/1951	117.7000	0.0086
16/01/1951	118.0000	0.0025
17/01/1951	118.1000	0.0008
18/01/1951	118.0000	-0.0008
19/01/1951	118.0000	0.0000
22/01/1951	118.2000	0.0017
23/01/1951	118.4000	0.0017
24/01/1951	118.7000	0.0025
25/01/1951	119.1000	0.0034
26/01/1951	119.5000	0.0034
29/01/1951	119.4000	-0.0008
30/01/1951	119.5000	0.0008
31/01/1951	119.9000	0.0033
01/02/1951	119.9000	0.0000
02/02/1951	120.3000	0.0033
05/02/1951	120.3000	0.0000
06/02/1951	120.4000	0.0008
07/02/1951	120.3000	-0.0008
08/02/1951	120.8000	0.0042
09/02/1951	121.5000	0.0058
12/02/1951	121.5000	0.0000
13/02/1951	121.3000	-0.0016
14/02/1951	121.7000	0.0033
15/02/1951	121.6000	-0.0008
16/02/1951	122.1000	0.0041
19/02/1951	122.2000	0.0008
20/02/1951	122.6000	0.0033
21/02/1951	122.4000	-0.0016
22/02/1951	122.3000	-0.0008
23/02/1951	122.4000	0.0008
26/02/1951	123.0000	0.0049

Date	FT30 Index	FT30 Daily return
27/02/1951	123.1000	0.0008
28/02/1951	122.1000	-0.0081
01/03/1951	122.0000	-0.0008
02/03/1951	121.5000	-0.0041
05/03/1951	121.7000	0.0016
06/03/1951	122.0000	0.0025
07/03/1951	122.0000	0.0000
08/03/1951	122.4000	0.0033
09/03/1951	122.8000	0.0033
12/03/1951	122.8000	0.0000
13/03/1951	122.4000	-0.0033
14/03/1951	121.1000	-0.0106
15/03/1951	121.0000	-0.0008
16/03/1951	121.2000	0.0017
19/03/1951	121.2000	0.0000
20/03/1951	121.0000	-0.0017
21/03/1951	120.6000	-0.0033
22/03/1951	119.9000	-0.0058
27/03/1951	119.9000	0.0000
28/03/1951	120.0000	0.0008
29/03/1951	119.8000	-0.0017
30/03/1951	119.7000	-0.0008
02/04/1951	119.6000	-0.0008
03/04/1951	119.9000	0.0025
04/04/1951	119.9000	0.0000
05/04/1951	120.2000	0.0025
06/04/1951	120.5000	0.0025
09/04/1951	120.9000	0.0033
10/04/1951	121.3000	0.0033
11/04/1951	121.9000	0.0049
12/04/1951	121.9000	0.0000
13/04/1951	122.0000	0.0008
16/04/1951	122.5000	0.0041
17/04/1951	122.7000	0.0016
18/04/1951	122.6000	-0.0008
19/04/1951	124.6000	0.0163
20/04/1951	124.7000	0.0008
23/04/1951	125.9000	0.0096
24/04/1951	127.7000	0.0143
25/04/1951	127.7000	0.0000
26/04/1951	128.9000	0.0094
27/04/1951	130.3000	0.0109
30/04/1951	131.8000	0.0115
01/05/1951	130.9000	-0.0068
02/05/1951	131.2000	0.0023
03/05/1951	131.1000	-0.0008
04/05/1951	131.8000	0.0053
07/05/1951	132.9000	0.0083
08/05/1951	132.9000	0.0000
09/05/1951	133.5000	0.0045
10/05/1951	134.3000	0.0060

Date	FT30 Index	FT30 Daily return
11/05/1951	135.5000	0.0089
15/05/1951	136.8000	0.0096
16/05/1951	137.1000	0.0022
17/05/1951	136.3000	-0.0058
18/05/1951	136.4000	0.0007
21/05/1951	137.0000	0.0044
22/05/1951	137.2000	0.0015
23/05/1951	136.8000	-0.0029
24/05/1951	136.2000	-0.0044
25/05/1951	134.9000	-0.0095
28/05/1951	135.0000	0.0007
29/05/1951	134.6000	-0.0030
30/05/1951	135.4000	0.0059
31/05/1951	136.0000	0.0044
01/06/1951	136.3000	0.0022
04/06/1951	136.6000	0.0022
05/06/1951	136.6000	0.0000
06/06/1951	136.7000	0.0007
07/06/1951	136.7000	0.0000
08/06/1951	137.2000	0.0037
11/06/1951	137.4000	0.0015
12/06/1951	137.9000	0.0036
13/06/1951	138.1000	0.0015
14/06/1951	138.7000	0.0043
15/06/1951	139.1000	0.0029
18/06/1951	139.7000	0.0043
19/06/1951	140.2000	0.0036
20/06/1951	140.3000	0.0007
21/06/1951	140.4000	0.0007
22/06/1951	140.4000	0.0000
25/06/1951	139.8000	-0.0043
26/06/1951	138.7000	-0.0079
27/06/1951	137.3000	-0.0101
28/06/1951	136.3000	-0.0073
29/06/1951	136.9000	0.0044
02/07/1951	136.6000	-0.0022
03/07/1951	136.6000	0.0000
04/07/1951	135.8000	-0.0059
05/07/1951	135.6000	-0.0015
06/07/1951	135.7000	0.0007
09/07/1951	135.8000	0.0007
10/07/1951	135.8000	0.0000
11/07/1951	135.9000	0.0007
12/07/1951	135.8000	-0.0007
13/07/1951	135.7000	-0.0007
16/07/1951	135.8000	0.0007
17/07/1951	135.7000	-0.0007
18/07/1951	135.7000	0.0000
19/07/1951	135.9000	0.0015
20/07/1951	136.3000	0.0029
23/07/1951	136.7000	0.0029

Date	FT30 Index	FT30 Daily return
24/07/1951	136.8000	0.0007
25/07/1951	136.8000	0.0000
26/07/1951	136.2000	-0.0044
27/07/1951	135.6000	-0.0044
30/07/1951	133.9000	-0.0125
31/07/1951	132.7000	-0.0090
01/08/1951	132.7000	0.0000
02/08/1951	132.7000	0.0000
03/08/1951	132.9000	0.0015
07/08/1951	128.3000	-0.0346
08/08/1951	128.3000	0.0000
09/08/1951	127.1000	-0.0094
10/08/1951	127.1000	0.0000
13/08/1951	127.7000	0.0047
14/08/1951	129.9000	0.0172
15/08/1951	130.7000	0.0062
16/08/1951	130.8000	0.0008
17/08/1951	131.9000	0.0084
20/08/1951	132.3000	0.0030
21/08/1951	132.6000	0.0023
22/08/1951	133.0000	0.0030
23/08/1951	133.6000	0.0045
24/08/1951	133.6000	0.0000
27/08/1951	133.1000	-0.0037
28/08/1951	133.2000	0.0008
29/08/1951	132.8000	-0.0030
30/08/1951	132.6000	-0.0015
31/08/1951	132.3000	-0.0023
03/09/1951	131.9000	-0.0030
04/09/1951	131.7000	-0.0015
05/09/1951	132.2000	0.0038
06/09/1951	132.4000	0.0015
07/09/1951	133.0000	0.0045
10/09/1951	133.0000	0.0000
11/09/1951	133.0000	0.0000
12/09/1951	132.9000	-0.0008
13/09/1951	132.8000	-0.0008
14/09/1951	132.8000	0.0000
17/09/1951	132.9000	0.0008
18/09/1951	132.8000	-0.0008
19/09/1951	133.0000	0.0015
20/09/1951	133.2000	0.0015
21/09/1951	133.1000	-0.0008
24/09/1951	133.2000	0.0008
25/09/1951	133.7000	0.0038
26/09/1951	133.6000	-0.0007
27/09/1951	135.3000	0.0127
28/09/1951	138.6000	0.0244
01/10/1951	138.2000	-0.0029
02/10/1951	137.4000	-0.0058
03/10/1951	136.4000	-0.0073

Date	FT30 Index	FT30 Daily return
04/10/1951	135.4000	-0.0073
05/10/1951	134.8000	-0.0044
08/10/1951	134.6000	-0.0015
09/10/1951	134.5000	-0.0007
10/10/1951	134.4000	-0.0007
11/10/1951	135.5000	0.0082
12/10/1951	135.8000	0.0022
15/10/1951	135.8000	0.0000
16/10/1951	136.2000	0.0029
17/10/1951	136.8000	0.0044
18/10/1951	137.5000	0.0051
19/10/1951	137.9000	0.0029
22/10/1951	137.4000	-0.0036
23/10/1951	136.9000	-0.0036
24/10/1951	136.3000	-0.0044
25/10/1951	136.6000	0.0022
26/10/1951	136.7000	0.0007
29/10/1951	136.5000	-0.0015
30/10/1951	137.1000	0.0044
31/10/1951	137.4000	0.0022
01/11/1951	138.1000	0.0051
02/11/1951	138.3000	0.0014
05/11/1951	138.2000	-0.0007
06/11/1951	136.6000	-0.0116
07/11/1951	135.1000	-0.0110
08/11/1951	132.7000	-0.0178
09/11/1951	132.2000	-0.0038
12/11/1951	130.2000	-0.0151
13/11/1951	130.7000	0.0038
14/11/1951	131.7000	0.0077
15/11/1951	131.4000	-0.0023
16/11/1951	131.8000	0.0030

Appendix 3: Managing Directors and Major British, Iranian and American Figures

Managing Directors & Major British Figures	Vital Dates	Dates of service in AIOC / Britain	Background
Basil Rawdon Jackson	1892-1957	Managing Director, AIOC, 1948; Deputy chairman, 1950; Chairman, 1956-7.	Joined APOC, 1921. Production Department, 1921-9; APOC/AIOC representative in USA, 1929-34 and 1939-48. D'Arcy Exploration Company, 1935-9.
Edward H. O. Elkington	1890-1964	General Manager, APOC/AIOC in Iran and Iraq, 1929-37; Deputy Director, Production Department, 1946; Director, 1948-56.	Indian Army, 1910-21. Joined the APOC, 1921.
Ernest G.D Northcroft	1896-1976	Chief representative of AIOC in Tehran, 1945-51.	APOC/AIOC 1919-51.
Francis Michie Shepherd	1893-1962	British Ambassador in Iran, 1950-2.	British political representative, Finland, 1944-7. Consul-General, Netherlands East Indies; 1947-9. Ambassador, Poland, 1952-4.
George Humphrey Middleton	1910-1998	He was Chief Political Resident in the Persian Gulf Residency and Charge d'Affaires in Iran during the Abadan Crisis, 1951 and 1952.	He was a British diplomat. Foreign Office, 1943. Ambassador, Lebanon, 1956-8. Political Resident, Persian Gulf, 1958-61. Ambassador, Argentina, 1961-4; United Arab Republic, 1964-6.
Herbert Stanley Morrison	1888-1965	Lord President of the Council and Leader of the House of Commons, 1945-51. Foreign Secretary, March- October 1951.	Leader of London County Council, 1934-40. Home Secretary, 1940-5.
James Alexander Jameson	1885-1961	Deputy Director and General Manager of production, 1927-39; Director, 1939-52.	Joined APOC as engineer, 1910. General Manager in Iran, 1926-8.
John Cadman	1877-1941	Managing Director, 1923; Chairman of APOC/AIOC 1927- 41.	Assistant Inspector of Mines, Scotland. Chief Inspector of Mines, Trinidad and Tobago, 1904-8. Professor of Mining and Petroleum Technology, Birmingham University, 1908-20. Admiralty Commission to Persia, 1913-14. Petroleum Adviser to the Colonial Office, 1916. Director of the newly created petroleum executive, 1917. Chairman of the Inter-Allied Petroleum council, 1918.Imperial Policy Committee, 1918. Technical Adviser to APOC, 1921.

Managing Directors & Major British Figures	Vital Dates	Dates of service in AIOC / Britain	Background
John Helier Le Rougetel	1894-1975	British Ambassador in Iran, 1946-50; Belgium, 1950-1.	Foreign Office, 1920. High Commissioner, South Africa, 1951-5.
Joseph Addison	1912-1994	Joined AIOC, Legal Branch of Concessions Department, 1946. Transferred to Distribution Department, 1950. Observer with Stokes mission to Tehran, August 1951.	Law graduate, 1933-6, Solicitor, 1936-6. Army, 1939-45. Manager of Persian Department, 1954. Member of AIOC delegation to Tehran for the consortium negotiations, April-September 1954. General Manager, Iranian Oil Participants Ltd, 1955-71. Awarded CBE.
L.C. Rice		Company representative in London.	Concession department and corresponds to Northcroft during Supplemental Agreement.
Neville Archibald Gass	1893-1965	Managing director, AIOC, 1939, Deputy Chairman, 1956; chairman 1957-60.	After war service joined APOC, 1919. APOC's managing agents, 1919-23 and dealing with refinery and distribution affairs. Transferred to Abadan, 1923, and became the personal assistant to Jameson, the Joint General Manager. Deputy General Manager, 1930 and joined London Head office, 1934.
Norman Richard Seddon	1911-89	AIOC's chief representative in Tehran at the time of nationalisation in 1951.	Joined APOC in 1933. Assistant General Manager in Abadan, 1948. Managing Director and Deputy chairman of BP Australia, 1957-67.
Richard Rapier Stokes	1897-1957	Leader of negotiations with the Iranian Government, August 1951.	Minister of Works, 1950. Lord Privy Seal, 1951.
Robert Anthony Eden	1897-1977	Deputy Leader of Opposition, 1945-51. Foreign Secretary, 1951-5. Prime Minister, Britain, 1955-7.	British Conservative Politician. Parliamentary Private Secretary to Foreign Secretary, 1926-9. Under-Secretary, Foreign Office, 1931-3. Lord Privy Seal, 1933-5. Foreign Secretary, 1935-8. Secretary of State of War, 1940. Foreign Secretary, 1940-5.
Thomas Lavington Jacks	1884-1966	Joint General Manager, APOC, 1923-5; Resident Director in Iran, 1926-35.	Oil Assistant in Strick, Scott & Company, Muhammara, 1909-13; Assistant Manager, 1917-20.
Vladimir Robert Idelson	d.1954	AIOC Representative	PhD Berlin. International Lawyer in London, 1919-26. Called to English Bar, 1926. British subject, 1930. Took Silk, 1943.
William Knox D'Arcy	1849-1917	1909-17	Lawyer. Held principal interest in Mount Morgan Mining Co, Australia.

Managing Directors & Major British Figures	Vital Dates	Dates of service in AIOC / Britain	Background
William Milligan Fraser	1888-1970	Deputy Chairman, 1928-41; chairman, 1941-56.	Managing director, Pumpherston Oil Co. Ltd, 1913, managing director, Scottish Oils Ltd. Director, Burmah Oil Co, 1939-55. Chairman in the USA of the wartime Inter-Allied Petroleum Conference Specifications Commission, 1918. Managing Director of APOC/AIOC, 1923-56. Chairman of the Oil Supply Advisory Committee of Ministry of Fuel and Power, 1951-2.
Winston Leonard Spencer Churchill	1874-1965	First Lord of Admiralty, 1939-40. Prime Minister, 1940-5. Leader of opposition, 1945-51. Prime Minister, 1951-5.	President, Board of Trade, 1908-10. Home secretary, 1910-11. First Lord of Admiralty, 1911-15. Secretary of State of War and Air, 1919-21. Secretary of State for the Colonies, 1921-2. Chancellor of Exchequer, 1924-9.

Major Iranian Figures	Vital Dates	Dates of service in Iran	Background
Abbas Quli Golshayan	1902	Finance Minister, Minister of National Economy. Mayor of Tehran. Senator in 1949 when the Gass-Golshayan Supplemental Agreement met with stiff opposition in the Majlis.	Attorney-General, then Director-General, Minister of Justice.
Abdul Husayn Hazhir	b.1895	Finance Minister in Iran. Minister of Court. Prime Minister, June-November, 1948.	Iranian Politician. Graduate of School of Political Science. Served in Foreign Ministry and joined Russian Embassy as an interpreter. Head of Industrial and Agriculture Bank. Minister of Commerce under Furughi.
Ali Mansur	b.1888	Prime Minister in Iran, March-June 1950.	Iranian Politician. Graduate of school of Political Science. Under-Secretary, Foreign Ministry, 1919. Under-Secretary, Ministry of Interior, 1920. Governor of Azerbaijan, 1926-31. Minister of Interior, 1931-3. Prime Minister, 1940-1. Subsequently Governor-General of Khurasan and then Azerbaijan. Head of Seven-Year Plan Organisation.
Ali Razmara	1901-1951	He was a military leader and Prime Minister of Iran, June 1950. Assassinated in office, 7 March 1951.	Military education in Iran. Commander of Kirmanshah mixed regiment, 1927.
Fazlollah Zahedi	1890-1963	Minister of interior, 1951. Prime Minister in Iran, 1953-5. Retired to Switzerland and appointed to represent Iran at UN, 1958.	Had various military posts under Riza Shah. Chief of police, 1949.
Husayn Makki	1913	Held office under General Zahedi.	Iranian politician. Resigned from the army after the Allied occupation and joined the Ministry of Roads, 1943. Several minor public posts until elected to Fifteenth Majlis. He opposed the Supplemental Agreement, supporting Musaddiq, but in the last term of Musaddiq's office began to oppose him and was an effective element in his downfall.

Major Iranian Figures	**Vital Dates**	**Dates of service in Iran**	**Background**
Husayn Pirnia	1914	Joined Finance Ministry and became Director-General, Department of Oil Affairs, then Under-Secretary, 1950. Elected to Seventeenth, Eighteenth and Nineteenth Majlis.	Iranian Politician. English degree in administration and oil refining. Professor, Tehran University. Principal, High School of Mathematics and Management, Karaj.
Mirza Husayn Khan Ala	1882-1964	Prime Minster in Iran, March-April 1951 and 1955-7. Senator 1963-4.	Iranian politician. Educated in Westminster School. Minister of Public Works and Agriculture in Iran, 1918. Minister, USA, 1921-5; Paris, 1929. Minister, London, 1934-6. Minister of Court, 1942, 1950-5, 1957-63. Ambassador, USA, 1945-50. Foreign Minister, 1950.
Muhammad Musaddiq	1882-1967	Iranian Prime Minister, 1951-3 (except for 17-20 July 1952).	Supporter of Iranian Constitutional revolution in 1900s. Governor of Fars, 1920-1. Minister of Finance, 1921. Minister of Foreign Affairs, 1923. Deputy in Majlis, 1924-8. Opposed Riza Shah’s foundation of the Pahlavi dynasty. Exiled from politics and imprisoned for some of the time during Riza shah’s rule. Returned to active politics after Riza shah’s abdication in 1941. Elected to Majlis, 1944. Led National Front, formed in 1949. Deposed in US- and British-assisted coup, 1953, and sentenced to three years solitary confinement. After his release he retired to his country estate.
Muhammad Sa’ed	1883-1973	Prime Minister of Iran after the fall of Ali Soheili’s cabinet, 1944, 1948-50.	Born in Azerbaijan. He studied at University of Lausanne. Head of Russian Department in foreign Ministry, 1933. Ambassador of USSR, 1938. Foreign Minister under Qavam, 1942 and Suhaili, 1943. Iran-Russia relations fell to low levels during his government. He banned the Tudeh Party during his premiership.
Rezah Shah Pahlavi	1878-1944	Minister for War and Commander in Chief of the army, 1921. Prime Minister, 1923. Succeeded to Persian throne, December 1925.	Joint Leader of bloodless coup d’etat, February 1921. Abdicated 1941 and died in Johannesburg.

Major Iranian Figures	**Vital Dates**	**Dates of service in Iran**	**Background**
Sa'id Hassan Khan Taqizadeh	1877-1970	Member First Majlis, 1906. Foreign Minister, 1926. Minister in London, 1929-30, 1941-4; Ambassador, 1944-7. Minister of Finance, 1930-3.	Minister, Paris, 1933-4. Deputy for Tabriz, 1947-9. Senator, 1949.

Major American Figures	**Vital Dates**	**Dates of service in USA**	**Background**
General Dwight David Eisenhower	1890-1969	President of the USA, 1953-61.	During the Second World War, he served as Supreme Commander of the Allied Forces in Europe with responsibility for planning and supervising the successful invasion of France and Germany in 1944–45. Chief of Staff, US Army, 1945-8.
George Crews McGhee	1912-2005	Special Assistant to Secretary of State, 1949. Assistant Secretary for Near Eastern, South Asian and African affairs, 1949-51.	He was a career diplomat in the United States foreign service. Geologist and independent oil producer from 1940. Ambassador, Turkey, 1951-3. Director, Middle East /institute, 1953-8. Ambassador, Germany, 1963-8.
William Averell Harriman	1891-1986	President Truman’s special envoy to Iranian government, 1951.	US government service, 1932. President Roosevelt’s special representative, London, 1941. Ambassador, USSR, 1943-6; UK, 1946.

Sources: Compiled from Bamberg, *The History of the British Petroleum Company*, pp. 593-610.

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