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**STATES, FIRMS, AND OIL:
BRITISH POLICY, 1939-54**

BY

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ABSTRACT

New evidence from the records of the Anglo-Iranian Oil Company (now British Petroleum) and Shell for the period, 1939-45 supplements accounts of British oil relations based on state archives. This historical account demonstrates the continuity between the interwar industry cartel and the Allied wartime collaboration orchestrated through industry committees. The companies made use of their quasi-official position to manage crisis of prewar arrangements aggravated by the war which presaged the rapid expansion of postwar Middle East production. The companies then shaped the Anglo-American Oil Agreements of 1944 and 1945, establishing a basis for remaking their position in the Middle East, expanding the web of interfirm relations. The nationalisation of Anglo-Iranian in 1951 threatened the web and the companies were able to embargo nationalised Iranian oil and thus bankrupt the state. This society of oil majors was constituted by shared understandings and interests cultivated by the companies.

Structures of private governance may be quite significant factors for states allied to them. The United Kingdom was more closely tied into the system of private governance that prevailed in international oil in the middle decades of the century than was the United States and consequently was able to call on more resources to resist United States initiatives during this period. British influence persisted in the oil issue-area, in spite of greater United States resources overall, because of this close working relationship between state and companies. Close examination of the relationship reveals the extent of penetration by the companies into both the decision-making and implementation of foreign relations. The 'national' interest was thus articulated through an interplay of Governmental and corporate agendas, and this supports a general argument that 'national' power is not exercised solely by the state, but by the state in cooperation with other powerful social institutions. Non-state actors and their archives may enrich the study of foreign relations.

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PART ONE

Part one sets out the purpose of the research reported in the main body of the thesis and the means by which this was accomplished. In order to assess the influence of companies on foreign policies it was necessary to use corporate archives. These revealed that the companies were involved in a complex web of social relations of a kind that could not be fully accounted for within a formal economic analysis. It was useful to posit an analogy between their relations and Hedley Bull's concept of international society which had its origins in a similar dissatisfaction with a purely power-maximising realist account of inter-state relations. There was a counterpart in inter-corporate relations for each of Bull's five institutions of international society. The web provided the firms with leverage to play an important role in foreign relations through a variety of mechanisms including providing expert advice and enabling implementing coalitions. 'British' foreign relations involved an interplay of Governmental and corporate actors, agendas, and resources. Helpful for purposes of exposition, the analogy between an English School view of international society and relations between major international corporations also suggests a sympathetic revision of Bull's analysis by offering a uniform terminology for the discussion of relations between states and firms, as well as purely inter-state and inter-corporate relations.

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CHAPTER ONE: INTRODUCTION

1.1 SCOPE AND FOCUS OF THE THESIS

The general objective of this dissertation is to help determine the political impact of transnational corporations. A voluminous literature examines the economic impact of transnational corporations on parent and host economies alike, but less has been written on the impact of transnational corporations in political processes, in particular foreign policy.¹ There are two main reasons for this. The first of these is the problem of access to material that by its nature is sensitive both to companies and those involved in foreign policy. It is a problem that influenced the design of this study in so far as it became preferable to use archival material to shed light on the recent past rather than attempt a more contemporary treatment. The second problem is that discussion of this topic in the 1970s and 1980s degenerated into a highly polarised debate through a combination of high stakes and limited information.² However, even well researched studies limited themselves to a focus on political contributions and payments, "many...patently illegal."³ Within the academic discipline of International Relations, studies examining the broader and more structural impact of transnational firms and industries would improve our understanding of processes and outcomes in international affairs. Previously, further distortions took place

¹For surveys of the different approaches see Rhys Jenkins, Transnational Corporations and Uneven Development: The Internationalization of Capital and the Third World, Development and Underdevelopment Series, ed. Ray Bromley and Gavin Kitching (London: Routledge, 1991; Methuen, 1987).

²Robert O. Keohane and Joseph S. Nye, Jr., Power and Interdependence: World Politics in Transition (Boston: Little, Brown, 1977), 23-37; Paul R. Viotti and Mark V. Kauppi, 2d ed., International Relations Theory: Realism, Pluralism, Globalism (New York: Macmillan Publishing Company, 1993), 5-8; Ken Booth and Steve Smith, ed., International Relations Theory Today (Oxford: Polity Press, 1995), 21-2.

³John J. McCloy, Nathan W. Pearson and Beverley Matthews, The Great Oil Spill: The Inside Report. Gulf Oil's Bribery and Political Chicanery (New York: Chelsea House Publishers, 1976), 2.

as transnational firm and nation state became the respective champions of the interdependence and realist schools or, on the Left, of internationalist and economic nationalist factions.⁴ In the 1990s there have been some attempts to transcend the standoff and specify the range and types of political influence of transnational corporations, usually as part of studies on globalisation.⁵

Oil has long been an important strategic commodity. Recently, British Petroleum, formerly known as the Anglo-Iranian Oil Company, has made its archives available for public inspection. The Royal Dutch/Shell Group maintains a generous policy of public access on a case-by-case basis. Taken together these well-presented and carefully preserved corporate archives provided an opportunity to test the hypothesis that our understanding of British foreign oil relations might be deepened by the use of company records in addition to official records. The period 1939-1954 was chosen because it was the most recent period for which archive access was available.

At first sight it would appear fairly straightforward to assess the influence of companies on British oil relations. But this already assumes that 'British' in this case is a synonym for the state. This assumption would dictate the method of the study - isolate the state's oil relations and then assess how the companies affected it. This was not possible. While it is important for analytical purposes to disentangle corporate strategy from foreign policy, this is often difficult. For one thing there was no coordinated or clearly articulated

⁴Robert O. Keohane and Joseph S. Nye, Jr., Power and Interdependence; Kenneth Waltz, Theory of International Politics (Reading, MA: Addison-Wesley, 1979); Bill Warren, "How international is capital?" in International Firms and Modern Imperialism ed. H.Radice (Harmondsworth: Penguin, 1975), 135-140; Robin Murray, "The internationalization of capital and the nation state," in International Firms, ed. H.Radice, 107-33.

⁵Thomas Risse-Kappen, Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions, Cambridge Studies in International Relations, no. 42 (Cambridge: Cambridge University Press, 1995), 15-16.

British official policy on oil before the negotiations for the first Anglo-American Oil Agreement in 1944. A pattern of extensive informal collaboration had developed between the state and British firms. Indeed, the foreign oil relations of the British Government between 1939 and 1954 may be said to have been subcontracted to the companies, whose representatives responded by formulating policies that respected the interests of the state and the British economy as well as their own, and could accordingly look with confidence to the state for diplomatic support when requested.

This diffusion of policy-making is hard to believe given the public importance of foreign oil relations during this period. The main issues of direct concern to the British state relating to oil were the Allied oil supply programme during the Second World War, the negotiations for the Anglo-American Oil Agreement in 1944 which may be seen as a forerunner for other world commodity agreements, Cold War issues in Azerbaijan in 1946, and the increasing assertiveness of Persian Gulf countries more generally.⁶ The growing resistance to British influence culminated in the expropriation of the Anglo-Iranian Oil Company in 1951 which was only overturned after a joint Anglo-American covert action against Iran's democratically elected Prime Minister, Muhammad Musaddiq, in 1953. Logistics in time of war, great power territorial rivalries, and the assertiveness of rising powers are core concerns of the state.

While there have been treatments of these issues highlighting the importance of oil, they have suffered from lack of access to corporate records and, related to this,

⁶The most important oil-producing countries of this time were located in the Persian Gulf. Since this was located in the 'Middle East' that lay between the 'Near' East close to Europe and the 'Far' East I use 'Persian Gulf' and 'Middle East' interchangeably. This area roughly corresponds with the preferred contemporary term, 'South-west Asia'. However, the term 'Middle East' is sometimes used to correspond to states with Arab populations or historic Islamic civilisations. In

inadequate understanding of the corporate perspective. From that viewpoint it is clear that these episodes were shaped as much by the developing relationships among the major international oil companies as by relations among public authorities. And while the corporate archives have been used before, the business historians have been primarily concerned to develop narrative corporate histories. In these, international events intrude only occasionally.⁷ While successful in their own terms, these studies differ essentially from the present work which focuses on the nexus between corporate strategy and national policy, incorporating business history into the study of international relations.

In an earlier work on oil companies in the international system Louis Turner lamented: “the historical record on which this book is based is still extremely patchy, reflecting the fact that oil historians have not been overly concerned with the interests of political scientists, while the fact that the latter have not often considered the role of the oil companies is the specific reason for this book. Given this historical vacuum, it is hardly surprising that a number of judgements made in this book are best described as educated guesses.”⁸ Use of this newly available corporate archive material reveals more fully the role of the seven dominant international oil companies, the ‘majors’, during the period between 1939 and 1954 and challenges Turner’s conclusion that “the majors have possessed marginal influence, providing a source of pressure which has added to the

these instances, it also includes North Africa. However, North African production was not significant during the period examined in this thesis.

⁷J. H. Bamberg, The History of The British Petroleum Company, vol. 2, the Anglo-Iranian Years, 1928-1954 (Cambridge, Cambridge University Press, 1994); Stephen Howarth, A Century in Oil: The “Shell” Transport and Trading Company, 1897-1997 (London: Weidenfeld and Nicolson, 1997).

⁸Louis Turner, Oil Companies in the International System (London: George Allen and Unwin, 1978), 21.

richness of diplomatic history without being a dominant force.”⁹ There is a great deal of space to be explored between marginality and dominance.

1.2 ARGUMENT AND STRUCTURE OF THE THESIS

The basic proposition of this thesis is that corporate records provide material on relations among global firms on the one hand, and relations between global firms and states on the other which force a reinterpretation of the dynamics and actors behind events usually examined from a state-centric perspective. Susan Strange offered the heuristic device of a triangle, each side of which affects the other two sides. The first side represents firm-firm relations, the second represents firm-state relations, and the third represents state-state relations.¹⁰ To understand the dynamics of international political economy the analyst has to cultivate a three-dimensional rather than one-dimensional view. Part two provides a critical survey of previous research, almost all of which, however valuable, lacks this three-dimensional perspective.

Relations between firms were highly institutionalised due to the oil cartel that operated during this period. There was an effective system of private global governance or “governance without governments” in this period.¹¹ It is possible to draw an analogy with Hedley Bull’s concept of international society.³ Bull argued that states retain their independence but are also tied together by a sense of society based on common norms. The society is supported by five pillars - diplomacy, war, international law, the balance of

⁹Ibid., 20.

¹⁰Susan Strange, Rival States, Rival Firms: Competition for world market share, Cambridge Studies in International Relations, no. 18 (Cambridge: Cambridge University Press, 1991).

¹¹James Rosenau and Ernst-Otto Czempiel, Governance without government: order and change in world politics, Cambridge Studies in International Relations, no. 20 (Cambridge, Cambridge University Press, 1992).

power, and great power management.¹² In the same way as it is possible to interpret Hedley Bull and the English school as constructivists, so it is possible to see how the oil majors at one and the same time constructed, and were constructed by, the cartelised world oil market. The 'rules' of the cartel did not merely regulate the market but made the market possible. In the same way as an analysis of a game of football would be hampered if it were restricted to noting the behavioural regularities without understanding what they were running for, and what the small signs and signals meant, so analysis of the oil cartel comes alive by treating it as a society whose discourse and subjective self-awareness significantly shapes the identity and interests of its member firms.¹³ The six chapters of part three may be seen to illustrate the different aspects of an international corporate society.

Chapter three examines the beginnings of this private international society while chapter four demonstrates how the corporate diplomacy of the inter-war period provided the model and personnel for Allied oil diplomacy during the Second World War. Chapter five looks at the trade war precipitated by disruption of pre-war trade agreements and chapter six investigates the Anglo-American Oil Agreements from the perspective of transnational law rather than public international law. Chapter seven examines the ways in which war and uncertainty during the oil negotiations had encouraged corporate balance of power behaviour that fed into Cold War rivalry in the Middle East. Chapter eight clarifies how the establishment of a stable balance of power enabled the seven great powers of the

¹²Hedley Bull, The Anarchical Society: A Study of Order in World Politics (New York: Columbia University Press, 1977).

¹³Marlene Wind, "Nicholas G. Onuf: the rules of anarchy," in The Future of International Relations: Masters in the Making ed. Iver B. Neumann and Ole Waever, The New International Relations Series, ed. Barry Buzan and Gerald Segal (London: Routledge, 1997), 251.

international oil industry to form a great power condominium to frustrate the nationalisation movement in Iran between 1951 and 1953.

In addition to examining an aspect of the corporate international society of oil majors, each chapter explores a different facet of this modification of Government policy output. Firms changed the behaviour of the British Government by various means. Chapter three examines the system of governance without governments during the inter-war period. The Government permitted and encouraged companies to develop private global governance agreements. Chapter four traces the ways in which this was translated into transgovernmental relations between Britain and the United States conducted by corporate executives co-opted into Allied service. Chapter five focuses on the implementation of oil policy that was left to the discretion of the companies. In many respects the implementers became the decision-makers. Organisational politics among administrative agencies is an important theme of chapter six. Such politics may be looked at narrowly, by focusing on public bodies, but also more widely, by examining the role of non-state actors in the decision-making process. Chapter seven demonstrates how standard operating procedures may effectively preclude decision-making as an active process while chapter eight focuses on the importance of the psychological dimension, especially in crisis situations. Taken together they show some of the dangers of regarding the state as a unitary and rational actor, and clarify the important role that non-state actors may have in foreign relations.¹⁴

¹⁴David Allen, "The Context of Foreign Policy Systems: The Contemporary International Environment," in Understanding Foreign Policy: The Foreign Policy Systems Approach, ed. Michael Clarke and Brian White (Aldershot: Edward Elgar, 1989), 70-77.

Both the companies and the state constituted 'British' oil relations for British 'identity' and 'interests' were not determined prior to interaction with other firms and states, but actually constituted through it. By studying the co-construction of firm and cartel, and the construction of 'British' oil relations by both firms and state, the construction of international relations becomes apparent. 'British' and 'American' identity and interests are co-constructed by the interplay of firms and states. National identities and interests are endogenously shaped through domestic political praxis - they are not fixed preferences. Anarchy is what states and firms make of themselves through the interrelated engagements of inter-firm, firm and state, and inter-state relations.¹⁵

The persistent heuristic analogy between the oil cartel and Hedley Bull's concept of international society aims to clarify the nature of relations among firms, while complementary foreign policy analysis throughout elucidates relations between firms and the state. The study of intersubjective social relations among firms and firms in foreign policy analysis provides the basis for inquiring into state interest and identity on both empirical and theoretical levels.

It will be noted that both bodies of theory are examined in the six chapters of part three with a different aspect dominant in each chapter. It is possible to point to the correspondence between these different aspects on a chapter-by-chapter basis. Thus, chapter three looks at the evolution of the international society of oil majors that provided a system of governance without governments. Chapter four examines the continuation between personalities involved in the inter-war corporate diplomacy and the Allied oil

¹⁵Alexander Wendt, "Anarchy is What States Make of it: The Social Construction of Power Politics," *International Organization* 46.2 (Spring 1992): 391-425. Wendt retains the focus on states in his title while problematising both state interests and identity. My inquiry into 'British' oil

committees organised as informal transgovernmental bodies. Chapter five explores the trade war that was carried out as companies had considerable independence of action as the implementers of oil policy. Chapter six demonstrates the complex organisational bureaucratic politics between public bodies, and public and private bodies behind the scenes of the Anglo-American Oil Agreements. Chapter seven looks at the link between standard operating procedures and corporate balance of power manoeuvres which provoked an Anglo-American race for oil concessions in Iranian Azerbaijan provoking Soviet fears on its southern flank. Chapter eight examines how the decision to remove nationalist Prime Minister Musaddiq through a coup was the result of the psychological closure affecting Musaddiq whose persistent negativism frustrated Anglo-American efforts at a peaceful settlement. Such correspondences show the empirical link between relations between firms and between the firms and the British state in constructing 'British' oil relations.

In combination, the thought-experiment of corporate international society and the more conventional essays in foreign policy analysis complete the two sides of Susan Strange's triangle which have been overlooked because of neglect of corporate evidence. This permits reassessment of the third side, relations between states. Where historical studies of the oil industry have been based on Government records they have focused exclusively on relations between states in the manner of traditional diplomatic history. By bringing in the other two sides of the triangle the historical account is developed in several ways which are highlighted below and discussed more fully in part four. Part five comprises the conclusion, which develops this central theme and examines its wider implications for the study of transnationalism and foreign relations.

policy demonstrated the considerable role of the firms in the endogenous process of constructing 'British' oil identity and interests.

1.3 HISTORIOGRAPHICAL IMPLICATIONS OF EXAMINING TRIANGULAR DIPLOMACY IN BRITISH OIL POLICY, 1939-54

While deferring discussion of secondary historical works it may be helpful to anticipate some of the findings to introduce some of the more detailed findings to press home the utility of the triangular diplomacy approach. Foremost among these, perhaps, is the challenge offered to hegemonic stability theory. Here, as demonstrated in chapter three, the expectation of a breakdown in cooperation between states in the leaderless inter-war period is contradicted by unprecedented Anglo-American agreement on oil, and the key to this is a prior development of inter-corporate cooperation, a factor neglected in the excessively statist vision of hegemonic stability theory.

A second historiographic revision, largely developed in chapter four helps resolve an awkward contradiction between the Anglo-American 'special relationship' and the apparent clash of economic interests between these two Allied powers. Allied oil supply during the Second World War were based on established pre-war patterns of 'diplomacy' between the companies. This confirms a link between the pre-war cartel committees and the co-opted wartime public administration of oil supply and in turn suggests that Allied cooperation in oil owed more to inter-firm cooperation, working against the grain of rivalries between the Governments of the United States and Britain, than to the 'Special Relationship' between the two states of later British Cold War imaginings. The British Government took advantage of its closer and more comfortable relations with major companies working in transgovernmental Allied committees to resist United States plans to place international oil collaboration on a more public footing.

Chapter five traces the continuation and development of private agreements during the war, challenging the view that all cartel and cartel-inspired arrangements had ended by 1939. During the Second World War some companies took the opportunity to try to change the status quo by abrogating past agreements, but the principle of inter-corporate agreement remained and this private 'war' over market share took place in the context of the web of inter-corporate social relations, not against it. Hostilities between firms may thus be seen as one phase or aspect of orderly relations between them, rather than a total breakdown of these relations. Underlying the trade war was shared recognition within the industry that world oil production would shift from the Americas to the Persian Gulf in the post-war world. The war between the companies was provoked by doubts about how different companies would accommodate themselves to these changing circumstances. The salient feature is that an 'international society' approach to these developments exposes greater continuities than might have been expected between the mercantilist 1930s and the liberal post-war era.

Chapter six examines the negotiations surrounding the Anglo-American Oil Agreements of 1944-8. More threatening than the trade war to this web of corporate international society than the disruption caused by the Second World War was the attempt by the United States to either enter into, or to regulate, the international oil industry, and the companies duly united with the British Government to oppose it. The failure to impose public regulation does not equate with a failure of international law as has been implicitly accepted by most commentators. Since what amounted to a (virtual) war between the oil majors during the Second World War has remained hidden, writers have felt justified in treating the Agreements in intergovernmental terms which, because neither of them was ratified, makes them unimportant. The trade war explains the position of the companies in

the negotiations around the Anglo-American Oil Agreements and the importance of these negotiations. Taken in a longer historical perspective it becomes clearer that the Agreements were signalling devices, or what is today referred to as transnational law. They indicated norms of significance to private agencies rather than providing publicly enforceable articles. The main importance of the Anglo-American Oil Agreements of 1944 was that the companies accepted changes to the previous order which had been embodied in international contractual agreements. The importance of this was that the 'legal order' of the companies (*lex mercatoria* or transnational law) was upheld as the basis for the international oil market while its content was adapted to accommodate greater United States corporate participation in increased Middle East production.

Uncertainty over the outcome of the oil talks and concern about competition from the American companies led British companies to seek concessions in northern Iran. However, in 1944 Iran was still occupied by the Allies, by the British and Americans in the south, and the Soviets in the north. When Shell tried to win a concession, some American companies also made a bid. The Soviets became anxious about a western presence on their southern flank and provided a third bid, supporting this with threats to support secessionists in the north. The impasse in Iranian Azerbaijan was one of the first Cold War crises. Here the effect of taking relations between international firms seriously is to contribute to a growing post-revisionist literature on the origins of the Cold War. This has shifted attention away from traditional concern with Soviet aggression and the revisionist preoccupation with the expansion of United States capital by considering the role of third actors. In this case Iran's resistance to British international capital and residual political influence was the primary motive behind the invitation to United States interests which in turn provoked Soviet fears. Once established, the link between oil companies,

Middle East oil, and the Cold War became embedded in United States foreign policy. This stance affected American attitudes to the nationalisation of oil in Iran in 1951, examined in chapter eight.

The balance of power manoeuvres between the companies had resulted in the weaving together of corporate interests in Middle East oil. Continuing the international society analogy, chapter eight demonstrates how this made possible “great power management” by the leading international firms against the nationalisation of Anglo-Iranian in 1951. Joint management made it possible to enforce an embargo and prevent distress to Anglo-Iranian which stiffened their back in resisting political solutions from the United States, even at the cost of straining Anglo-American relations. The Americans had continually put pressure on the British to make concessions to secure an agreement. The boycott limited the opportunities of the Iranian Government to undertake reforms calculated to maintain stability while also stiffening Anglo-Iranian’s resistance to conciliatory schemes originating in the State Department or the Foreign Office. They made negotiations more difficult while their boycott increased discontent in Iran raising the spectre of Communism. The boycott caused economic discontent in Iran while British agents and supporters tried to replace the Government through political intrigues. When the limits of intrigue became apparent they enlisted American assistance for covert action. The culmination of oil embargo and intrigues contributed to Musaddiq’s psychological closure concerning his objective of excluding all British influence, especially the Anglo-Iranian Oil Company. Even when this was conceded he ‘saw’ Anglo-Iranian behind the demand that compensation for nationalisation be fixed by an international tribunal and, therefore, rejected it. British actions contributed to his psychological closure, and the fact that it took two years to accept that compensation was the main issue to be settled. Far from accepting

United States hegemony in the post-war world this chapter reveals the power of British resistance in the post-war world, but of a British resistance that was expressed as much through corporate as through state power.

Bringing together inter-state, inter-corporate, and state-firm relations in this single issue area chips away at the clarity of the 1944 boundary between mercantilism and liberalism, helps resolve seeming contradiction in the post-war relationship between the British and American states, qualifies what has often been judged the failure of Anglo-American oil negotiations, de-emphasises bipolar accounts of the Iranian crisis by allocating Britain a more central role in the drama, and, more generally, supports a more gradualist and nuanced account of the decline of British power and the transition to bipolarity.

1.4. METHODOLOGY

The most important methodological innovation of the dissertation has been use of corporate archives in conjunction with Government archives. To examine the private global governance among the oil majors it has been useful to draw an analogy with Hedley Bull's concept of international society. The social relations of oligopolistic firms are important in co-constituting the market space and the nature of the firm. The assumption of an anarchic market is further dented by the explicit study of the politics of international oil throughout. Neo-liberal economic assumptions about actors operating in an anarchic market fail to confront the relationships between the oligopolistic organisation of the industry and the nature of the firms, and also the political involvement in the industry.

Revelation of the extent of company involvement in foreign policy makes it necessary to widen the scope of foreign policy analysis. It is important to embrace studies on transgovernmental relations, implementation, bureaucratic politics, standard operating procedures, and psychological approaches to crisis management to include non-governmental actors together with public bodies. At a theoretical level, the constructivist account of firms and states through the processes of the corporate international society and foreign policy has implications for method. It shows how methodology is shaped by ontology - how studying the state depends on what we think the state is. Through archives the interpenetration of corporate and national policy became clearer thereby questioning the assumption of 'British' identity and interests. The stabilisation of 'British' identity as state identity to which rational interests are ascribed is only made possible by forgetting, silencing or subjugating the history of non-state actors in constructing and constituting 'British' identity and interests. Examination of corporate archives compels us to rethink the concept of the 'state' as a unitary and rational actor and thus undermines the neo-realist and neo-liberal synthesis which has dominated the discipline of international relations in recent years.¹⁶

1.4.1 PRIMARY MATERIAL

The British Petroleum archives housed at the University of Warwick are available to the general public. The Royal Dutch/Shell Group of Companies very kindly permitted inspection of the Godber Papers dealing with his service during the Second World War. These have been splendidly maintained at their London headquarters at Waterloo. The

¹⁶Ole Waever, "Figures of international thought: introducing persons instead of paradigms," in The Future of International Relations: Masters in the Making ed. Iver B. Neumann and Ole Waever, The New International Relations Series, ed. Barry Buzan and Gerald Segal (London: Routledge, 1997), 19.

records of the other significant international British company, the Burmah Oil Company Ltd., were destroyed in the denial operation put into place against the Japanese invasion in 1942.¹⁷ For detail of the role of the British Government I relied on material available from the Public Records Office at Kew, London.

1.4.2 SECONDARY SOURCES

The study draws on existing research from several disciplines. These included international relations theory, in particular the concept of international society developed by Hedley Bull and the English school more generally. Also, use was made of material from the sub-discipline of foreign policy analysis. Much of the secondary material used was historical and included company histories, studies of the international oil industry, Middle East country and regional studies, and material pertaining to Anglo-American relations.

¹⁷Private correspondence, Burmah Castrol Group Archivist, Katey Logan to R.S. Kanwar, 27 August 1993.

PART TWO

This Literature Survey in chapter two describes the main books and articles which the thesis aims to build upon. Detailed historical works are dealt with in the relevant chapters in part three, while the literature on foreign policy analysis is examined in part four. The chapter thus provides background to the central argument, which is that by combining material from corporate together with Government archives, the rich institutional cooperation among the firms - a private international society - is analysed, and the interplay of state and firm is clarified. Realist assumptions about a 'billiard ball' state give way to a constructivist account of the co-constitution of global firm and private international society, and state and firm.

Chapter three introduces the major oil companies and the As Is system, which was the major organisational form of the society of majors that they constructed at that time. It briefly explains the history of the main protagonists so that we can better appreciate the dynamics of their behaviour between 1939 and 1954. In particular, there are two aspects which I shall focus on, the first being their relations with their respective home Governments, Britain and the United States. The second aspect is the company specific strengths and weaknesses in different phases of the industry such as production, refining, transportation and marketing. By tracing the development of the As Is system in the inter-war period it is possible to contrast the Anglo-American Governmental rivalry which prevailed in the period before As Is, with the cooperation which the As Is system made possible.

CHAPTER TWO: LITERATURE SURVEY

This thesis aims to enrich understanding of the role of British oil transnational corporations in British foreign policy regarding oil between 1939 and 1954. Hitherto, the narrative accounts of British oil policy have been substantially based on Government records. This inevitably leads to understatement of the role of non-Governmental actors in shaping the foreign policy environment, the foreign policy process, and foreign policy implementation. The combination of corporate and official materials makes possible a more balanced account. This literature survey is divided into three sections, first setting out the main types of writing about the oil industry - monographs, company histories, and industry histories. I examine these from the perspective of trying to clarify how my work relates to them within the discipline of International Relations. Section two discusses the concept of international society developed by Hedley Bull and the English School of International Relations which is used by analogy to analyse the forms of institutional cooperation found among the oil majors. I examine how this review of the role of firms in foreign relations forces us to re-examine ontological categories such as the 'state', 'British national interest', and 'British national 'power' which may be located in broader concerns with constructivist theories.

2.1 ANGLO-IRANIAN, SHELL AND BRITISH FOREIGN POLICY IN OIL, 1939-1954

There has been no explicit study of British foreign relations in oil for the period 1939-1954. Nevertheless, I isolated three classes of historical literature, which were of use for this study - the historical monograph, the corporate history, and the broader industry study based on secondary sources. Historical monographs often displayed first-

rate scholarly standards but were of limited use because, although they mentioned the importance of the oil companies, they rarely discussed them in depth. Their main importance was in suggesting further research avenues for this study. Payton-Smith has written about the British Government machinery during the war; Stoff has written about the abortive Anglo-American Oil Agreements for the post-war world; Fawcett has discussed oil in the context of the Azerbaijan crisis of 1946; and Louis has written about oil in the context of waning British influence in the Middle East.¹ By focusing on discrete historical episodes these writers have failed to identify the threads of historical continuity. One reason for this is that their researches did not draw on corporate records. For it is in the society of oil majors that the continuities are most clearly evident.

Studies based on corporate records are scarce. There has been no published academic study of Shell for this period but the second volume of the history of British Petroleum dealing with the years between 1933 and 1954 was valuable.² Bamberg's treatment of the crisis in Iran demonstrates how important a single firm can be in shaping political relations between states, but also how Government records are still important sources for writing business histories. The third class of literature is the general book based on secondary literature. It includes books by Yergin, Sampson, Shwadran, and Turner.³ The main contribution of such books is interpretative and they have often

¹D.J. Payton-Smith, Oil: A Study of War-time Policy and Administration, United Kingdom Civil Series of the History of the Second World War (London: HMSO, 1971). Michael B. Stoff, Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1941-1947, Yale Historical Publications, no. 125 (New Haven: Yale University Press, 1980); Louise Fawcett, Iran and the Cold War: The Azerbaijan crisis of 1946, Cambridge Middle East Library, no. 26 (Cambridge: Cambridge University Press, 1992); William Roger Louis, The British Empire in the Middle East: Arab Nationalism, the United States, and Postwar Imperialism, 1945-1951 (Oxford: Clarendon Press, 1984).

²J. H. Bamberg, The History of The British Petroleum Company, vol. 2, the Anglo-Iranian Years, 1928-1954, (Cambridge: Cambridge University Press, 1994).

³Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power (London: Simon and Schuster, 1991); Louis Turner, Oil Companies in the International System (London: George Allen and Unwin, 1978); Benjamin Shwadran, 3d rev. ed., The Middle East, Oil and the Great

dictated the terms of debate by identifying key themes.

2.1.1 Historical Monographs

Here I will summarise the main contributions and deficiencies in the specialist monographs which were most useful. Payton-Smith's official history was published in 1971, a year before the Public Record Office documents on which it was based were made available for public inspection. The strength of the book lies in its definitive account of the administrative effort in London. However, after Lend-Lease and, more especially, the entry of the United States into the war, oil formally became an Anglo-American issue. Policy was also made and implemented in Washington and Payton-Smith freely acknowledges that this lies beyond the scope of his research although impacting upon the task in London. The collaboration in Washington was orchestrated through corporate personnel, and in an interview Payton-Smith recalled his earlier curiosity about the relationship between corporate agendas and relations and the policy output.⁴ Clarifying the relationship between corporate diplomacy and inter-state diplomacy is the task of chapters four and five.

Stoff's work is grounded in concern about the lack of a public world oil policy in the United States. In the negotiations around the post-war future of oil, which began in 1944, an opportunity for an intergovernmental accord was missed and control of any world oil policy was left in the hands of the majors.⁵ However, lack of access to company records means that Stoff does not follow the motives of the companies in

Powers (New York: John Wiley, 1973); Anthony Sampson, 3d rev. ed., The Seven Sisters: The Great Oil Companies and the World They Made (London: Hodder and Stoughton, 1993).

⁴D.J. Payton-Smith, interview by author, 31 January 1994; D.J. Payton-Smith, Oil: A Study of War-time Policy and Administration, 250.

promoting the talks. My own research suggests that the negotiations were prompted by the desire to contain the conflicts within the industry produced by the growing importance of Middle East oil. The context for the Anglo-American Oil Agreements was the sense of international society among the majors. Chapter five examines the state of war between the companies while chapter six situates the Anglo-American Oil Agreements in the further development of *lex mercatoria* or transnational law by the companies as a means of shaping the outcome of this war.

Fawcett focuses on the Azerbaijan crisis of 1946 in the development of the Cold War. In it she elucidates the role of concession seeking by British interests in prompting a more aggressive Soviet attitude in north Iran. Louis bases his extensive writings about British decline in the Middle East on official sources in both the United Kingdom and United States. This is interesting since both writers point out the importance of corporate oil interests in their narratives.⁶ Examining the sources of the corporate agendas sheds light on part of the environment which public policy was reacting to.

2.1.2 Company Histories

Shell's recently produced company history succeeds in its intention as an attractive general introduction to the company rather than as a formal, academic study.⁷ British Petroleum, on the other hand, is completing a comprehensive, scholarly history from the foundation of the company in 1901 to 1975. Jim Bamberg has written the

⁵Michael Stoff, Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1941-1947, Preface.

⁶Louise Fawcett, Iran and the Cold War: The Azerbaijan crisis of 1946. William Louis, The British Empire in the Middle East.

⁷Stephen Howarth, interview by author, 13 March 1997. Stephen Howarth, A Century in Oil: The 'Shell' Transport and Trading Company, 1897-1997 (London: Weidenfeld and Nicolson, 1997).

second volume of this series. In it he provides a broad account of the company's operations discussing labour relations, corporate strategy, concessionary relations with the Iranian Government, and relations with the British Government. The work deals extensively with the concessionary crisis of the early 1950s and this part of the book was found to be especially useful. It combined an integrated analysis of the company's relations with the British Government, and its relations with other companies, with a treatment of Anglo-American Governmental relations with regard to the nationalisation.⁸

2.1.3 Industry Histories

This final selection of texts includes books on the industry based chiefly on secondary sources or, at least, non-archival material, which nevertheless identified interesting and instructive themes. Yergin's study provides a comprehensive treatment of world oil from 1859 to the present. While there were bound to be errors of fact in this wide-ranging book, it was found useful in clarifying the importance of oil to state power. More particularly, it provided striking analysis of the course of the Second World War, and also the anti-competitive tendency of the industry based on instability in oil reserves, production, and the unpredictability of the political environment.⁹

In contrast, Shwadran limits his study to great power interest in Middle East oil up to 1955.¹⁰ He examines states shaping the international oil market but fails to consider the feedback of the majors acting back on the state system to change state policies and capabilities. However, this one-sided study of the interplay of states and majors provides a useful corrective to Anthony Sampson's The Seven Sisters which

⁸Jim Bamberg, History of the British Petroleum Company, especially part three.

⁹Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power.

¹⁰Benjamin Shwadran, The Middle East, Oil and the Great Powers.

understates the impact of state behaviour, but which makes the point that state policies and capabilities are embedded in a matrix of relations formed by inter-firm behaviour. Sampson's study depended to a considerable degree on the 1974 report of a United States Senate Subcommittee chaired by Senator Frank Church.¹¹ This had examined the influence of the oil companies in United States foreign policy in the Persian Gulf.

Turner's Oil Companies in the International System tries to assess the historical evidence in terms of a debate between state-centric and multi-actor models of international relations. He acknowledges the paucity of historical evidence but speculates that, although the majors played an important economic role and affected the economic power of a state, they did not really affect the political relations between states very much. He provides an intelligent chronology for the international oil industry and identifies 1939-1954 as a time-period characterised by high levels of political involvement.¹² The constraint on access to archival material, which dictated a terminal date of 1954 for this research, nevertheless, provided the opportunity to test his hypothesis that access to the archives of the majors would shed little additional light on international history. My own findings challenge his speculation about the role of the majors in international history.

Part of Turner's difficulty lay in the inadequate historical literature; but part of it lay in his failure to engage seriously with the literature from the subdiscipline of foreign policy analysis to the extent that he does with the literature from the subdiscipline of international relations theory and international political economy. My discussion of foreign policy analysis is developed toward the end of the thesis, in chapter nine, in the light of the empirical material covered in the central chapters. Also, it is more helpful for

¹¹Anthony Sampson, The Seven Sisters, 14.

the reader first to understand the analogy between Hedley Bull's five institutions of international society and the society of majors. In this way it becomes possible to appreciate how, for Anglo-Iranian and Shell, managing relations with other firms was just as important as managing their relations with states, and an essentially similar task. The variety of mechanisms which regulated relations between the firms are analogous to those of the state system.

2.2. Hedley Bull's Concept of International Society

The basic premise of the English school of international relations is that sovereign states are embedded in a society of states. The basis for this sense of society is shared civilisation which gives rise to common institutions and rules. The core concern was to identify sources of order in relations between states. It was found that order arose from shared norms and expectations giving rise to institutions and bodies of rules and practices. Orders thus existed within civilisation areas but not between them. Hence, the city-states of ancient Greece formed an international society with regard to relations with one another, but only an international system in their relations, collectively or severally, with Persia.¹³ The oil majors shared a common industry perspective, which was concerned with the limitation of Government regulation and reduction of competition among themselves. It was given expression in a series of agreements in the twenties and thirties. Each of the five institutions which Hedley Bull identified as providing order to international society - diplomacy, war, international law, balance of power, and great

¹²Louis Turner, Oil Companies in the International System, 38-49.

¹³Adam Watson, The Evolution of International Society: A Comparative Historical Analysis (London: Routledge, 1992), 2-22.

power management - finds its counterpart in the “international society” of oil majors.¹⁴ The analogy between Hedley Bull’s concept of international society and the oligopolistic competition in the international oil industry was found to be useful to illuminate the various mechanisms of this cooperation. Bull explains that,

A society of states (or international society) exists when a group of states, conscious of certain common interests and common values, form a society in the sense that they conceive themselves to be bound by a common set of rules in their relations with one another, and share in the workings of common institutions. ¹⁵

Hedley Bull describes five institutions of international society. These are balance of power, international law, diplomacy, war, and great power management. In his discussion of the balance of power, Bull makes a distinction between a contrived balance and a fortuitous balance. A fortuitous balance occurs when powers seeking to restrain another power achieve a moment of deadlock while a contrived balance implies self-restraint. A fortuitous balance is typical of an international system while a contrived balance is typical of an international society.¹⁶ Chapter seven explores how such a contrived balance was arranged between the companies in the increasing production of Middle East oil in the post-war period. At this point it is interesting to recall the analogy between the balance of power and microeconomic theory developed by the founder of neo-realism, Kenneth Waltz.¹⁷ On a simple reading of Waltz the balance of power among states would always be fortuitous. International society is no more than rhetoric serving the interests of the great powers. However, more sophisticated readings

¹⁴Hedley Bull, The Anarchical Society: A Study of Order in World Politics (London: Macmillan, 1977).

¹⁵Ibid., 13.

¹⁶Ibid., 104-106.

¹⁷Kenneth Waltz, Theory of International Politics (Reading: Addison-Wesley, 1979), 89 for his justification of the analogy which is developed through the book. According to Adam Watson the concept has been generalised in the past, being related to checks and balances within the

demonstrate how the anarchic structure itself might generate some elements of society.¹⁸ Competitive pressures within an anarchic system may reward cooperation, and thus the transition from system to society might be indicated by the development of contrived rather than purely fortuitous balances of power. The market share agreements thus provide an indication of the development of society.

The idea of international law is that sovereign, free entities create a body of rules which binds them, even though enforcement may be difficult. While municipal law is enforceable by the state, there is no authoritative enforcer in the international system. However, the rules qualify to be called law because they are intended to be binding and to be enforced. The difference between international law and municipal law is thus one of degree, rather than one of kind.¹⁹ It distinguishes a relatively decentralised legal order from a relatively centralised legal order. Since self-help plays an important role in enforcement the functioning of international law depends, among other things, on factors such as whether the state is a status quo or revisionist power, on whether it is a great power or small power, and on the balance of power. Where power is widely distributed states can uphold the legal order for themselves.²⁰ The companies were at the forefront of the development of transnational law but paradoxically, private global governance, while transcending Government jurisdictions, depended on national jurisdictions for its implementation. However, the main relevance of these laws lay in making possible the convergence around expectations needed for long-term contracts and arrangements such

constitution on the one hand, to the laws of physics on the other. Adam Watson, The Evolution of International Society: a comparative historical analysis, 200.

¹⁸Barry Buzan, Charles Jones and Richard Little, The Logic of Anarchy: Neorealism to Structural Realism, New Directions in World Politics, ed. Helen Milner and John Gerard Ruggie (New York: Columbia University Press, 1993), 242-243 for a summary of the reconstruction of Waltz's theory of balance of power.

¹⁹Louis Henkin, Richard Crawford Pugh, Oscar Schachter, and Hans Smit, 2d ed., International Law: Cases and Materials, American Casebook Series (St Paul, MN: West Publishing Co., 1987), 1-23. Hedley Bull, The Anarchical Society: A Study of Order in World Politics, 127-140.

as joint ventures. The legality of these arrangements as recognised by the states system provided a framework for the frequent negotiations, which made the agreements 'work'. Litigation depending for enforcement in national courts was only a final threat in these situations.

Bull defines diplomacy as: "The conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means."²¹ He sees the five most important features of diplomacy to be communication, negotiation of agreements, gathering of intelligence or information, minimising friction in relations between actors, and as visible expressions of the idea of a society.²² There is nothing in this definition to exclude relations between firms, or between firms and states. Chapter four explores the intersection of corporate and official diplomacy.

War has a paradoxical relationship with international society. On the one hand, war is a manifestation of a breakdown in international society; on the other hand, war may be a instrument of international society used for three main purposes: enforcing international law, preserving the balance of power, and promoting changes in the system which might be considered just.²³ These purposes were significant in the corporate war during the Second World War, a theme developed in chapter five.

It is perhaps here that the analogy between inter-state and inter-corporate relations might seem most strained. Modern corporations seldom maintain armed forces or resort to direct coercion; the days of the East Indian Company are long gone; and is not use of public force the defining feature of war? It is certainly the defining feature of

²⁰Hedley Bull, *The Anarchical Society: A Study of Order in World Politics*, 108-109.

²¹*Ibid.*, 162.

²²*Ibid.*, 170-172.

battle; but war may as easily be defined as a suspension of diplomacy, an abrogation of certain elements of international law, and a partial breakdown of great power management and the balance of power. A negative definition of this sort allows the analogy to stand while also legitimizing popular understandings of the Cold War as a real war, though one without direct battles between the main protagonists. The suspension of major institutions of international society to which the negative definition draws attention narrows the range of the resources available to states, leading to the adoption of extreme measures which in turn may provoke an escalation of hostilities, but the measures employed in warfare differ as between states and firms.

Great power management is vital to international society. Great powers fulfil two major roles: managing their relations with one another and imparting a degree of central direction to the international society. These roles may be fulfilled in six ways. These are by preserving the general balance of power, avoiding or controlling friction in their relations with each other through diplomacy, avoiding or controlling war with each other, exploiting their local preponderance, mutual recognition of spheres of influence, or joint action, as is implied by the idea of a great power concert or condominium.²⁴ The seven oil majors performed all of these functions in the society of oil majors.

The 'thickly' developed concept of international society can enrich our understanding of oligopolistic behaviour in many ways. To anticipate some of the lines of the analogy between the concept of international society and the international companies, one can compare great power management to the domination of the majors. The joint ventures in exploration, production, and marketing, and consolidation behind an embargo meant that they were operating a type of 'great power condominium'. There

²³Hedley Bull, The Anarchical Society: A Study of Order in World Politics, 186-189.

was the international 'law' of the As Is Agreement and the Red Line Agreement, the limited trade 'wars'; the company 'diplomats' of the cartel committees, and the various dimensions of the changing corporate 'balances of power' with shifting joint venture alliances.

Since the term "international society" has a definite meaning in the literature of the English school, I will reserve its usage to refer to states. I will refer to the parallel society of the oil majors as the "society of oil majors". I locate this society in the wider transnational society which is composed of ideologies, social movements and other groups with a sense of "we" which crosses borders. This opens the possibility of considering the society of oil majors as a major influence on international society, while closing that of regarding both as important elements in a more broadly conceived international society.

From the perspective of the firm, the six chapters in part two of this dissertation could be called: 'The development of the society', 'Diplomacy', 'War', 'Law', 'Balance of power', and 'Great Power management'. From the perspective of British foreign policy they could be called: 'Inter-war Anglo-American settlement', 'Anglo-American relations during the Second World War', 'Private struggles during public service', 'the Anglo-American Oil Agreements', 'The onset of the Cold War in the Persian Gulf', and 'The revolutionary, nationalist Government of Muhammed Musaddiq'. These alternate headings express the impact of the society of majors on British foreign relations. The society of majors was a feature of transnational society, which underpinned the international society headed by the British and Americans.

²⁴Ibid., 207.

2.3 CONSTRUCTIVISM

The basic issue is that the answer to the question, “How do we study the state?” depends on the prior answer to the question, “What is the state?” It is this question which is fundamental to this study – what constituted British foreign oil relations? It does not suffice to assume that British policy is the ‘national interest’. According to Geertz, “The main defects of the interest theory are that its psychology is too anemic and its sociology too muscular. Lacking a developed analysis of motivation, it has been constantly forced to oscillate between a narrow and superficial utilitarianism that sees men as impelled by rational calculation of their consciously recognised personal advantage and a broader, but no less superficial, heroicism that speaks with a studied vagueness of men’s ideas as somehow ‘reflecting’, ‘expressing’, ‘corresponding to’, ‘emerging from’, or ‘conditioned by’ their social commitments.”²⁵ I have tried to overcome this problem by using foreign policy analysis (FPA) as a tool to interpret the historical empirical material.

The use of FPA makes it easier to analyse the impact of the firms on the policy system at both the decision making and implement phases. Since foreign policy analysis comprises a large body of literature, chapter nine is devoted to explicating the relevant body of FPA scholarship before examining the effect of applying it to the material in part three. However, to anticipate the argument, the central finding is that the assumption that the state makes and implements policy as a rational actor is unsustainable. Transgovernmental coalitions, standard operating procedures, psychological factors during crises, and the role of the companies in implementing policy, and in international negotiations demonstrate the role of the companies. State interests and identities are shaped, though not necessarily determined, by the firms.

It then becomes important to analyse what is shaping the interests and identities of the firms. One important factor was the other firms, since institutions and actors mutually constitute each other, a finding which fits with applying Bull's concept of international society to relations between the firms. The way the firms shaped each other provided them with specific expertise and access. The channels of expertise derived from, constituted, and supported the society of majors, but also affected their relations with the British Government.

Recognising that the national interest is constructed rather than exogenous makes it easier to understand international cooperation. For the firms in their international society of oil majors already had a basis for worldwide cooperation. By feeding into British foreign relations the firms shaped cooperation between states. The mutual construction of firms and society of majors on the one hand, and of British oil policy on the other, makes it possible to see how relations between states are also constructed through historical processes among a variety of actors.

Yet as we shall see, the society of majors itself was constantly developing, and the impact of individual states and the states system was also a factor in that development. A reification of firms or the society of majors should not replace the reification of the state-as-actor and the national interest. Certainly, the companies did affect policies and increase the ability of the British Government to affect changes, which could constrain United States initiatives.²⁶ Nevertheless, both firms and states mattered. The contrasting relations between state and firm in Britain and the United

²⁵Clifford Geertz, (1964), "Ideology as a Cultural System," in *Ideology and Discontent* ed. David E. Apter (New York: Free Press, 1964), 47-76, 64.

²⁶These findings are readily comparable to those of Robert O. Keohane and Joseph S. Nye, Jr., "Transnational Relations and World Politics: An Introduction," *International Organization* 25.5 (Summer 1971): 737.

States explains why British policies accorded more closely with the society of majors and why, therefore, it was able to draw on these resources.²⁷

Regime theory originally developed in response to the over-emphasis on intergovernmental institutions such as the United Nations. Ruggie argued that there were also informal and more broad patterns of cooperative interstate behaviour.²⁸ For Keohane and Nye there were Governmental arrangements regulating transnational as well as intergovernmental relations; rules, networks, norms and procedures regularised state behaviour.²⁹ However, empirical research on regimes often undermined the theory. Keohane's research on the political economy of oil emphasised the role of firms in creating and maintaining the regime. It conceded that a regime need not be based on formal intergovernmental arrangements at all. Moreover, bargaining between the United States Government and the firms was the main reason why an international regime – by definition, an intergovernmental arrangement – was not created after the Second World War.³⁰

Other regime theorists have challenged Keohane's treatment of oil as a regime.³¹

Due to the state-centricity of regime theory, it is possible to consider "private bodies like

²⁷An argument for the importance of domestic factors in addition to international factors can also be found in Thomas Risse-Kappen, Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions, Cambridge Studies in International Relations, no. 42 (Cambridge: Cambridge University Press, 1995).

²⁸Ole Waever, "John G. Ruggie: transformation and institutionalization," in The Future of International Relations: Masters in the Making ed. Iver B. Neumann and Ole Waever, The New International Relations Series, ed. Barry Buzan and Gerald Segal (London: Routledge, 1997), 176.

²⁹Robert O. Keohane and Joseph S. Nye, Power and Interdependence: World Politics in Transition (New York: Little, Brown, 1977), 5, 19.

³⁰Robert O. Keohane, After Hegemony. Co-operation and Discord in the World Political Economy (Princeton NJ: Princeton University Press, 1984), 141, 150-159, 177, 185.

³¹Beth Simmons and Stephen Haggard, "Theories of International Regimes," International Organization 41 (Summer 1987): 494.

industrial cartels and professional associations” as an alternative to regimes.³² For Nowell, the activities of the firms are important since,

the process of international struggle for market control, or transnational structuring, can powerfully affect the local (national) institutional outcome...’Transnational structuring’ describes a process, not an outcome. In contrast to ‘sovereignty at bay’ portraits of corporations as a challenge to national power, the attempt to secure regulation actually increases the state’s power to intervene. Transnational structuring is the means by which the normal political and economic lobbying activities of capitalism can lead to the creation of new state institutions...In transnational structuring, the state broadcasts the version of the public interest most suited to the dominant parties: not only is the form of the state mutable...so are its professed objectives. Everywhere transnational structuring occurs, it looks like a local (national) political event...historians writing about oil regulation in Romania will seldom bother to look at what happened in the United States.³³

The impact of the firms in shaping the policies and structure of the states is an issue prior to how states may or may not make any regime for regulation of the firms. This issue is addressed by assessing the impact of Anglo-Iranian and Shell on ‘British’ policy using the tools of foreign policy analysis. However, it is also important to analyse how the firms are embedded within the society of majors, in other words, to look at how relations between firms affect relations between the firm and state. Nowell highlights the importance of such inter-firm relations. He looks at the literature dealing with “transnational corporations and their negotiations with states, whether from the perspective of regimes, ‘sovereignty at bay’, dependency or world systems”, and concludes that “no theory discusses how the efforts of multinational enterprises, through their political activities and goals, shape the character, power, staffing, and authority of many states simultaneously.”³⁴ Yet while Nowell rightly points to the originality of

³²Susan Strange, “Cave! Hic Dragones: A Critique of Regime Analysis,” in International Regimes ed. Stephen Krasner (Ithaca: Cornell University Press, 1983), 351.

³³Gregory Nowell, Mercantile States and the World Oil Cartel, 1900-1939. (New York: Cornell University Press, 1994): 4-5.

³⁴*Ibid.*, 12.

looking at relations between firms to examine how firms influence and constitute states, his transnational structuring approach, though not his empirical work, neglects the impact of the states system. Strange's triangular diplomacy approach is, therefore, a more comprehensive framework.

In constructivist approaches, agents and structures are co-constituted, with the reproduction of both occurring through practise. "Constructivism holds that individuals and societies make, construct or constitute each other."³⁵ Individuals make societies through their actions; societies make individuals as they understand themselves through these same actions. Each is in some sense an effect of the other. They are mutually constitutive while remaining separate entities. This implies norms and rules, for "people need rules for all but their most transient exchanges. When they confront the necessity of dealing with each other without knowing if they follow the same rules, they learn what they commonly know and make what other rules they need."³⁶ The rules make the very possibility of social interaction. Without the rules of football or chess there could be no game. It is these rules, which are the intersubjective aspects of intergovernmental relations.

The interesting thing is that these rules were found in relations among the firms. International relations in the oil issue were shaped by rules, but not by intergovernmental rules. Applying the categories of international society to these rules helped clarify the complexity and durability of international cooperation among the firms. However, a fuller rapprochement between the English school and constructivist approaches will require a re-examination of the basis of the rules in world politics which means

³⁵Onuf, "Intervention for a Common Good," in Beyond Westphalia? National Sovereignty and International Intervention ed. Michael Mastanduno and Gene Lyons (Baltimore, MD: John Hopkins University Press), 4.

jettisoning the state as the a priori locus for research in world order. Such reconstruction lies beyond the scope of this thesis.³⁷ Once it is clear that state identities are not given by material factors per se, but also by the interpretation given to them, it becomes clearer that the identity of the 'British' policy is not given but is socially constructed. This is where foreign policy analysis clarifies the construction of this identity and the interests, which this identity acts out. The firms affected the state identity and interests, but the analogy between the cartel and 'international society' shows how the firms themselves were shaped by the 'structure' of the society of majors. 'British' oil policy was constructed by firms and indirectly by the society of majors more discernibly than through the economical calculation of the 'national interest' deduced from the international political system. State identities and interests are created through interaction with other actors, such as firms and a global society of firms, as well as through interaction with other states.

³⁶Ibid., 8.

³⁷For a start in this direction, see Andreas Hasenclever, Peter Mayer, and Volker Rittberger, Theories of International Regimes, Cambridge Studies in International Relations, no. 55 (Cambridge: Cambridge University Press, 1997), 169-176.

CHAPTER THREE: THE INTERNATIONAL SOCIETY OF

MAJORS TO 1939

3.1 INTRODUCTION

The realist school that dominates International Relations views the discipline as the study of inter-state relations. Limited by this definition a scholar influenced by the realist school would be predisposed to argue that the oil companies did not directly affect outcomes in the inter-war period. However, I found that firms not only influenced the foreign relations of individual states, but also partly created the international environment to which state policies were directed through their inter-firm relations. Thus, it is important to extend or revise the study of International Relations to include non-state actors, agendas and dynamics in addition to relations among states. Susan Strange's concept of triangular diplomacy is used to organise this chapter, with firm-state relations in section two, inter-firm relations in section three, and how these factors influence inter-state relations in section four.

In section two I introduce the main protagonists. These are the Anglo-Persian Oil Company which was renamed the Anglo-Iranian Oil Company in 1935, British Petroleum in 1954 and BP-Amoco in 1997, the Royal Dutch-Shell Group, and the British state. Their close working relationship is contrasted with the schizophrenic relations between their competitors, Standard Oil of New Jersey (Jeresy), Standard Oil Company of New York (Socony-Vacuum), Gulf and Texas and the United States Government. There, different Government departments pursued radically different policies, with, for instance, the State Department supporting the companies overseas while the Justice Department and Federal Trade Commission investigated and sometimes attempted to take antitrust action. The contrast between these two forms of

Government-industry relations is a central theme as it shaped the different approaches of the two states to the international oil environment partly constituted by the society of majors.

This society's evolution is chronicled at length in part three of the dissertation (chapters 4-8) through an elaboration of the analogy between the society of majors and Hedley Bull's five institutions of international society: war, international law, great power management, balance of power and diplomacy. These may be translated as price cutting (war), private international agreements (international law), cartel committees and interlocking directorships (great power management), market share agreements (balance of power), and how this whole society was sustained by the efforts of international managers (diplomacy). The rising level of social relations between the majors was based on developing shared norms to define economic and political interests. These norms began to take concrete form in the As Is agreement of 1928 which became a kind of constitution for this whole body of private international law and is therefore examined in the third section of this chapter. The As Is system endured into the 1950s, underpinning the wide range of business and political practices examined in part three of the dissertation. However, it would be a mistake to conflate As Is and international cooperation among the majors. This is analogous to discussing the strength of international society solely by reference to the League of Nations or the United Nations, of 'the West' by reference to the North Atlantic Treaty Organisation, or of 'Europe' by reference to the European Union.

Increasing collaboration among firms was the basis for increased cooperation among states, in particular the home states of the oil majors, Britain and the United States. Existing analyses have treated Anglo-American politics separately from British foreign policy concerning oil, and these 'political' phenomena separately from the development of the companies and the cartel. While sufficient in their own terms, these

accounts disguise the links between politics and economics, state and firm, international and domestic, which lie at the heart of the attempt to illuminate the influence of transnational corporations in foreign and international relations.

This Anglo-American cooperation, which is analysed in the final section of the chapter, points to some limitations of realist versions of hegemonic stability theory. This theory argues that in the absence of hegemonic leadership in the international system the level of international economic cooperation will tend to decline since the world economy needs a stabilising power.¹ The hegemonic or dominant power uses its influence to create international regimes defined as “principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area.”² The decline of the hegemonic power leads to the weakening of the regime. The inter-war years are cited as an example of the breakdown of international economic cooperation due to the decline of British power.³ Moreover, “as hegemonic periods come to an end with the waning of the leading country’s economic vitality, new regimes needed to meet new problems are difficult to create.”⁴ One conclusion of this thesis is that hegemonic stability theory is an oversimplification, and this theme is first adumbrated in the closing section of the present chapter.

¹Charles Kindleberger, “Dominance and Leadership in the International Economy: Exploitation, Public Goods and Free Rides,” International Studies Quarterly 25 (1981): 242-54, 247; Robert Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984); Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987).

²Stephen Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” International Organization 36 (1982): 185.

³Stephen Krasner, “State Power and the Structure of International Trade,” World Politics 28 (1976): 317-347.

⁴Charles Kindleberger, “International Public Goods without International Government,” American Economic Review 76 (1986): 8.

3.2 THE MAJOR OIL COMPANIES AND THE HOME STATES

The history of oil is ancient and law pertaining to mining concessions formed an important subject in Arab law.⁵ However, for many centuries there was little use for oil products. The modern oil industry is usually dated to 1859 when a self-styled 'Colonel' Drake used a derrick to extract underground petroleum reserves in the United States. At that time the main use of oil products was kerosene for oil lamps. This was obtained through refining and distillation in which the residue – the 'heavier' oil was disposed of. Later, much of this residue was used in the quickly emerging transportation industries as fuel oil for marine use and motor petrol for road transport. The market for aviation spirit developed later still.⁶ Since the industry developed in the United States, it is not surprising that it became the parent Government for five of the seven majors. Three of these developed from the dissolution of the Standard Oil Company and the other two from the discovery of oil reserves in Texas. Though the Texas Oil Company and Gulf Oil Company were independent of Standard Oil, it is necessary to distinguish these majors from the 'Texas Independents', which was the name given to the many smaller firms based in Texas. The international oil trade was trade in refined oil products rather than crude oil. This is because refineries were located at the source of production rather than near the consuming market to build economies of scale in refining and prevent cross-haulage of products which might not be required in the newly developing consuming markets of the time. Thus, the United States was initially the leading exporter of oil products.

The law in the United States recognised the rule of capture which had originally been applied to game birds found on neighbouring estates. Now it was applied to the

⁵R.J.Forbes, Studies in Early Petroleum History (Leiden: E.J.Brill, 1958), Introduction, vii.

⁶The distinction between heavy and light fuels was also formulated as black versus white fuels, and dirty versus clean fuels. The main black oil we will be discussing is fuel oil for ships, and the main white oils are 'petrol' and aviation fuel.

small parcels of private land under which oil was discovered. This inadvertently encouraged the practice of extracting as much oil as possible as quickly as possible in order to drain off any oil under neighbouring land. Thus, there were periods when there was a glut of oil and prices crashed, followed by periods of shortage when new fields awaited discovery. John D. Rockefeller of the Standard Oil Company controlled the means of transportation from the fields. In this way he could charge competing producers and refiners more than his own downstream operations and thus have privileged access to markets. This was the central feature of the strong position which Standard Oil developed.⁷ Standard did not own many oilfields, but through its control of refining it was practically the sole buyer and thus could determine the production prices posted at the wellhead.⁸ By the mid-1880s, it controlled eighty per cent of the refining and marketing of oil products and in addition, by 1891, twenty-five per cent of the production in the United States.⁹

Standard Oil's kerosene initially dominated world markets, but was challenged by production in Russia organised by the Rothschilds and Nobels, by production from the Netherland East Indies, where the most significant producer was Royal Dutch, and also production in Mexico in which Lord Cowdray's British company, the Mexican Eagle, held an important stake. By 1888, Russian production alone amounted to four-fifths that of the United States. The growth of these producers led to price wars which it was attempted to resolve in a worldwide agreement between the Rothschilds and Nobels "on behalf of the petroleum industry of Russia" and "Standard Oil on behalf of the

⁷Ida Tarbell, The History of the Standard Oil Company. Two volumes in one. Gloucester, MA: Peter Smith, 1963, Vol.2., 283.

⁸Craig Thompson, C.Thompson, Since Spindletop: A Human Story of Gulf's First Half-Century (Pittsburgh: Gulf Oil, 1951), 18.

⁹Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power, (London: Simon and Schuster, 1991), 51-53; B.Bringhurst, Antitrust and the Oil Monopoly. The Standard Oil Cases, 1890-1911, (Westport, CT: Greenwood Press, 1979); R.W. Hidy and M.E. Hidy, The History of the Standard Oil Company (New Jersey), vol.1, Pioneering in Big Business, 1892-1911, New York: Harper and Brothers, 1955).

petroleum industry of the United States". Russian Governmental opposition destroyed this first private attempt to regulate world market share.¹⁰

On the other hand, some local agreements flourished. In 1895 Standard and the Burmah Oil Company, another British firm, agreed to divide the Indian market maintaining one-third for Standard and allowing two-thirds to Burmah which they would share with rivals from the Scottish shale industry.¹¹ The Standard Oil Company was soon to be dissolved because of the successful antitrust suit brought against it in the United States.¹² Three major companies came out of its integrated operations. These were the Standard Oil Company of New Jersey, (sometimes called Jersey Standard or, more simply, Jersey, later Exxon, known in Britain under the brand name Esso), Standard Oil of New York (Socony, which later merged with the Vacuum Oil Company, an affiliate of the original trust, to create Socony-Vacuum, now Mobil) and Standard Oil of California (Socal, later Chevron). The pre-1911 Standard Oil Company cast a long shadow over its successors. "They all sold their oil at the same price, under the name Standard name, their directors were old Standard Oil men, and their principal shareholder was still John D. Rockefeller."¹³ The companies had carried out different functions in the Standard Oil trust and this shaped their future development.

The old Standard Oil Company had been incorporated in New Jersey. Jersey retained financial muscle and access to the marketing outlets but lacked the crude to supply them. Therefore, it was the most active in seeking sources of production outside the United States. In the inter-war period, it achieved a share in Mesopotamian oil production, obtained concessions in Mexico and Venezuela, and tried to obtain a

¹⁰Daniel Yergin, *The Prize*, 58-62, 72.

¹¹Timothy Anthony Buchanan Corley, *A History of the Burmah Oil Company, 1886-1924* (London: Heinemann, 1983), 41-42.

¹²B. Bringham, *Antitrust and the Oil Monopoly. The Standard Oil Cases, 1890-1911*.

concession in the northern territories of Iran.¹⁴ Similarly, Socony was short of crude oil but lacked as much capital. Therefore, it also achieved a share in Mesopotamian oil and also in the Netherlands East Indies, but was more opportunistic and bought Soviet oil which had been boycotted by the other major oil companies in the late 1920s. Its shortage was eased after the merger with the Vacuum Oil Company in 1931 to create Socony-Vacuum. In 1933, Socony-Vacuum and Jersey formed a jointly owned subsidiary, Standard-Vacuum, in which they merged their producing, refining, pipeline and marketing interests in the Far East.¹⁵ In their international operations, the two companies were also united by their shares in the Turkish Petroleum Company (TPC) which managed the Mesopotamian oil concession.

The American companies had a 23.75% share of the TPC, which was the same percentage owned by the Anglo-Persian Oil Company, the Royal Dutch/Shell Group, and the French state-owned enterprise, Compagnie Francaise des Petroles. The remaining five per cent was owned by Calouste Gulbenkian. The creation of the TPC was related to the adoption of the Red Line agreement which prevented members of the company from seeking other concessions within the area bounded by the Red Line except through the TPC. In effect, any member of the company could therefore veto the expansion of any other member within the Red Line. The Red Line marked the boundaries of the now defunct Ottoman Empire.¹⁶ Within this area competition between the companies for concessions had been eliminated by their common agreement, though Jersey and Socony were later to challenge the restrictions.

¹³Anthony Sampson, 3d rev. ed. The Seven Sisters: The Great Oil Companies and the World They Made, (London: Hodder and Stoughton, 1993), 58-62.

¹⁴G.S. Gibb and E.H. Knowlton, The History of the Standard Oil Company (New Jersey), vol.2, The Resurgent Years: 1911-1927 (New York: Harpers and Brothers, 1956).

¹⁵Edith T. Penrose, The Large International Firm in Developing Countries. The International Petroleum Industry (London: Allen and Unwin, 1968), 90, 130.

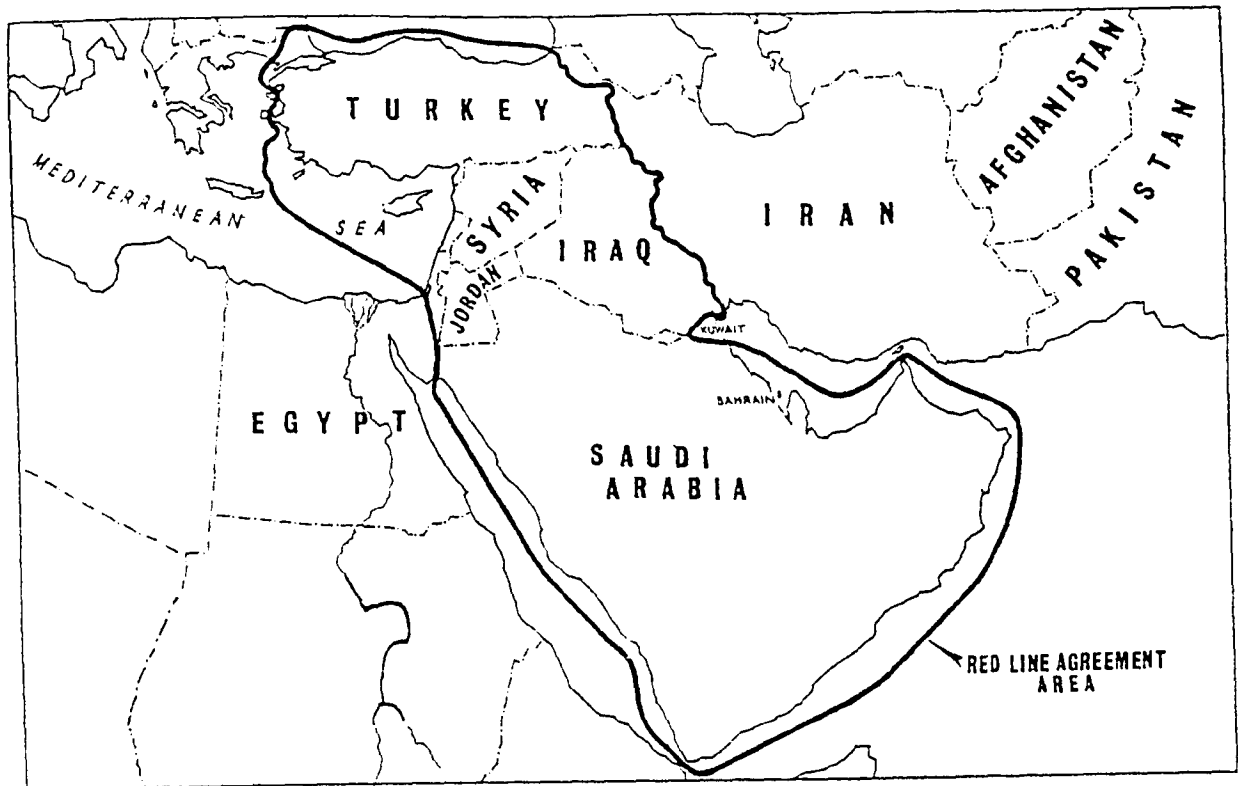


Figure 1. Map of the Red Line Area. It has been partly redrawn to show more complete political boundaries in North Africa and the upper reaches of the Nile. Reprinted from Christopher Tugendhat and Adrian Hamilton, *Oil: The Biggest Business*. London: Eyre and Spottiswoode, 1968, 85.

Socal essentially had been a producing company for the original Standard Oil Company, in California. For this reason, it lacked marketing outlets and it was not immediately interested in obtaining production outside the United States. For this reason it did not obtain a share of the Mesopotamian concession.¹⁷ This later provided them with certain opportunities since they were not bound by the Red Line agreement. Thus, after 1928 Jersey and Socony were unable to acquire concessions in Bahrain and Saudi Arabia which fell within the Red Line. Socal acquired concessions in these two Kingdoms, but their problem with limited outlets for this production remained. To assist with this problem they joined with the Texas Oil Company to make a marketing joint venture, Caltex, in 1936.

¹⁶Geoffrey Jones, *The State and the Emergence of the British Oil Industry* (London: Macmillan, 1981), 237-238.

¹⁷Gerald T. White, *Formative Years in the Far West: A History of Standard Oil of California and Its Predecessors Through 1919* (New York: Appleton-Century-Crofts, 1962).

The Texas Oil Company, Texaco, emerged from the large oilfields of Texas. As a large producer they began to export oil products and developed a large market share in the Far East. Their joint venture with Socal's production in the Persian Gulf secured their marketing positions, but also led them aggressively to seek new marketing possibilities for their productive capacity.¹⁸ Thus, whereas Jersey and Socony-Vacuum had established market positions and sought new sources of production, Socal and Texas, the Caltex interests, had large sources of production and sought new marketing opportunities. The fifth American major was the Gulf Oil Company which was controlled by the financially powerful and politically important Mellon family. Gulf was the other large firm to start from Texas. After its first foreign venture in Mexico, it sought entry into Kuwait, something it could only achieve with diplomatic support, since although Kuwait fell outside the Red Line, the British Government had more influence in Kuwait than it had in Bahrain and Saudi Arabia. The outcome was a joint venture between Gulf and the British-owned Anglo-Persian Oil Company.¹⁹

Geoffrey Jones observes that, "From 1918 the policy of the United States Government towards the oil companies became decidedly schizophrenic. While the State Department cooperated with American oil companies all over the world, and frequently urged them to cooperate with each other, other United States Government agencies, notably the Justice Department and the Federal Trade Commission, took the companies to court for cooperating with each other at home."²⁰ As Robert Wilson of Amoco was to quip years later, "In England they knight their leading businessmen, over here they indict them."²¹ Writing in 1945, John A. Loftus, Special Assistant to the Director of the Office of International Trade Policy in the Department of State observed that,

¹⁸Marquis James, The Texaco Story – The First Fifty Years, 1902-1952 (New York: Texas Company, 1953).

¹⁹Craig Thompson, Since Spindletop, 9-14.

²⁰Geoffrey Jones, The State and the Emergence, 251.

²¹Quoted in Robert Engler, The Politics of Oil, 367.

a review of diplomatic history of the past 35 years will show that petroleum has historically played a larger part in the external relations of the United States than any other commodity...international commerce, predicated upon free trade and private enterprise (which is the conceptual core of United States foreign economic policy) is, in the long run, incompatible with an extensive spread of state ownership and operation of commercial properties. Another major category of problems concerns the support given by the Department on behalf of the United States Government to American nationals seeking to obtain or to retain rights to engage in petroleum development, transportation, and processing abroad. This is the traditional function of the Department with respect to petroleum...In Iran the negotiations which were apparently near to culmination last fall have been temporarily suspended for political reasons...there are other areas where after the war there is a genuine possibility of securing an amelioration of the unfavorable discriminatory conditions under which American nationals were able to obtain rights before the war.²²

The “traditional function” he refers to resulted in assistance being given in Mexico and later in the Middle East from the 1910s. In 1945, the “discriminatory conditions” he was referring to were primarily the clauses of the Red Line agreement which effectively prevented Jersey and Socony-Vacuum from joining the Caltex interests in Saudi Arabia. Removal of these restrictions was then under negotiation in the Anglo-American oil talks which are examined in chapter six. Uncertainty over the outcome of these talks led to a scramble for concessions in the northern territories of Iran between British and American companies. This concerned the Soviets who now began to press their rights in their traditional sphere of influence and the great powers stumbled into an early Cold War crisis which is discussed in chapter seven. These were the “political reasons” for the suspension of the Iranian negotiations mentioned above. The structural attributes of the individual companies and the contrasting policies towards them by different departments of the United States Government continued to influence events after 1939.

²²John Loftus, “Petroleum in International Relations”. U.S. Department of State Bulletin, vol.XIII, August 5, 1945: 173-5, quoted in Michael Tanzer, The Political Economy of International Oil and the Under-Developed Countries (London: Temple Smith, 1970), 51-3. At one time Loftus was also chief of the Petroleum Division at the Department of State.

The main departments of the British Government dealing with the oil industry prior to the First World War were the India Office, Mines Department, Admiralty and Foreign Office. The India Office was involved in supervising concessions in Burma, where the Burmah Oil Company in particular was active. The Mines Department was responsible for the coal industry, but also the shale industry indigenous to the United Kingdom, which involved relatively small Scottish companies. The Foreign Office supported British oil interests outside the Empire, such as Lord Cowdray's investments in Mexico. The Admiralty developed an interest in oil as a source of power for ships. There was no unified policy; departments responded to circumstances as they arose.²³ Ferrier also notes how the British Government was "ultimately without a positive and consistent...commitment to the overriding priority of an oil policy and its effective implementation."²⁴ This proliferation of ad hoc and independent departmental relations continued through the inter-war period. However, as the British industry continued to develop internationally, the Foreign Office began to play an increasingly prominent role in British oil politics.

The Admiralty became interested in oil as a strategic commodity. The projection of Naval power was central to the British Empire and it was impossible to ignore the military advantages which an oil-powered fleet would have over a coal-powered fleet. The champion of this technical transformation was the military head of the Royal Navy, First Sea Lord Admiral Fisher, nicknamed the 'Oil Maniac'. A later civilian head of the Navy, First Lord Winston Churchill, appointed Fisher to head a commission which examined the relative merits of coal-powered versus oil-powered ships and it duly recommended the change.²⁵ The problem was that whereas Britain had an indigenous

²³Geoffrey Jones, The State and the Emergence.

²⁴Ronald Ferrier, The History of the British Petroleum Company, vol.1, The Developing Years, 1901-1932 (Cambridge: Cambridge University Press, 1982), 260.

²⁵Frank C. Hanighen, The Secret War: The War for Oil (London: George Routledge and Sons, 1935), 16-17.

coal industry it did not have sufficient indigenous oil reserves. William Knox D'Arcy had prospected for oil in Persia (later Iran) and acquired a concession covering all the country except the five northern territories. Whereas the British dominated southern Persia, the northern provinces fell within the Russian, and later Soviet, sphere of influence. Shortage of funds led to D'Arcy's company being acquired by the Burmah Oil Company. The Admiralty interest in acquiring a reliable source of fuel oil for the Royal Navy complemented the continuing shortage of funds, and the Government acquired a controlling interest in the company. The corporate search for Government capital was "hardly the image of glorious imperial prescience mirrored in many commentaries" and the presence of Government appointed directors on the board originated in "company policy, not Government policy."²⁶ However, some commentators have argued that there was more active Government policy. Gregory Nowell argues that, "The British Government had no oil policy other than protection of [the] Burmah [Oil Company]. To this end it put resources into the fledgling Anglo-Persian, whose stockholders were unwilling to accept the necessary risks."²⁷ This difference may be explained as due to his reliance on secondary sources and Government archives, and failure to engage the relevant corporate sources. Inevitably, this will underplay the active role and dynamics of the company.

This intertwining of Government and corporate needs was the beginning of an "exceptional relationship" between the Anglo-Persian Oil Company and the British Government.²⁸ The underlying reason for the dramatic Government entry into private business was the need for an unambiguously British oil company. Cadman had been the Government consultant on Persian oil when the Government bought a stake in it, and later became chairman of the Anglo-Persian. During the First World War, he was called

²⁶Ronald Ferrier, The History of the British Petroleum Company, 168, 72.

²⁷Gregory Nowell, Mercantile States and the World Oil Cartel, 1900-1939 (New York: Cornell University Press, 1994), 56.

to direct the newly formed Petroleum Executive and later chair the Allied Petroleum Council.²⁹ It has been noted that,

In the long run, the consequences of this decision were momentous and complex. It certainly assured oil supplies for the Navy; it also assured governmental backing for the development of Anglo-Persian...notably in securing a half share in the concession in Kuwait...Nor was BP [Anglo-Persian] its only lien upon international oil: the 40 per cent British in royal Dutch/Shell, in spite of hard words over that 'combine' when Anglo-Persian was being bought, has linked this group's interests with Britain's almost as firmly as those of BP [Anglo-Persian].³⁰

In justifying the policy of the Government in buying a share in the company, Churchill had made reference to two dominant global oil companies, Standard Oil and Shell, and their allegedly abusing their control of supplies and price. Through the purchase of shares in Anglo-Persian, the Admiralty achieved access to its needed fuel oil with a financial interest in the price of oil. The Persian production was prolific and cheap to extract. The background to its formation shaped its fundamental features – a close relationship with the British Government and problems with finding markets for its oil production. These features became significant when the Shah, Reza Khan, cancelled the concession in 1932. The Government offered support to the company and the company negotiated urgently to prevent loss of markets.

The Royal Dutch-Shell Group originated in two separate enterprises, one with markets, the other with production. The Royal Dutch operated concessions in the Dutch colonies in the Netherlands East Indies, which later became Indonesia. Shell, on the other hand, grew out of a trading company which had imported exotic shells into Britain. Later, it started moving oil products through the Suez Canal with the help of the Rothschilds in specially designed ships – oil tankers. While Royal Dutch had production,

²⁸Geoffrey Jones, *The State and the Emergence*, chap. 6.

²⁹BP 94104, The first Cadman memorial lecture delivered by Sir William Fraser, 27 March 1946, 3.

Shell had transport facilities. In 1897 there was an alliance between Royal Dutch and Shell which crystallised into a marketing joint venture, the Asiatic Petroleum Company in 1902. Shell made long-term agreements for supplies with the Gulf Oil Company in the United States and the Russian oilfields of the Caucasus. As Spindletop, the first of the large Texas oilfields, ceased yielding oil, the arrangement with Gulf was cancelled.³¹ Rothschilds interests were threatened in Baku after 1905 and these agreements proved insufficient to provide products for Shell's markets. In 1907, Shell formally merged with Royal Dutch on a 40:60 basis. All parts of the business were managed by the same people through a system of interlocking directorships, rather than one overall central body.³² The main mechanism for the centralisation and coordination of 'Shell' was the interlocking directorship. As interlocking directorships proliferated in the international industry there was considerable centralisation and coordination of global oil capital in spite of the existence of different global firms.

Shell became regarded as unreliable because of its Dutch majority shareholding when Holland was thought to be susceptible to German influence. Nevertheless, Shell was integral to the British war effort in the First World War. "In effect Shell acted as the quartermaster general for oil, acquiring and organising supplies around the world for the British forces and the entire war effort."³³ Shell's global interests made them eminently qualified for their position in the Allied war effort, but also a controversial choice. Their technical expertise was invaluable, yet as Nowell points out, "While ships were lost and men slaughtered, the companies fought their own war for the control of oil resources...[:a] commercial war, waged through rather than by nation-states."³⁴ A

³⁰J.E. Hartshorn, Politics and World Oil Economics (New York: Frederick A. Praeger, 1962), 233.

³¹Craig Thompson, Since Spindletop, Introduction.

³²BP 55200, Chart of Royal Dutch/Shell Transport Group of Companies. See also, BP 72491, Royal Dutch/Shell Organisation and Interests, 1918 1921.

³³Daniel Yergin. The Prize, 175.

³⁴Gregory Nowell, Mercantile States, 79.

strikingly similar analysis is offered in chapter five in the context of the Second World War.

Before the war, Shell had acquired interests in the United States and after the war, purchased the Mexican Eagle. (The name survived in 'Shell-Mex'). Shell also sought shares in Mesopotamian oil, not only as a British company, but also as a French company. According to Nowell, Shell after the First World War perceived its interests to lie in seeking dominant rights to the French domestic market and obtaining exclusive rights to the French portion of the Mesopotamian oil concession. It could not achieve this if it were perceived as British. "The Shell combine instead became 'French', and this was why France had an international oil policy in 1918-1920."³⁵ The British Government now attempted to acquire control of Shell through various mergers. These focused on Burmah. "In the years 1915-24, the company found itself the kernel of ultimately abortive amalgamation talks aimed at creating an all-British combine that would have dominated Britain's oil scene between the wars, much as ICI [Imperial Chemicals Industries Ltd] was to do in chemicals."³⁶ McBeth has remarked that, "the attempt to secure Britain's oil independence failed miserably."³⁷

However, neither ownership nor fully British control of private oil companies were necessary since the close working relations between the British state and firms made it unnecessary to regulate the companies publicly. The British firms pre-empted public regulation throughout this period by their willingness to advance national policy as private organisations. In war, this was motivated by a sense of patriotism; in peace, commercial interests naturally loomed larger and the desire to seek diplomatic support

³⁵Ibid., 130.

³⁶Timothy.A.B. Corley, A History of the Burmah Oil Company, 3. William J. Reader, "Imperial Chemicals Industries and the State," in Essays in British Business History, ed. Barry Supple (Oxford: Clarendon Press, 1977), 242.

³⁷B.S. McBeth, British Oil Policy, 1919-1939 (London: Frank Cass, 1985), 148.

became important. Thus, while there was no formal policy statement Government relations with the companies had at least acquired some consistency by the end of 1920s. The Government viewed the growth of cartels in the oil industry as an inevitable feature of economic life. To some extent its attitude towards them was permissive, to some extent, as we shall see, it was even warmer.

3.3 THE EVOLUTION OF THE SOCIETY OF MAJORS

After the Russian revolution of 1917 there was expropriation of the oilfields. Many companies including Shell bought title to the expropriated properties since they were sure that the revolution would fail. Sir Henri Deterding, chairman of Shell was hardened in his views after his marriage to a 'White' Russian. Shell wanted to organise a corporate boycott, a front uni. But whereas Shell had supplies from Romania, Socony began to use Soviet oil to supply the Indian market.³⁸ Shell tried to discourage these purchases by initiating a price war in India. This spread as the companies tried to attack and counter-attack each other across the world. Other companies were forced to cut prices to maintain their market share. Soon there were pressures for a truce, particularly from the three largest international companies, Jersey, Shell and Anglo-Persian.

These early years of the international industry witnessed the birth of global competition in the oil industry, the equivalent to what Hedley Bull referred to as an international system.³⁹ It was gradually recognised that competition of the sort sparked by the Soviet expropriations, and indeed by contemporaneous events in Mexico would suit no one. Thus far, it was a case "where a sense of common interests is tentative and

³⁸While there was an ideological war of words, this should not be permitted to obscure the considerable economic activity between the Soviet Union and the West. Christine A. White, British and American Commercial Relations with Soviet Russia, 1918-1924 (Chapel Hill: University of North Carolina Press, 1992).

³⁹Hedley Bull, The Anarchical Society: A Study of Order in World Politics (New York: Columbia University Press, 1977), 9.

inchoate; where the common rules perceived are vague and ill-formed, and there is doubt as to whether they are worthy of the name of rules; or where common institutions – relating to diplomatic machinery or to limitations in war – are implicit or embryonic.”⁴⁰ But a meeting in Achnacarry Castle in 1928 was to lead to the As Is agreement which was to explicitly develop some of these embryonic institutions.

According to the authors of the Federal Trade Commission Report, American companies led the initiative, but Christopher Tugendhat and Adrian Hamilton argue that Deterding of Shell originated the idea and dominated the meetings.⁴¹ Some recent researches tends to favour the British companies.⁴² Granted permission by its majority shareholder, the Chairman of the Anglo-Persian Oil Company, John Cadman began arrangements to pool markets and facilities in India with Shell. Various outstanding issues were finally settled in January 1928 at the same time as the ‘Heads of Agreement’ covered Egypt, East and South Africa.⁴³ Cadman, “now representing government policy as well as Anglo-Persian, pursued a concordat with the American companies.”⁴⁴ On 22 February 1928, he wrote to Teagle, the president of Jersey to propose “a small ‘clearing-house’ for matters of the very highest policy, in which the interests of the great Standard

⁴⁰Hedley Bull, The Anarchical Society, 15.

⁴¹Congress, Senate, Staff Report of the Federal Trade Commission on the International Petroleum Cartel, Subcommittee on Small Business of the United States Senate, 22 August 1952, 198. [Hereinafter FTC, Report]; Christopher Tugendhat and Adrian Hamilton, Oil: The Biggest Business (London: Eyre Methuen, 1968), 100. Deterding had expressed the idea to Walter Teagle, then a young Jersey executive based in London. Impressed he arranged a meeting with the president of Jersey, Archbold, who was not very interested. On page 99 they claim that “Deterding was the dominant figure at the meeting.”

⁴²Daniel Yergin, The Prize, 260-265. Furthermore, it is possible to see the post-World War I Shell as a British company in spite of its share ownership and the misgivings of the British government at the time of its share purchase in Anglo-Persian. For instance, Deterding became a British citizen in 1915. See E.M. Earle, “The Turkish Petroleum Company,” Political Science Quarterly 39 (June 1925), 273.

⁴³BP 68317, World Co-operation in Oil. Short Journal of Events.

⁴⁴Daniel Yergin, The Prize, 263. This contradicts Louis Turner’s account of As Is which he regards as resulting from the absence of governmental intervention from Britain and the United States. Louis Turner, Oil Companies in the International System, 30.

Oil, Royal Dutch-Shell and the Anglo-Persian organisations are engaged.”⁴⁵ On 7 March 1928 Cadman wrote to Meyer of Socony proposing coordination of policy.⁴⁶ These overtures culminated in an invitation from Deterding to Cadman, Teagle, Mellon of Gulf and others to Achnacarry Castle in August 1928.⁴⁷ American fear concerning the rising British share of international markets due to her relatively cheaper sources of supply shaped the discussions.⁴⁸ The importance of the American fears is reflected in the title of the ‘Pool Association’ or As Is Agreement which was agreed to, though never signed.⁴⁹

The main feature of the As Is system was that each company was given a quota for each market based on its share in 1928. Companies could only keep to the same percentage share but, of course, volumes would increase as markets matured. Companies might also agree to share costs through joint ventures in exploration, refining and marketing. Transportation costs would be kept down through the device of product exchanges, where markets were supplied from the nearest source. The resultant ‘phantom freights’ are discussed extensively in chapter five in the context of continuing wartime As Is inspired activities.⁵⁰ The accord was the Pool Association of September 17, 1928 which had seven governing principles. The first was accepting and maintaining the status quo as regards market share; the second was that existing facilities were to be made available to competitors; the third was that new facilities would only be constructed when made necessary by increased demand. The fourth principle was that production should retain the advantage of geographical situation; the fifth was drawing supplies from the nearest geographical area; the sixth was preventing surplus production in any area from upsetting the price structure in any other area. Companies would

⁴⁵BP 68317, World Co-operation in Oil. Short Journal of Events.

⁴⁶BP 68317, World Co-operation in Oil. Short Journal of Events.

⁴⁷Daniel Yergin, The Prize, 263.

⁴⁸BP 43855, Kuwait Oil Company. Note. Folder 10/3, “Kuwait”.

⁴⁹BP 77958 contains a slightly earlier marketing agreement of 25 October 1927 which appears to contain the same terms as the As Is Agreement.

⁵⁰Anthony Sampson, The Seven Sisters, 106-107.

establish a tanker pool making product exchanges of standardised products to reduce cross-hauling and duplication of facilities. The seventh principle was that there was no public interest in price increases which would reduce consumption.⁵¹

The cartel administrative agency was referred to as 'an association' or 'the association'. The procedural section of the Achnacarry Agreement had envisioned an association managed by a working representative of each group. This association was to perform the central statistical and sales management functions necessary to carry out the cartel's objectives and comprised one representative of each group. It made all the necessary subsidiary arrangements and agreements in the fields of quota-making, price-fixing, production-allocating and transport-assigning. It was provided information by each marketing organisation through reports on expected demand for each product. It kept groups informed of the total demand from the marketing organisations. It allocated to each group its quota of each product and directed shipments to the geographically most favourably located areas. Another function was to prepare schedules of relative freight rates from each port of shipment to each port of import for six months in advance. It would administer the pool of member-controlled surplus transportation facilities provided for in the agreement, and furnish transportation facilities from this pool or from outside agencies for product shipments members did not want transported in their own ships.⁵²

Through this period, the majors also controlled about two-thirds of the world's privately owned tanker fleet, and fifty per cent of the world's total tanker fleet, including all Government as well as privately owned tonnage. Anglo-Persian alone employed fourteen per cent of the world fleet; together with Shell the figure rose to approximately

⁵¹Christopher Tudendhat and Adrian Hamilton, Oil, 100-101 provides a complete text of the seven principles of As Is.

⁵²FTC, Report, 205-210.

thirty per cent.⁵³ The cartel not only allocated markets but also set prices. The basis for this was the 'Gulf Plus System'. Thus, oil shipped from Iran to Italy was to be charged at the prices asked at the Gulf of Mexico with the addition of the freight cost of the journey from the Gulf. Price competition between American and foreign sources of oil was, therefore, ruled out.⁵⁴ Given that the real cost of supplying markets in Italy with Iranian oil was far less than the theoretical cost at Gulf of Mexico prices plus freight costs, Anglo-Persian would enjoy excellent profits from supplying to the Italian markets whether as the main retailer or not. In one of the most durable As Is inspired agreements, Anglo-Persian ruled themselves out from any direct marketing in Italy in exchange for the right to supply twenty per cent of the needs of Jersey and Shell local distributing organisations.⁵⁵

A different example is a draft agreement between Anglo-Persian and Texas from 1929. Belgium, Holland and Sweden were designated as group A; England, Scotland, Switzerland, Germany, Denmark, and Norway as group B. They agreed to create a holding company on an equal sharing equity basis called Petrex Consolidated Ltd. This would supply group A countries with benzine, kerosene, gas oil, fuel oil, and diesel oil from Anglo-Persian, and lubricating oils, greases, and asphalt from Texas; and group B countries with lubricating oils, greases, and asphalt from Texas.⁵⁶ However, there were problems with the arrangements. Chief among these was that the antitrust rules of the United States forbade applying the agreement to the United States domestic market, and that the American Independents could price themselves a little lower and so nibble at

⁵³FTC, Report, 23.

⁵⁴Anthony Sampson, The Seven Sisters, 107.

⁵⁵BP 37143, Memorandum on Italy, Morris to Fraser, 16 May 1945; Morris, 3 September 1943. J. H. Bamberg, The History of The British Petroleum Company, vol. 2, the Anglo-Iranian Years, 1928-1954 (Cambridge: Cambridge University Press, 1994), 115-6.

⁵⁶BP 68878, Draft Agreement Anglo-Persian Oil Company and Texas, 18 July 1929. This is one of the many agreements which the researcher came across which have not been referred to elsewhere. The fact that so many unexamined agreements came to light demonstrates the richness

markets. Even if price cutting kicked them from one market, they would then move to another. For instance, American exports amounted to one-third of oil consumed outside America, but the seventeen companies in the Export Petroleum Association never controlled more than forty-five per cent of American oil exports.⁵⁷

The American Petroleum Institute called a series of conferences between 30 July 1928 and 15 March 1929. There was a recommendation that domestic United States production stay at the 1928 level. This was achieved under the rubric of 'conservation' by which United States oil production was limited to maintain price levels. As P.H. Frankel puts it, "conservation was the missing link which had to be forged."⁵⁸ The other part of this strategy was limiting exports. Under the Webb-Pomerene Export Trade Act, two United States Petroleum Export Associations were made. The first was the Standard Oil Export Corporation which centralised the production and export activities of all New Jersey subsidiaries. The second organisation was the Export Petroleum Association, Inc. There were fifteen members by 1928, but in 1930 two more joined. These were the Standard Oil Export Corporation, representing New Jersey and Shell-Union Oil Corporation, representing Shell. The breakdown of the Export Petroleum Association was due to one of its procedural rules. This was the requirement for unanimity for decisions. On its central committee which comprised one member of each participating company it appears that one member prevented agreement on export prices in 1930. While it is not possible to establish beyond all doubt which company this was, there is evidence that it may have been Shell. The curtailment of production was breaking down in the United States as higher export prices were encouraging production. Excess oil was leaking through the loophole into world markets. Sabotaging the association may well have been decided in a secret oil conference in August 1929, which was hosted in

and complexity of the web of agreements, a point of view shared with Jim Bamberg. Informal interview by author, March 1997.

⁵⁷Daniel Yergin, The Prize, 265.

London, convened to discuss the problem of United States export prices.⁵⁹ On 12 November, Basil Jackson from the New York Office wrote to William Fraser, also of Anglo-Persian, that Shell was making waves in the United States since As Is and agreement with the American group required Shell surrendering some share in other markets.⁶⁰

The collapse of the Export Petroleum Association led to the adoption of a more piecemeal approach to global regulation. The Memorandum for European Markets of January 20 1930 provided procedural amendments to cover the application to local areas. Moreover, the three central players realised their domination of world markets was an insufficient basis for effective controls. Anglo-Persian, Shell and Jersey decided that other companies could join their local agreements, if there were consensus among the three. The base year for quotas remained 1928, and members could expand quotas only at the expense of outsiders. Over- and under-trading would be adjusted by a transfer of customers during the year. Should this not be possible, there would be a transfer of 'net proceeds' at the end of the year.⁶¹

However, Soviet and Rumanian exports grew in the 1930s and a new device was needed to accommodate these exports. The text of the Heads of Agreement for Distribution (Heads) of 1932 generally followed the 1930 agreement. The biggest difference was in the policy towards outsiders. An initiative to encourage their participation included new members being able to join with quotas exceeding their share in 1928. Many outsiders had expanded their trade through using cheap Soviet and

⁵⁸P.H. Frankel, Essentials of Petroleum: A Key to Oil Economics New ed. (London: Frank Cass, 1969), 116-117.

⁵⁹Petroleum Times, August 10, 1929, 239.

⁶⁰BP 71383, B.R. Jackson New York Office. Jackson to Fraser 12 November 1929; Jackson to Fraser, 18 November 1929.

⁶¹BP 51727, D. Anderson to M.T. Lloyd, 11 October 1934, 2. The effect was to require the over-trader to pay for the oil and also the marketing profit received from the sale.

Rumanian production. However, compensation was agreed: as trade was taken from outsiders, the original members would first regain their market share. Heads was "a guide to representatives on the field for drawing up rules for local cartels or for local Agreements." It also established global machinery to supervise the local agreements. There were two As Is Committees, one in New York, the other in London.⁶²

The New York Committee was responsible for restricting production, particularly in the United States. The London Committee supervised and coordinated the structure of world oil cartel controls and local market agreements. Heads was formulated in London based on meetings held on October 24 and 15, and November 17 and 18, 1932. There was one consolidated minute. At the meetings on 15 and 16 December 1932 when the agreement was adopted, there were representatives from Jersey, Anglo-Persian, Gulf, Atlantic, Texas, Socony-Vacuum, and Shell. The representative from Sinclair wired regret. These appear to have been the representatives of the London Committee. Supporting all As Is activities, it was decided to establish a central As Is secretariat in London with administrative rather than executive functions. All decisions affecting major issues and matters of principle were referred to both London and New York Committees. The Central Committee would collect and maintain statistical data for administration; it would record and circulate decisions made by the two main executive committees, and also settle all disputes under the Heads agreement.⁶³

3.3.1. DRAFT MEMORANDUM OF PRINCIPLES

The Heads agreement lasted till 1934, when continuing problems with Rumanian, Soviet and United States production led to over-supply. This led to difficulties in the local agreements in Europe and elsewhere. A conference held in

⁶²BP 77958, As Is quotas, 12 March 1934. This pattern continued through all the revisions of As Is procedure and was introduced in Allied relations/resumed again during the war.

London between April and May 1934 involved the 'big three', Anglo-Persian, Shell, and Jersey.⁶⁴ Figures for 1928 to 1933 were exchanged by the groups. This exchange paved the way for a revision of As Is quotas.⁶⁵ A new agreement, the Draft Memorandum of Principles (Draft) was formed in May 1934.⁶⁶ The Draft "is to cover all countries to the extent that it is not contrary to law."⁶⁷ The United States was expressly excluded, but the significant thing is that the geographic scope was global, rather than European. Previously negotiated local agreements would not be disturbed till termination, though when renewed they were expected to follow Draft principles. The parties would agree product by product and country by country on the per centage of the market which was unobtainable. They would then allocate the remainder in the ratio of the existing quota.⁶⁸ The London Committee would deal with the arbitration of all disputes in local markets, though local directors and managers would only know of the Draft to the extent that the London Committee thought necessary. The As Is procedures followed worldwide were that if the representatives could not agree on matters affecting each other's business, they would agree a memorandum setting forth the facts and their differences and submit this to the As Is Central Committee. If this failed the matter was referred to the Directors of the Groups for final discussion and settlement.⁶⁹ Article 22 of the Draft states that,

For the purposes of carrying out the purposes of this Memorandum, a committee shall be maintained in London comprising one representative of each participant, and to this committee shall be referred all matters of dispute concerning the interpretation of this Memorandum or any other questions which may arise as regards the operation of this Memorandum...the decision taken shall be binding on all participants...It

⁶³Daniel Yergin, *The Prize*, 265-7. Also, *FTC, Report*, 230-231, 240-241, 247, 264.

⁶⁴BP 91058, London Conference.

⁶⁵BP 110644, Crude Oil Production – Standard Oil Company New Jersey

⁶⁶BP 77958, Copy of Draft Memorandum of Principles.

⁶⁷BP 77958, Draft Memorandum of Principles, Addendum V, Economy in Competitive Expenditure.

⁶⁸BP 110644, Sharing of Joint Gains from Outsiders, 27 April 1936. Quotas remained at the heart of the system, so although a gain might be made by an individual firm it would be shared by the cartel in the ratio of the existing quota.

⁶⁹BP 110644, Notes on discussion regarding the United Kingdom, 14 August 1935.

shall be the duty of the Committee to cement and co-ordinate the relations between the participants with a view to obtaining the maximum cooperation and the committee is authorised to set up such machinery as it deems advisable for the inter-change of such information and statistics as may be required, and in general do all things necessary toward the proper functioning of this arrangement.⁷⁰

This article was titled 'Committee' in the standard version, but in the version approved by Socony-Vacuum all references to As Is were deleted, the article was renamed 'Disputes' and was shortened by the omission of parts dealing with the operation and machinery of the London Committee, though this did not imply that they were not applicable.⁷¹ The London Committee As Is territories comprised Albania, Algeria, Angola, Austria, Azores Islands, Belgium, Bulgaria, Canary Islands, Congo, Cyprus, Czechoslovakia, Denmark, Egypt, Estonia, Finland, France (including Corsica), Germany, Gibraltar, Greece (including Crete and Rhodes), Hedjaz, Holland, Hungary, Iceland, Italy, Sicily, Sardinia and Tripolitania, Jugoslavia, Latvia, Lithuania and Memel, Madeira, Malta, Morocco (French Western, French Eastern and Spanish and Tangiers), Norway, Palestine, Poland and Danzig, Portugal, Red Sea Area, Rio de Oro, Saar, Spain and Belearic Islands, Sudan (Anglo-Egyptian), Sweden, Switzerland, Syria, Tunisia, Turkey and Asiatic Turkey, United Kingdom and Irish Free State, and West Africa, from Senegal to Nigeria.⁷²

The Draft was even more flexible for adaptation to local markets than Heads. For instance, the version agreed with Standard-Vacuum stated that it was not applicable in India.⁷³ It made it possible for local parties to unanimously override the Draft. It was also more flexible on the issue of the 1928 based quotas. Quotas could be altered in several situations including penalties for under-trading, new membership, or product

⁷⁰BP 91058, Draft Memorandum of Principles.

⁷¹BP 91058, Draft Memorandum of Principles as agreed with Socony-Vacuum, enclosed with Guepin's letter of 8 January 1935.

⁷²BP 96603, London Committee "As Is" Territories, 1.

replacement, e.g. diesel fuel oil for gasoline. At the same time it was more comprehensive, restricting marketing and advertising to budgets set by the London Committee. It provided for looser cooperation and severe reductions in competitive advertising campaigns, so that, inter alia, there was agreement on the number and type of signs in petrol stations. But the suggestion that outside auditors would check on quotas and supplies was resisted.⁷⁴ The quotas were revised from 1 January 1936 as over- and under-trading had rendered the 1928 benchmark inappropriate.⁷⁵ One market in which problems were persistent was the Far East market in which Caltex habitually over-traded. In 1937, Rieber, chairman of Texas, told Cadman that Caltex did not aim to destroy As Is but wanted to collaborate fully with Anglo-Iranian, and following the retirement of Deterding, also expected better relations with Shell.⁷⁶ Rivalry between the Caltex Group and its parents, Socal and Texas on the one hand, and the British companies on the other, will be a recurrent theme.

By the end of 1936, "the DMOP [Draft] has been cancelled." Henceforth, disputes should be settled locally, but if it proved necessary to refer to "London Head Office officials" this should only be by a joint memorandum agreed by both parties.⁷⁷ The reason why there was little provision for referring matters to principals was that the parties to these agreements were the local companies rather than the parent companies. The quotas related to the total market and involved relative share between the parties. Where there was a loss of market share the over-trader must make adjustments to the

⁷³BP 91058, Draft Memorandum of Principles as agreed with Standard-Vacuum, enclosed Frederick Godber's letter to William Fraser, 29 June 1934.

⁷⁴Daniel Yergin, *The Prize*, 266-8.

⁷⁵BP 110644, As Is Implementation, Memorandum, Revision of 'As Is' Quotas, 23 September 1935, 1. The memorandum goes on to state that, "there should be no relaxing of the efforts of all parties against outside competition, so that we may be ready and able to take full and immediate advantage...to expand the joint share of the trade." 2.

⁷⁶BP 16608, Diary Sir John Cadman's Visit to Trinidad and New York, February 18 – April 13, 1937.

⁷⁷BP 96602, "Statement", 17 December 1936, 2-4. This was agreed by directors of Shell and Standard-Vacuum following meetings held in London from November to December 1936.

under-trader, which was the same provision as under the Draft. However, this could be either through a physical transfer of goods or money, if there were mutual consent. In this case, the amount payable would be the gross proceeds less cost of goods and less agreed expenses, which were defined in the Proceeds Less Expense addendum, which was more explicit than Draft and could last for an indefinite period, but it was possible to give notice for any product, without leaving the agreement for the market as a whole.⁷⁸ The system thus retained the principle of cooperation, but provided more flexibility in application.

In fact, the system was called a “New ‘As Is’ Memorandum” by Standard-Vacuum. It was superseded by a revised draft of 4 March 1937 which had changes in phraseology for legal reasons.⁷⁹ The 1937 draft provided for a meeting held each month for exchange of figures regarding the trade and outsiders. There should be an independent auditor’s certificate at the end of each accounting period for each period. The auditor must be acceptable to the other firms, and where possible they could retain the same firm. Information on how the trade of outsiders was being calculated should be made available and at each monthly meeting definite proposals for adjusting trade should be discussed.⁸⁰

It is difficult to know how successful As Is was. Bamberg’s research on Anglo-Persian /Anglo-Iranian suggests “not that the Company was making high returns as a member of an effective cartel, but that it was unable to find shelter from the precipitate fall in prices during the great depression.”⁸¹ The main importance of As Is for this study is the link between As Is committees and the evolution of the international society of oil

⁷⁸BP 96602, Snow to Norris, “Statement on The New Shell/Standard-Vacuum Agreement”, 17 December 1936, 1-2.

⁷⁹BP 96602, “New ‘As Is’ Memorandum”, Standard-Vacuum, 18 December 1936; “Covering Note Re. ‘As Is’ Memorandum of 4 March 1937”, 4 March 1937.

⁸⁰BP 96602, “Memorandum”, 4 March 1934.

majors. In this case it does not matter if the different agreements such as Heads and Draft represented different stages in the evolution of As Is as suggested by Yergin or different mechanisms for operating As Is as Blair maintains.⁸² It may be possible to synthesise the two viewpoints to argue that operating As Is evolved through different stages. As Is principles, as distinct from specific agreements, were very durable, for instance, Gulf Plus Pricing lasted through the Second World War, albeit with modifications examined in chapter five. Moreover, many of the personalities involved in the As Is negotiations became the corporate diplomatic contacts in Anglo-American relations during the Second World War which are examined in chapters four and five. "Official histories do not show how much these war committees were related to pre-war attempts by the companies to create an international cartel."⁸³ One objective of the dissertation is to clarify this point.

In the United Kingdom, for instance, brokers purchased spot cargoes of American, Soviet and Rumanian oil. These brokers sold to independent retailers nicknamed 'pirates' by the majors. The 'pirates' sold unbranded products at cut prices. In 1929, Anglo-Persian, Jersey and Shell concluded a series of agreements with the independent importers, refiners and distributors. Anglo-Persian, Jersey and Shell were described as a "joint venture" by a Jersey official. They delivered a common price and industry policy and applied the As Is principles. The independents gravitated to the market power of this "joint venture", even though the cartel did not achieve complete control.⁸⁴ For instance, both Trinidad Leaseholds and Texas had established positions in the benzine market. The per centage of their trade was allocated to them, and the cartel partners reduced their quotas sharing the reduction pro rata to the existing basic quota.⁸⁵

⁸¹Jim Bamberg, History of the British Petroleum Company, 117.

⁸²Daniel Yergin, The Prize, 263-8 ; John Blair, The Control of Oil, 56.

⁸³Louis Turner, Oil Companies in the International System, 40.

⁸⁴FTC, Report, 316.

⁸⁵BP 110644, Minutes of Meetings, 28-30 August and 2-3 September 1935, 3.

This is borne out in the records of As Is membership, country by country and product by product. In the United Kingdom and the Irish Free State, kerosene, white spirit, gas oil, fuel and diesel oil, lubricants and asphalt were regulated by As Is, but benzine came under a local agreement between the As Is companies, Anglo-Persian, Shell, Jersey and Texas and other firms. The cooperating firms were marked in black, while the 'outsiders' were marked in red.⁸⁶

3.4 ANGLO-AMERICAN COOPERATION

These possibilities served the objectives of the Foreign Office and it is important to assess this relationship since the Foreign Office was the main British Government department dealing with the global interests of Anglo-Persian and Shell. While the Foreign Office's influence in policy-making varied in this period, the Department's weltanschauung remained unchanged till the early 1950s, which is the terminal period for this thesis. This implied looking at the world through the lens of balance of power theory with the 'Crowe doctrine' the litmus by which policy was measured. The Crowe doctrine was based on a report by Sir Eyre Crowe which provided a brilliant analysis of the balance of power. The result of the consolidation of Foreign Office control over foreign policy after 1925 was a return to the policy of securing a global balance of power. In this 1920s this meant supporting the status quo. In the 1930s it meant ensuring that any changes to the status quo occurred in ways short of war.⁸⁷ So far as oil interests were concerned the Foreign Office seemed to develop a dual strategy; it offered diplomatic support for the companies but also encouraged them to cooperate with American interests.

⁸⁶BP 99603, United Kingdom and Irish Free State Agreements, 26 February 1934, Section U, 1-2.

Equally eager to promote 'rationalisation' of the industry and to avoid unnecessary disputes with the United States in the inter-war years, the British state could use its influence with Anglo-Persian and Shell, specifically with Cadman and Deterding, to promote the international inter-firm agreements that would culminate with the As Is Agreement of 1928. The separation of politics from economics and of domestic from international dimensions results in historians having ignored the importance of "goals that were shared by Anglo-American policymakers and industry officials alike...particularly the idea that to tolerate cooperation among private petroleum interests was a more acceptable means of regulating the development of oil resources than either wide-open competition or Government intervention or management."⁸⁸ Hogan rightly draws attention to the normative dimension of international collaboration, though since he is studying within the discipline and using the tools of economic history rather than international relations he identifies and locates these norms in both Britain and the United States, but not does not identify their international location. I submit that these norms were located in, shaped and constituted the society of majors.

In part, the close relationship between the British firms and Government was employed by the authorities to resist American proposals which would have reduced British independence; in part the inter-firm agreements made possible an Anglo-American entente over oil concessions in the inter-war period. This contrasted with the situation in Mexico earlier in the century where inter-firm rivalry was translated into inter-state competition, carried out by proxy in support given to rival factions in the civil war. By 1920 Mexico was meeting twenty per cent of American oil demand.⁸⁹ While

⁸⁷Brian McKercher, "Old diplomacy and new: the Foreign Office and foreign policy, 1919-1939," in Diplomacy and World Power: Studies in British Foreign Policy, 1890-1950, ed. Michael Dockrill and Brian McKercher (Cambridge: Cambridge University Press, 1996), 79-114.

⁸⁸M.J. Hogan, Informal Entente: The Private Structure of Cooperation in Anglo-American Economic Diplomacy, 1918-1928 (Columbia, MO: University of Missouri Press, 1977), 159.

⁸⁹J.C.Brown, "Domestic Politics and Foreign Investment: British Development of Mexico Petroleum, 1889-1911," Business History Review 61(3) (1987): 387-416. Favouritism was shown to non-Americans, 415.

both American Government and firms wanted to enter and maintain this market and each tried to influence the other, "it seems reasonable to conclude that the State Department effectively influenced the oil companies."⁹⁰ Later in 1938 the Mexican Government finally nationalised the industry and the foreign companies were excluded. Roosevelt's 'Good Neighbour' policy ruled out direct action and in 1939 a joint intergovernmental commission agreed on a figure of \$30 million to be repaid over several years. This outraged the American companies who had sought \$408 million in compensation, and contributed to the mutual distrust that characterised Government-industry relations in the United States during the Second World War.⁹¹

Three examples of cooperation stand out. In Venezuela, the dictator General Juan Vicente Gomez provided oil concessions to Shell, Jersey and Gulf. However, uncertainty about what would happen following his death, heightened by the experience of civil wars in Mexico led the companies to establish the refineries on the nearby Dutch West Islands island of Curacao. Jersey then built a refinery on Aruba. This contrasts with the experience of American companies earlier in the century when the Dutch Government had initially excluded them from the Netherlands East Indies only allowing them concessions after diplomatic representations by the State Department. In 1944 Shell directors noted, "We also share your view that in the event of our erecting any sizeable adjunct to the Curacao refinery it will be difficult to convince the Venezuelan authorities why such adjunct could not be established in Venezuela."⁹²

The second example was in the northern provinces of Iran which had been excluded from the concession given to D'Arcy. The British were prepared to join with

⁹⁰N Stephen Kane, "Corporate Power and Foreign Policy: Efforts of American Oil Companies to Influence United States Relations with Mexico, 1921-1928," *Diplomatic History* 1 (Spring 1977): 170-1.

⁹¹B.T.Harrison, "The Business of America is Business – except in Mexico: Chandler Anderson's Lobby Efforts in the 1920s" *Mid-America* 68(2), 1986, 79-97.

⁹²Shell SC7/P2/2, Godber to Loudon, 21 December 1944.

American interests. Hogan concludes, "What the British really envisioned, then, was any arrangement that would insure [sic] American collaboration in stabilizing Persia against bolshevism [sic]." In spite of misgivings of the Foreign Office, the State Department did, in fact, defend the Anglo-American combine proposal against Persian objections to including the British at all. Yet in spite of warnings that collapse of the deal would make it impossible for Persia to find a new source of foreign financial assistance, the Persians treated the concession as invalid. This episode anticipates the nationalisation crisis of the 1950s covered in chapter eight when the Persians again ignored economic considerations to deny the legality of a concession which both the British and Americans considered valid. It also provides background to the Azerbaijan crisis of 1946 which is discussed in chapter seven.⁹³

Third, after much struggle with the French over the territorial demarcation of the Ottoman Empire, so that they could manage the oil resources of Mosul, the British permitted some American participation in the Turkish Petroleum Company, later the Iraq Petroleum Company (IPC).⁹⁴ The State Department accepted the arrangement of 1928. "So far as the IPC was concerned it had been cited by the State Department as an example of international cooperation."⁹⁵ In spite of these restrictions, the State Department supported the new combine when the American group presented the final agreement for approval in April 1928.⁹⁶ When a dispute broke out between British and French interests over the destination of a pipeline, Jersey was able to develop a compromise. This worked because it influenced the man "at the center of the pipeline negotiations... Cadman."⁹⁷

⁹³Benjamin Shwadran, 3d rev. ed., The Middle East, Oil and the Great Powers (New York: John Wiley, 1973), chap. 4.

⁹⁴*Ibid.*, 223-35.

⁹⁵BP 43855, Kuwait Oil Company, Note, "Kuwait", Folder 10/3.

⁹⁶G.S. Gibb and E.H. Knowlton, History of Standard Oil (New Jersey), 298-308.

⁹⁷Edward Fitzgerald, "Business Diplomacy: Walter Teagle, Jersey Standard, and the Anglo-French Pipeline Conflict in the Middle East, 1930-1931," Business History Review 67 (Summer 1993): 242.

3.5 CONCLUSION

The inter-war years are often cited in support of hegemonic stability theory. It is argued that the decline in British power and the refusal of the United States to take international responsibilities left a lack of leadership in the international system.⁹⁸ In these circumstances international regimes in finance and other issue areas collapsed. However, this narrative demonstrates that international cooperation in petroleum and petroleum products actually increased during this period. The distinctiveness of oil marks it out from the general pattern of cooperation during the inter-war period and qualifies the conventional historical interpretation. The main theoretical point is that global governance can take place on the basis of private international cooperation.

While there was no formal intergovernmental regime, intergovernmental cooperation proved possible on the basis of private governance arrangements. The main historical and theoretical points are related insofar as the establishment of the 'international society' of majors led to governance without governments and an increase in international cooperation during a period which state-centred theorists have generalised as experiencing a decrease of international cooperation. The chapter demonstrates the importance of non-state actors in shaping international politics. It also shows how the international agenda is extensive and so 'low politics' issues like oil can affect 'high politics' issues like territorial boundaries, for instance, over Mesopotamia. Examination of United States policy shows two divergent tendencies – antitrust tradition of public accountability represented by the Justice Department on the one hand, and support for international private cooperation by the State Department on the other. This queries notions of the 'state' as a unitary and rational actor. The contrast between

⁹⁸Charles P. Kindleberger, The World in Depression 1929-1939 (London: Penguin, 1973); Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984); Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987).

Government and industry relations in Britain and the United States is a recurring theme in this thesis. While the British Government tolerated and even promoted private international cooperation, the United States Government was torn between ideals of public accountability and scrutiny of civil society on the one hand, and the benefits to be gained from private collaboration on the other.

PART THREE

Part three shows how the five institutions of the society of majors were used between 1939 and 1954. During the Second World War the diplomatic contacts among the company personnel developed in the inter-war period translated into Allied cooperation over oil. The war itself made redundant some of the pre-war agreements. However, in the corporate war which followed, the norm of agreement between the companies was not lost. The companies were thus active in planning for the post-war world. Yet such planning was threatened by the attitude of the United States Government. The negotiations around the Anglo-American Oil Agreements generated some new rules and agreements, which formed the basis for a new international legal order for the companies. This order was soon brought into being through the balance of power manoeuvres of the international companies in the Persian Gulf. Finally, during the nationalisation crisis caused by Iran's prime minister Mohammed Musaddiq, the international companies could act as a great power condominium to ensure that Anglo-Iranian was not compelled to concede expropriation of their assets and associated private control of the rate of production, prices and destination of products.

Drawing on the development of the As Is system by the companies and its implications for Anglo-American relations in the inter-war period this thread of continuity has linked otherwise disparate oil issues such as the wartime Special Relationship, the negotiations for the post-war world, the origins of the Cold War in the Persian Gulf, and the role of the oil companies in maintaining the pro-Western stance of Persian Gulf leaders once the Cold War had actively begun. Any study of British foreign oil relations in this period which did not look at corporate records would neglect evidence helping to explain the sources of foreign policy, its implementation, and its outcomes.

CHAPTER FOUR: CORPORATE DIPLOMACY DURING THE

SECOND WORLD WAR

4.1 INTRODUCTION

During the Second World War Anglo-American cooperation in oil was based on the personal contacts between corporate personnel seconded to the Governments. There is substantial continuity between the leading members of the inter-war cartel and the industry committees in the wartime collaboration. Corporate managers who effectively decided what could be achieved carried out British wartime oil relations. They were, in terms of the analogy with international society pursued in this dissertation, the diplomats of the oil world. Their close working relationship with the British Government contrasts with the rivalry between Service and civilian departments in the United States. As the American Services tried to reduce the influence of the companies, their efforts were thwarted by resistance from the British state and companies, supported by the American majors.

In contrast with the traditional state-centric model which focuses on the behaviour of senior politicians from different states, transgovernmental relations refers to the relatively autonomous activities of lower-level bureaucracies, rather than those of top leadership.¹ As corporate personnel were integrated into the wartime machinery on both sides of the Atlantic they filled the types of operational positions where their expertise was irreplaceable. It was their autonomy in operations that made possible the transgovernmental coalition against the Service departments.

¹Robert O. Keohane and Joseph S. Nye, "Transgovernmental relations and international organizations," World Politics 27.1 (1974): 43.

The persistence of comfortable and effective relations between Britain and the oil majors during the war through the process of transgovernmental policy coordination is all the more surprising in view of the extreme dependence of the Allies on United States oil supplies coupled with American sensitivity about the relatively strong supply position the British would enjoy after hostilities ceased because of their strong position in Middle East concessions. Their use of the transgovernmental coordination and their exploitation of the less happy relations prevailing between Washington and the oil majors enabled the British to slow down the transfer of hegemony to the United States. The use of company experts to organise oil supplies during the war contributed to greater British influence in the oil supply issue than would have been possible had matters been arranged directly between Governments. In spite of continual American attempts to formalise the management of Allied oil supplies, the companies and the British Government combined to prevent this.

The substance of this chapter is divided into two sections. The first of these examines the co-option of leading British oilmen in the United Kingdom. The committees which they established were formally under Government control, but in practise there was little effective supervision. Their most important work was in assuring supplies from the United States in the period before the United States formally joined the Second World War. After the United States formally entered the war the oilmen were effectively asked to manage global oil supply for the Allies. Many of these individuals had shaped the international oil trade in the inter-war period and I trace the continuity of personnel from the As Is system. In particular, Harold Wilkinson of Shell was the most senior British oil representative and the pivot of Allied co-operation. The second substantive section (4.3) deals with the development of a combined oil programme and regional machinery. It goes on to examine the continuing attempts by the United States Service Departments to minimise the role of the oilmen and thereby seize control of Allied oil operations.

4.2 1939-42: THE BEGINNING OF INFORMAL COLLABORATION

Before American entry into the war both aspects of the wartime oil organisation, demand and supply, were organised from London with assistance from oil company personnel using pre-war contacts with oil companies and company personnel in the United States. Many of the most senior managers of the Allied oil supply were the architects of the inter-war society of majors. Their corporate diplomacy was now translated into Allied diplomacy.

4.2.1 BRITISH PREFERENCE FOR THE INFORMAL

During the First World War, Sir John Cadman, who in 1927 became chairman of the Anglo-Iranian, was the director of the Petroleum Executive. Through such means as convening an Inter-Allied Petroleum Conference in London in April 1918, he had managed to secure oil for Britain. Eighty-five per cent of her supplies came from the United States.² The British Government hoped that the companies could achieve this again and contacted the firms in 1938.³ In fact, the Petroleum Executive was reconstituted and renamed the Petroleum Department after the First World War.⁴ In June 1942, the Petroleum Department, Mines Department, and sections dealing with gas and electricity, were merged into the Ministry of Fuel and Power. The Petroleum Division of the Ministry of Fuel and Power was subsequently an important official link between the Government and the companies. However, the Treasury had perhaps greater impact as the dollar shortage shaped a wide range of economic activity, and the Foreign Office remained the most important Government department for Anglo-Iranian and Shell, as

²BP 72492, Dr Ferdinand Friedensburg, "Notes on Petroleum Industry During World War I", 1939, abbreviated and translated by A.C. Hearn, 37.

³J. H. Bamberg, The History of The British Petroleum Company, vol. 2, the Anglo-Iranian Years, 1928-1954 (Cambridge: Cambridge University Press, 1994), 207.

⁴D.J. Payton, Oil: A Study of War-time Policy and Administration, United Kingdom Civil Series of the History of the Second World War (London: HMSO, 1971), 40.

relations with foreign Governments, in particular the United States and Middle Eastern states, impacted upon the international oil industry.

During the Second World War the companies once again became responsible for importing oil into Britain and effectively distributing it. Shell, Anglo-Iranian and Jersey were most significant as they, together with their industry partners, controlled ninety per cent of the petroleum business in Britain with the result that wartime distribution of oil was in the hands of the main peacetime suppliers.⁵ The three most significant bodies we shall be looking at are the Tanker Tonnage Committee, the Overseas Supply Committee and the Petroleum Board, which were either company committees or comprised of firms.⁶ The Tanker Tonnage Committee arranged for tanker allocation, fixing rates, and chartering neutral flag tonnage. This was managed by Heath Eves of Anglo-Iranian.⁷ Godber of Shell managed the Overseas Supply Committee, which would make arrangements for supplies, which necessarily had to be imported from abroad. The Petroleum Board managed the internal distribution of products.⁸ It is not the case that public officials had no influence in the oil machinery; simply that they were secondary to the oilmen.

The Government had been eager to subcontract these functions to the companies arguing that, "The oil industry is well organised and efficiently run. A large part of the world trade is in the hands of a relatively small number of big groups, who also own a very large proportion of the tanker fleets, and normally use a considerable part of the

⁵Shell SC7/P14, Notes of a meeting held at the Mines Department, 16 September 1938, 7.

⁶D.J. Payton-Smith, *Oil*, 77.

⁷PRO POWE 33, 1998, Meetings with the Mines Department, September 1938; Memorandum, "History of the Scheme", September 1938, 7-9. *Shell Magazine*, "The Story of the Petroleum Board", July 1948, vol. 28, 101.

⁸Shell SC7/P1/2, Article 2, Petroleum (No.1) Order 1940 made the Petroleum Board the sole supplier of petroleum products in Britain.

tankers owned by neutrals.”⁹ For this reason, “the Trade Committee I propose would be staffed by employees of the big Oil Supply Companies and that, therefore, such a scheme can only be put into operation with their agreement. The only alternative, if they refuse to fall in with the proposal, is for the Government very materially to strengthen its own organisation to deal with Overseas Supply and Tanker Tonnage allocation, an unsatisfactory alternative which I sincerely hope it will not be necessary to adopt.”¹⁰

The informal machinery that developed between the British and American Governments first arose from the British need to acquire oil. The ad hoc attempts to coordinate oil policies in the period when the United States was still neutral operated through informal corporate channels to by-pass the isolationists. In January 1940, Jersey transferred thirteen tankers to the Panamanian flag to provide assistance after the passage of the Neutrality Bill.¹¹ Fifty-five British flag vessels belonging to Jersey, Socony-Vacuum, and Standard-Vacuum, also came under the control of the Tanker Tonnage Committee.¹²

Such assistance tendered during a time of neutrality might appear to foster the idea of a cooperative ‘Special Relationship’ between Britain and the United States. However, there are contrasting perspectives on the ‘Special Relationship’ during the Second World War. These often focus on the effects of Lend-Lease. On 7 December 1940 Churchill informed Roosevelt of British inability to pay cash for shipping and supplies. On 17 December Roosevelt used the example of loaning a garden hose to a neighbour to put out a fire in his house. You need not want to sell the hose, only demand the return of the hose after the fire. This was his justification for the policy of Lend-Lease. There are different assessments of its effect on Britain. For Corelli Barnett, Lend-

⁹PRO POWE 33, 1104, “Memorandum by the Secretary for Mines”, 27 March 1940, 3.

¹⁰PRO POWE 33, 1104, “Memorandum by the Secretary for Mines”, 27 March 1940, 7.

¹¹BP 27775, New York Office War Diary, September 1939-May 1945.

Lease reduced Britain into an American satellite warrior-state.¹³ On the other hand, without the supplies made under Lend-Lease, “the viability of the British war effort would have been even more seriously in doubt.”¹⁴ By end of 1945 United States aid to Britain totalled \$26 billion while reverse Lend-Lease from Britain to the United States accounted for \$6 billion. However, there were also costs. Article VII attacked the tariff system promoting imperial preference. Lend-Lease could not be used by British manufacturers and exporters to compete with United States goods, particularly in Latin America, and British financial reserves had to be kept down.¹⁵ Such a view regards the relationship as competitive, with the Americans imposing conditions on the British.¹⁶

The debate about Lend-Lease is related to the debate about the utility of the war. For writers like Charmley, Chamberlain was broadly justified in his attempt to maintain British power through peace with Hitler or a limited war in 1940-1.¹⁷ The value of British private foreign investment amounted to approximately twenty-three thousand million dollars in 1938. Over one-third of this was realised during the war to purchase required materials.¹⁸ David Reynolds, on the other hand, persuasively argues that Germany had proven itself to be untrustworthy with regard to international agreements and was in active pursuit of global power. In these circumstances Britain needed the

¹²BP 37134, Legh-Jones to Wilkinson, 19 January 1940.

¹³Corelli Barnett, The Audit of War: The Illusion and Reality of Britain as a Great Nation (London: Macmillan, 1986).

¹⁴David Sanders, Losing an Empire, Finding a Role: British Foreign Policy since 1945 (London: Macmillan, 1990), 33.

¹⁵Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War (London: W.W.Norton and Company, 1991, 213-215.

¹⁶Randall Woods, A Changing of the Guard: Anglo-American Relations, 1941-1946 (Chapel Hill: University of North Carolina Press, 1990). William Roger Louis, Imperialism at Bay, 1941-1945: The United States and the Decolonization of the British Empire (London: Oxford University Press, 1978); William Roger Louis, “American anti-colonialism and the dissolution of the British Empire,” International Affairs 61.3 (1985): 395-420.

¹⁷John Charmley, Churchill's Grand Alliance: The Anglo-American Special Relationship, 1940-57 (London: Hodder and Stoughton, 1995), Foreword, xiv.; John Charmley, “The Complicated Relationship”, Review of International Studies 10 (1984): 165-173.

¹⁸A.G. Kenwood and A.L. Loughheed, Rev. ed. The Growth of the International Economy, 1820-1990 (London: Routledge, 1992), 251.

United States.¹⁹ This chapter argues that the British recognised the need for American support and shaped this diplomacy from a position of weakness, largely through effective use of their close relations with the British companies.

Between the attack on Pearl Harbour and the end of the Second World War, the Allies consumed almost seven billion barrels of oil, of which six billion barrels came from the United States. This was not surprising since, in 1940, the Middle East only produced about five per cent of world oil compared to sixty-three per cent for the United States.²⁰ Britain depended on American supplies with the result that there were two main issues - tanker allocation and production and allocation of aviation spirit. The supply of petroleum products from the United States was to constitute ninety per cent of the total supplied to the Allies during the war.²¹ The use of transgovernmental relations minimised the impact of this disparity and limited American preponderance.

When the United States declared war following the attack on Pearl Harbour, the British feared that official American participation in supply matters would lead to increased interest in overseas oil supply and would bring to light the discrepancy in the relative contribution of the partners. This could well jeopardise British control over her oil supply. They had learned this lesson from the comprehensive Anglo-French arrangements, which had prepared a permanent organisation dealing with different aspects of supply.²² The main problem which the French faced was that whenever they approached the British they were dealing as junior partners because the oil supply was

¹⁹David Reynolds, The Creation of the Anglo-American Alliance, 1937-41: A Study In Competitive Cooperation (London: Europa Publications, 1981), 63-92, passim.

²⁰Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power (London: Simon and Schuster, 1993), 379, 393.

²¹Daniel Yergin, The Prize, 393.

²²PRO POWE 33, 1446, K.L. Stock, "Information about French oil supplies and requirements", 27 November 1939. Daily Telegraph, 18 November 1939, There were six executive committees.

owned and controlled by the British.²³ It was, perhaps, this experience that persuaded the British that the informal approach would prove more effective in their relations with the United States than inter-governmental bargaining from a position of weakness. It has been argued that, "In the procedures of a combined committee British and Americans would have confronted one another from prepared national positions in circumstances which would dramatise differences and give mutual conflicts of interest the character of a national conflict of wills. In such collisions it was the British who would have to give way, just as the French had done to the British two years earlier, and for the very same reason – their dependence on supplies controlled by their partner."²⁴

There was a Combined Food Board, Combined Munitions Assignments Board, Combined Raw Materials Board, Combined Production and Resources Board and Combined Shipping Board, "in fact, a combined board on everything except oil."²⁵ Formal arrangements had been considered but rejected because of the risk of "putting too much control in Washington. Likewise we felt we might do better in a somewhat more unorthodox and more free manner." This involved something of a "personal racket" among the few of us dominating the oil situation here." The arrangements were resented by some Governmental actors in the United States but, "It has been a matter of no small pride that within a few months we have seen junior officers who 'belonged to the club' as it were, conniving with us to thwart the evil intentions of 'three ring' Admirals and the like, - a situation not often found in Washington."²⁶ This task was made easier, because in contrast with the close working relationship between British Government, Shell, and Anglo-Iranian, relations between the United States Government and her majors had become strained over the attitude toward the Mexican nationalisation and the

²³PRO POWE 33, 608, Starling to Agnew, 20 December 1939.

²⁴D.J. Payton-Smith, *Oil*, 252.

²⁵PRO POWE 34, 12, Wilkinson to Butler, 10 March 1945.

²⁶PRO POWE 34, 12, Wilkinson to Butler, 10 March 1945.

investigations into patent agreements with I.G. Farben, with the insinuation, if not allegation, that Jersey in particular, had placed profits before patriotism.

In striking contrast to Anglo-French relations in September 1939 the Anglo-American cooperation in oil matters predated the formal partnership at the end of 1941. In August 1940 the Chairman of the Petroleum Board, Sir Andrew Agnew, a retired director of Shell, went to the United States. He provided the Americans with a picture of British oil projects and problems; and also, at the British Government's request discussed the dollar payments problem with them. Continuing after this meeting, the Americans began to take British oil needs, particularly of aviation spirit, into account in planning their own production.²⁷ The British suffered from two shortages - tankers and aviation fuel. Both were due to military reasons.

The French had prepared for an attack through the Low Countries. However, the schwerpunkt of the blitzkrieg attack on France was the Ardennes sector north of the Maginot Line and German tanks blasted to the Atlantic coast. Yet although the Germans could now attack Atlantic and Channel shipping more easily they did not get control of French ships. The Royal Navy in denial operations destroyed those that resisted British control, for instance, at Mers-el-Kebir.²⁸ However, from bases on the Atlantic attacks on tankers could easily be made, in particular, by the U-boats. Tankers had to be re-directed from the east coast to the west coast of Britain. The limiting factor for oil imports was the shortage of suitable vessels for the east coast ferry service.²⁹ The eventual closure of

²⁷PRO POWE 33, 32, Report by the Representatives of the Office of Petroleum Co-ordinator and British Petroleum Department, "Supplies of Aviation Fuel and Lubricating Oils", 10 February 1942.

²⁸Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 172-175.

²⁹PRO POWE 33, 621, Faulkner to Rear Admiral H.R. Moore, 29 August 1940.

the south and east coasts was more significant than this tanker shortage for the drop in oil imports by one half in September and October compared to May and June 1940.³⁰

However, from June to November 1940, an average of 400,000 tons per month was lost. In spring 1941 the Royal Navy suffered further reversals in the eastern Mediterranean and North Africa, particularly the loss of Crete at the end of May. Following the 'destroyers for bases' deal in which British bases were exchanged for American destroyers, between mid-May and mid-June, Roosevelt sent ships through the Panama Canal, agreed to relieve the British garrison of Iceland and thus begin the escort of convoys. His envoy, Hopkins, was sent to Britain in July to prepare the way for the first meeting between Roosevelt and Churchill. He also went to Moscow to confer with Stalin. Their mutual trust of Hopkins and his recent talks with Stalin helped the productivity of the meeting of 9 August. This culminated with the Atlantic Charter but more immediately important was that the United States accepted responsibility for the western Atlantic from September 1941.³¹

The other problem was shortage of aviation fuel since the superiority of German troops on the ground in Europe meant that a British counter-attack had to be through the air. The Battle of Britain from mid-July to the end of October ensured that the Luftwaffe did not develop air superiority, which would have enabled an attack on southern Britain. The 704 planes of RAF Fighter Command faced 980 German fighters and 1,480 bombers.³² Large quantities of this specialist product came from Iran, but Anglo-Iranian's supply of black oils continued to decline because the tanker shortage had led to the adoption of the short haul policy, which directed tankers on the shortest route. With

³⁰PRO POWE 33, 597, Churchill to Lord Leathers, Minister of Transport, 13 December 1940.

³¹A.P.Dobson, "Economic Diplomacy at the Atlantic Conference," Review of International Studies 10 (1984): 143-163; Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 225. See Shell file: SC7/ P25 for a discussion of how new port facilities and storage depots, and an internal transport system had to be developed. Canals were used and pipelines were built between January and July 1941.

the Mediterranean closed to Allied shipping, Iran could not supply markets west of Suez. However, this decline was reversed when the Japanese captured Burma since the Burmah Oil Company destroyed the oilfields so effectively that the Japanese were unable to restore production and Persian Gulf production was needed to replace the loss of production from the Netherlands East Indies.³³

The Japanese attack on Pearl Harbour was partly driven by the imperative to reduce her dependence on potentially hostile raw material suppliers, particularly for oil. The Australian Government had been interested in a concession in East Timor in 1940 mainly because of the Japanese. Standard-Vacuum was invited to secure the political objective, as the names of British companies should not appear.³⁴ Roosevelt believed that the Japanese threat he faced was aimed at British and Dutch oil-producing territories, not the United States. Hull and the Japanese ambassador, Nomura, held forty-five meetings in 1941. On 16 June Ickes held up a shipment of petroleum from Philadelphia to Japan. Roosevelt came down hard on him, but contrary to the clear recommendation of the Navy, a total oil embargo was implemented from July, whatever the foreign policy 'decision' might have been among all these competing agencies.³⁵ "This embargo became the policy of the U.S. Government, as it were by default."³⁶ This episode shows how the blend of implementation and bureaucratic politics undermines the proposition that the state is a rational and unitary decision-maker and actor.³⁷

The overseas operations of American companies were organised under the Foreign Operations Committee set up in December 1941 and also working under the

³²Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 176-177.

³³PRO POWE 33, 653-8, Burma – rehabilitation of oil industry, March 1942 to May 1945.

³⁴BP 42974, Taylor to Kisch, 5 August 1940; BP 42974, Taylor to Lees, 30 August 1940; BP 42974, Memorandum of Consultation with Dr Idelson, 10 July 1940.

³⁵Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 248-9.

³⁶Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 249.

control of the Petroleum Administration for War (PAW). For foreign oil policies and programs the Foreign Operations Committee advised PAW. Production and refining in the United States was organised by industry committees under the control of the PAW. There were seven hundred oilmen working at the district level, and seventy-eight industry leaders worked for the Petroleum Industry War Council.³⁸ "For staff, the PAW and its predecessors turned to the oil companies, asking for qualified executives of long experience familiar with every aspect of the business."³⁹

The American oilmen were soon called to develop more formal links with their British counterparts. On 10 December 1941, three days after the attack on Pearl Harbour Germany and Italy joined their Axis partner by declaring war on the United States and the Anglo-American working partnership of 1939-1941 became the full war alliance of 1942-45. But another step in this direction had already been made with the advent of Lend-Lease in March 1941. The Neutrality Act had prevented the granting of credit to belligerents with the result that sums due for shipments had to be paid prior to loading.⁴⁰

4.2.2 THE RELATIONSHIP BETWEEN THE AS-IS COMMITTEES AND WARTIME SUPPLY ARRANGEMENTS: PERSONAL CONTINUITIES

In April 1941 Harry Hopkins was put in charge of Lend-Lease. This was very important as he had been Roosevelt's personal emissary to Churchill from 9 January for six weeks. Both leaders appreciated his work. The development of Lend-Lease made it necessary for the British Government to establish an office in Washington to carry out

³⁷Irvine Anderson, The Standard-Vacuum Oil Company and United States East Asian Policy, 1933-1941 (Princeton:Princeton University Press, 1975).

³⁸BP 52984, New York Management File, September 1939 to December 1944.

³⁹Kendall Beaton, Enterprise in Oil: A History of Shell in the United States (New York: Appleton-Century-Crofts, 1957), 558-9.

⁴⁰BP 27775, New York Office. War Diary, July 1940.

the work of requisitioning and receiving Lend-Lease oil.⁴¹ The dollar shortage had been a significant factor in finding supplies. Between June and August 1939, the companies needed forty-four million dollars.⁴² In London the Empire's requirements were centralised to take into account short haul and the conservation of dollars by using sterling sources, for instance, supplies from the Netherlands East Indies to New Zealand.⁴³ There was clarification that oil for Ireland was not covered under Lend-Lease.⁴⁴

On 16 May 1941 a Government representative arrived in Washington with the title of British Petroleum Representative to establish and operate a British Petroleum Mission there. This would work with the British Purchasing Commission and achieved five millions tons annually.⁴⁵ The British took the opportunity to negotiate with the United States for aviation fuel.⁴⁶ Apart from aviation fuel, the main priorities were the extension of Lend-Lease and the allocation of tankers. These objectives would ensure that dollar oil was available in the first place, and that it was possible to transport it to the United Kingdom.⁴⁷ Once the provision of Lend-Lease was established, and after the United States entered the war, at the beginning of 1942 the Petroleum Mission was merged with the British Merchant Shipping Mission.

The British Petroleum Representative became deputy head of mission under Sir Arthur Salter, and head of its 'Oil and Tanker Division'. This combination of roles called

⁴¹PRO POWE 33, 776, Bridgeman to Godber, 5 August 1941. PRO POWE 33, 772 for information about reverse Lease-Lend.

⁴²PRO POWE 33, 1034, Unsigned, Oil Companies' Requirements of Hard Currency, n.d.

⁴³PRO POWE 33, 776, Dominions Office to United Kingdom High Commissioner, 2 August 1941.

⁴⁴PRO POWE 33, 776, Kisch to Godber, 12 August 1941.

⁴⁵PRO POWE 33, 771, Note by Petroleum Department, 21 June 1941.

⁴⁶PRO POWE 33, 781, 1941, USA Lease-Lend. Starling's Visit to U.S.A. in Connection With Aviation Fuel Supplies.

⁴⁷PRO POWE 34, 8, 1942-1943, Priorities in the USA: Papers of the Office of the British Petroleum Representative in the U.S.A.

for a new appointment for the Government representative had no connection with the oil industry. During this time Harold Wilkinson, a director of Shell's American subsidiary, the Shell Union Oil Company from June 27, 1939 to January 2, 1942 and again from July 1, 1945 to February 20, 1953 had advised him. His Shell colleague, Frederick Godber, knighted in 1942 and made Baron Godber in 1956, was a member of the original board of the Shell Union Oil Company from February 8, 1922 to July 30, 1946.⁴⁸ From 1942 Wilkinson was publicly appointed to the new dual post and held this appointment until the end of July 1945.⁴⁹ But his appointment was not unchallenged within British Government circles. "I have not by any means reached the stage of making a recommendation, but we could not possibly use Wilkinson. He is a very charming fellow and will be of the greatest assistance but he is Shell plus American business = Shell²."⁵⁰ Ironically, it was these very factors which made him so effective. For instance Godber who remained a director of Shell Union, was chairman of the Overseas Supply Committee.

Wilkinson's personal role in the working of the wartime alliance was considerable. Payton-Smith notes that, "Mr Wilkinson's appointment in 1942 to the post of British Petroleum Representative had been warmly welcomed by the Americans, and his relations with the United States Petroleum Administration for War were close and comradely from the start." Developing a contrast with Anglo-French cooperation in oil Payton-Smith observes that, "Leading officials on both sides of the Atlantic were recruited from the oil companies for war service. Sometimes these British and American officials had worked for the same company and known one another for years." He concludes,

⁴⁸Kendall Beaton, Enterprise in Oil, 779-80.

⁴⁹BP 71483, Company War Record, New York War Diary, Chapter Fifteen Section 2.

⁵⁰PRO POWE 33, 771, Ellis to Bridgeman, 23 May 1941, 4.

There can be no doubt that this sense of solidarity within the international oil community was a very strong card in the hands of the outweighed British. They relied on that card and played it skilfully. From it, in the final analysis, they drew the strength to hold their own.⁵¹

Correspondence from February 1945 reveals how in spite of his preference to return to London his services were still required by the Government to front the discussions on Lend-Lease and Reciprocal Aid,⁵² and also to try to reverse the decline in United Kingdom stocks due to the shortfall in Atlantic tankers which had been sent to the Pacific theatre. He developed the role so that “his office was in the closest touch with all these agencies and was in fact in daily contact with them owing to the constantly changing picture but not through the medium of a formal committee.”⁵³

Wilkinson's influential position as the keystone of Anglo-American oil collaboration came from his civilian position as head of Shell's American operations and, consequently, his personal contact with the top oilmen on both sides of the Atlantic in the preceding decades. This supports the importance of looking at interactions on every side of the states and firms triangle. It also widens the concept of ‘international diplomacy’. The As-Is negotiations and re-negotiations were, as I argued in chapter three, a major factor in international oil diplomacy in the 1920s and 1930s. The company officials who met at these meetings developed the personal contacts, which later came to be so significant in the alliance politics of the war. The role of Wilkinson, evident from the records of the Ministry of Power, substantiates what was no more than a hypothesis in Louis Turner's work: that the same personnel were involved in the As-Is negotiations and the wartime committees.⁵⁴

⁵¹D.J. Payton-Smith, *Oil*, 479.

⁵²PRO POWE 33, 810, 1943-1944, USA Reciprocal Aid: Records and Statistics, PE/45/35/1 Part 1.

⁵³PRO POWE 34, 12, Meeting of Munitions Assignments Board, 17 January 1945.

The meetings of the London Conference in 1934 involved some of the most important oilmen in the world in the reform of the As-Is agreements. Three companies were represented, Shell, Anglo-Iranian, and Jersey. Many of these people later served in the Allied committees. Sampson writes, "The big companies held successive meetings in the early 'thirties to try to enforce the cartel... the last and most important meeting was in April 1934, when Exxon, Shell and BP met secretly in London to reformulate the Achnacarry Agreement."⁵⁵ I have identified five meetings out of that series and designate these A – E. There was a meeting of the General Committee on 25 April which examined the minutes relating to decisions taken on the general agenda (A). Those minutes were then approved in a meeting on 27 April (B). There was a third meeting on 30 April (C), and minutes of that were approved in another meeting (D). A final meeting was held on 4 May (E).⁵⁶ Clearly, some of the participants in the 1930s would have retired a decade later, so I have only dealt with those members who continued to work in the industry in the 1940s. The meetings dealt with different aspects of global cooperation and members would only attend those meetings with which they were directly involved. A member attending all meetings would have wider responsibilities than those attending only one or two. During the war, we would expect members attending all meetings to have been appointed to more general executive roles and those attending specific meetings to be responsible for those functions. This expectation was confirmed.

Among the representatives of Shell were Godber and Wilkinson. They attended all the meetings. Their role in Allied supplies cannot be overstated since Frederick Godber became chairman of the Overseas Supply Committee in the United Kingdom

⁵⁴Louis Turner, Oil Companies in the International System (London: George Allen and Unwin, 1978), 40.

⁵⁵Anthony Sampson, Rev. ed., The Seven Sisters: The Great Oil Companies and the World They Made (London: Hodder and Stoughton, 1993), 110.

⁵⁶BP 91058, London Conference. Minutes relating to decisions taken on general agenda, 25 April 1934; Minutes of meeting held on 30 April 1934; Minutes of meeting held on 3-4 May, Minutes relating to discussions taken on agenda, 30 April 1934; Minutes of discussion held on 4 May 1934.

while Harold Wilkinson served as the British Petroleum Representative to the United States. The first meeting was also attended by R.G.A. Van der Woude and F.A.C. Guepin, with the latter also attending the second and fifth meetings. Van der Woude became a member of the Petroleum Industry War Council. Guepin worked in the Mediterranean and Near East during the war while retaining his office and title with Shell Oil in New York.⁵⁷ Interestingly, Van der Woude was a director of Shell Union from May 21, 1931 to June 30, 1947 and Guepin became a director from April 5, 1951 to February 20, 1953.⁵⁸ These four people had been the representatives of the Shell Group in the London Conference of 1934 and played different yet complementary roles in the wartime administration. Another linking feature was that they all served on the board of the Shell subsidiary in the United States, the Shell Union Oil Company, renamed the Shell Oil Company on September 22, 1949.

Sir William Fraser, Basil Jackson, and David Heath Eves were representatives of Anglo-Iranian at the General Committee. Fraser attended all five meetings and was later the Honorary Petroleum Adviser to the Government and a member of the Petroleum Board.⁵⁹ Jackson only attended meetings A and B. In 1929-30 he helped to establish Anglo-Iranian's New York office and later became the company's chief representative in the United States. He returned to Head Office in 1935 but returned to New York during the war.⁶⁰ He worked in a supporting role to Wilkinson. Heath Eves attended meetings A, D, and E and managed the Tanker Tonnage Committee during the war. Jackson represented Anglo-Iranian on the Foreign Operations Committee, the committee which advised the Petroleum Administrator for War on foreign oil matters, but also served on the Producing Committee. There were other committees where less senior managers served in specialist capacities, but their presence in the United States predated the

⁵⁷Kendall Beaton, Enterprise in Oil, 1957, 634-5.

⁵⁸Ibid., 779-80.

⁵⁹Jim Bamberg, History of British Petroleum, 216.

formation of the Petroleum Administration for War. From the Anglo-Iranian, H. Cartwright-Reid arrived in the United States in September 1939 to assist in the purchase of supplies. He later served on the Materials and Supplies Committee and Package Goods and General Cargo Transportation Committee. D.G. Smith arrived in November 1939 as the technical adviser to the Representative and assisted in the Refining and Specifications Committee. A.M. Wylie arrived in January 1940 to become the assistant to Jackson, and apart from a place on the general committee, he also served in the Near East and Far East Supply and Distribution Committee, Bunkers Committee, Aviation Committee, and Economics Committee.⁶¹ The historian of British Petroleum notes that, "As the machinery of wartime control expanded, more and more Company employees were selected for membership of one committee or another until the mobilisation for war was so complete that the seam between the Company, other oil firms and the Government seemed scarcely to exist at all."⁶²

The only Jersey representative who attended all five meetings was Henry E. Bedford, Jnr. Orville Harden attended the first, third, fourth and fifth meetings. Donald Harper attended the first, third, and fourth meetings. John A. Mowinckel attended the second and fifth meetings. Frederick J. Wolfe attended the third meeting. In looking at the importance of the Jersey personnel it is important to look at two other meetings involving the three companies from the 1930s. One took place between 3-4 May, 1934 and involved Peter Hurl and W.D. Crampton and the other on 1 September 1936 which involved Orville Harden, Heinrich Riedemann, Harry G. Seidel and Walter Teagle.⁶³

⁶⁰BP Office Profiles, "B.R. Jackson", October 1950.

⁶¹BP 43853, Foreign Operations Committee, 1 February 1944; BP 71483, Company War Record, New York War Diary, Chapter Fifteen, 6.a.

⁶²Jim Bamberg, History of British Petroleum, 210.

⁶³BP 91058, Meeting, 3-4 May 1934; Minutes of Meeting, 1 September 1936.

Teagle, chairman of the board of directors and Harper, contact director for the foreign marketing companies both retired at the end of November 1942.⁶⁴ This does not imply that they did not play a major part in the wartime collaboration. In particular, Donald Harper had been the contact director for the London Council which was the administrative body for the International Association (Petroleum Industry) Ltd. established in 1936. Its members consisted of the heads of foreign affiliates involved in marketing and the London Council advised the executives of these foreign affiliates in their relations with Governments as well as companies. The Council arranged for the supply of products from Aruba to supply the United Kingdom market.⁶⁵ In 1936, Riedemann became chairman of the Council and Seidel was vice-chairman. Emile E. Soubry and Henry E. Bedford were both members. Soubry was in charge of advising the European marketing affiliates. Bedford was in charge of a department called Company Relations, which dealt with marketing problems and policies. Wolfe was managing director and later chairman of Anglo-American which was an European marketing affiliate while Crampton managed the French subsidiary. Mowinckel was managing director of the Italian affiliate, Hurll was active in the British affiliate, and Riedemann was a director of several German and Swiss affiliates. These three were also directors of the parent company.⁶⁶ All these individuals had played important roles in the inter-war period which involved close and ongoing contacts with the British companies.

During the war Bedford and Seidel coordinated with the British companies in London before Pearl Harbour by assisting with planning and directing tanker transport and controlling stockpiles and preparing to deny oil in countries threatened by the Axis. They "served as unofficial observers with the British committees and boards." While

⁶⁴Henrietta M. Larson, Evelyn H. Knowlton and Charles S. Popple, History of Standard Oil Company (New Jersey), vol.3, New Horizons, 1927-1950 (New York: Harper and Row, 1971), 465-466.

⁶⁵*Ibid.*, 321-2.

⁶⁶*Ibid.*, 320-2, 18-9, 331-2, 335.

Seidel was lost in a plane crash in 1943, Bedford continued throughout the war and “served in important capacities.”⁶⁷ Orville Harden was operating head of the staff department and later supervised foreign affiliates in Latin America. He became vice president in 1935. During the war he became the chairman of the Foreign Operations Committee.⁶⁸ Soubry was a British representative in Washington until 1943 when he was appointed to the position of Co-ordinator of Foreign Marketing for Jersey.⁶⁹ Harper worked closely with Wilkinson in the provision of Lend-Lease oil, which is discussed below.

In September 1939 Anglo-Iranian made a long-term contract for sale of products from Abadan with Standard-Vacuum, the joint venture between Jersey and Socony-Vacuum. The American personalities involved included William S. Farish and Orville Harden of Jersey, Walden of Standard-Vacuum and John A. Brown of Socony-Vacuum.⁷⁰ In January 1940 there was another meeting, this time attended by Farish and Brown again, but also Riedemann and Sheets. It was decided that in the circumstances they should not proceed, but the question should be regarded as suspended rather than abandoned.⁷¹ These personalities were also significant. Harold F. Sheets was to work in the New York office of Socony-Vacuum in 1941 and later company chairman.⁷² Farish served on the council of the Petroleum Industry War Council. He was president and chairman of the executive committee of Jersey from 1937 till his death in November 1942. “Other executives were on committees in areas where affiliates operated.” It was thus fitting that George S. Walden of Standard-Vacuum was head of the oil attache in the

⁶⁷Ibid. 387

⁶⁸Ibid. 19, 320, 462.

⁶⁹Ibid. 462.

⁷⁰BP 27775, September 1939, 1.

⁷¹BP 27775, January 1940, 4.

⁷²Bennett H. Wall, Growth in a Changing Environment: A History of Standard Oil Company (New Jersey), 1950-1972 and Exxon Corporation, 1972-1975 (New York: McGraw-Hill, 1988), Prologue, xxxvi; Daniel Yergin, The Prize, 414.

United States Embassy in London.⁷³ Brown was the President of Socony-Vacuum and sat on the executive committee of the Foreign Petroleum Operating Board on which Farish, Jackson and Wilkinson also sat, together with the Presidents of Socal, Gulf, Texas, and Atlantic.⁷⁴

Thus, the employment of senior industry personnel on both sides of the Atlantic resulted in the official engagement of many of the same individuals who had been the central players in the cartel negotiations of the 1930s. They used these contacts to achieve great efficiency and to maintain the private character of the Allied cooperation so far as practicable. This was important so that it was possible to minimise the disruptive effects of the war on their pre-war cartel arrangements, which is examined in the next chapter.

Wilkinson had been invaluable to the Government representative as his adviser on tanker matters because of his intimate knowledge of the personalities involved. He was instrumental in organising the New York shuttle service, which involved American tankers transporting oil from South America along the coastline to New York, then to be carried across the Atlantic in British tankers. This initiative was agreed between the companies and involved them in making use of existing facilities.⁷⁵ In 1941, two hundred and thirty actual tankers or three hundred and ten notional tankers of ten thousand dead-weight tons at ten knots were transferred. This excluded forty-three actual

⁷³Henrietta M. Larson, Evelyn H. Knowlton and Charles S. Popple, History of Standard Oil Company (New Jersey), 18, 466-7, 462

⁷⁴Michael B. Stoff, Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1941-1947. Yale Historical Publications, no. 125 (London: Yale University Press, 1980), 26, fn. 38.

⁷⁵Shell SC7/P29, January-November 1941. This file deals in considerable length with the Shuttle, how use was made of forty-two tankers and facilities owned by the Shell subsidiary, Asiatic Petroleum Company, and how this policy was used in conjunction with the product exchanges which are discussed in the next chapter.

tankers or fifty notional tankers, which were employed in the Shuttle service.⁷⁶ This traffic, compared with shipments direct from the South Atlantic, would already have saved by the end of April 4,480,000 ton days or, the equivalent of nine voyages each of 10,000 tons New York/London.⁷⁷

As the organisation of the shuttle was left to the companies, primarily Standard Oil of New Jersey and Shell, in many ways the most important personality became the linking agent, Wilkinson, in New York. Letters to the Petroleum Department demonstrate the importance of Wilkinson. One stated that, "we have just completed with Wilkinson survey of the re-arrangement of the Shuttle tonnage to cover as far as possible the quantities purchased."⁷⁸ Shell had extensive interests in the Americas as a whole through, for instance, its production and refining operations in South America and a major subsidiary in the United States. No one else shared the extensive contacts, and, therefore, trust with the Americans. This increased his stature in London. For instance, with regard to Overseas Supply Committee minutes relevant extracts from the minutes were sent to Soubry, Jackson and Sheets when applicable. However, "No copies are circulated beyond one complete set [sic], with all enclosures, including the monthly market report, to Mr. Wilkinson. Aviation. One copy is sent to Mr Wilkinson only. Relevant extracts are sent to Messrs. Soubry and Jackson when applicable."⁷⁹

Wilkinson also played a hugely important role with regard to Lend-Lease oil. The Petroleum Division would inform Wilkinson of demands which he passed on to the Foreign Economic Administration. Their approval would lead to the Army-Navy Petroleum Board, the procurement agency of the United States Government, obtaining the supplies. The Board was a joint supply agency set up in July 1942 by these two American services to handle their

⁷⁶PRO POWE 33, 644, Wilkinson to R.I. Metcalfe, Ministry of War Transport, 27 April 1942.

⁷⁷Shell SC7/P19, Godber to Geoffrey Lloyd, 3rd April 1941.

⁷⁸Shell SC7/P4/1, Unsigned letter to Bridgeman, 10 July 1941.

⁷⁹Shell SC7/P2/2, F.J.Hopwood to Godber, 28 November 1944.

oil requirements overseas. Obtaining Lend-Lease oil “involves an intimate day-to-day control of supplies and tanker tonnage which has been satisfactorily worked on an informal basis between the British Petroleum Representative in Washington [Wilkinson], and the U.S. agencies concerned, such as PAW [Ickes of Petroleum Administration for War], A.N.P.B. [Carter of Army-Navy Petroleum Board] and W.S.A. [Brewster Jennings of War Shipping Administration].”⁸⁰ Even in these agencies oilmen dominated. Brewster Jennings worked for and later became its President while Carter was “another oilman pressed into wartime service.”⁸¹ Thus, there was little difference from the time when “On assumption that your telegram refers only to bulk shipments to United Kingdom we are in full agreement with the procedure that you indicate and confirm our approval that Wilkinson-Harper Committee in communication with Petroleum Board should be the organisation for effecting shipment of Lend-Lease oil.”⁸² Personal contacts developed in the private oil diplomacy of the inter-war period were the effective link in Allied oil diplomacy.

4.2.3 THE TANKER PROBLEM

During the war the British feared oil shortages, partly due to the lack of the dollars, but mainly due to tanker shortages. Of the one thousand four hundred and ninety-one ocean going tankers, five hundred and thirty-two were engaged in the Allied trade.⁸³ The Battle of the Atlantic 1941-2 was a very important part of the war. Wilkinson revealed that the east coast tanker fleet on 15 March stood at two hundred and eight tankers, or two hundred and ninety-five notional tankers compared to the previous year's figure of two hundred and thirty actual tankers or three hundred and ten notional

⁸⁰PRO POWE 34, 12, R.N. Duke memorandum, “Assignment Procedure for Petroleum Products Obtained in the United States of America”, 24 January 1945.

⁸¹D.J. Payton-Smith, *Oil*, 163; Michael Stoff, *Oil, War and American Security*, 197, 136.

⁸²Shell SC7/P4/1, Outward Telegram. No.739 Fuel. Your No.32 Fuel, 16 July 1941. See Appendix 3 for the procedure for Lease-Lend oil and the Wilkinson-Harper Committee.

⁸³PRO POWE, 33, 617, Godber to Kisch, 21 March 1940. Enclosures A – E; Memorandum, “World's Tankers – Shell Fleet. Note on their disposition, 27 March 1940.

tankers.⁸⁴ According to John Keegan, if each U-boat had sunk one more merchant ship in summer of 1942, when losses exceeded launchings by ten per cent, then “the course, perhaps even the outcome, of the Second World War would have been entirely different.”⁸⁵ Yet the use of convoys and the American building programme meant that by the summer of 1943, the Allies had achieved victory over the U-boat.⁸⁶ By this time, petroleum supplies were needed for any Allied offensive, with “its tonnage approximating the total tonnage of all other war supplies combined.”⁸⁷

Tanker allocation was carried out in the United States and it was here that Wilkinson affected the outcome. London basically assessed the progress and Americans there monitored the use to which the British put their allocation. Nevertheless, the internal struggles between the civilian and military authorities also affected the representation in London. In May 1942, Ickes sent Walden, Chairman of the Standard-Vacuum Oil Company, to join the American Embassy as Petroleum Attaché. In June, Walden also took over the duties of the 'special naval observer' who, since September 1941, had been watching British tanker handling on behalf of the United States Navy Department and Maritime Commission. The Navy was concerned to allocate more tankers to the Pacific and, to this end, tried to limit the influence of oilmen in the allocation. Walden also attended meetings of the British Oil Control Board and its sub-committees. Given his background as a major representative of Standard-Vacuum in private international negotiations prior to the war, his appointment was positive for the British.⁸⁸

⁸⁴PRO POWE 33, 644, Wilkinson to R.I. Metcalfe, Ministry of War Transport, 27 April 1942.

⁸⁵John Keegan, *The Second World War*, (London, 1989), 123.

⁸⁶S.W. Roskill, *The War at Sea, 1939-1945* (London: II 1956), 94, 218, 485-6.

⁸⁷PRO POWE 34, 9, E.H. Boas (Ministry of Fuel and Power) to J.H. Gunlake (Statistics Division), 11 September 1943.

⁸⁸BP 43667., At the meeting of the Oil Control Board of 22 June 1942 a welcome was extended to G.S.Walden, US Petroleum Attaché. Walden represented the State Department, Office of the Petroleum Co-ordinator, Maritime Commission, Board of Economic Warfare “and would be helping ...with Lease-Lend matters affecting oil.”

4.3 1943-45: TOWARDS A COMBINED OIL PROGRAMME

Louis Turner comments that “whatever the hesitations of officials, governments had to work through the oil companies as these alone possessed the kind of specialist knowledge needed for running day-to-day operations as well as for making many long-term strategic decisions. The pattern of functional industry committees under a higher strategic body to consider wider political interests has seemed both natural and inevitable to the oil industry.”⁸⁹ Nevertheless, political interests did intrude, most notably over regional cooperation, aviation fuel, and tanker allocation. Wilkinson noted that, “slowly but surely the machine has started to take hold and all the different Governmental agencies and their subdivisions have become increasingly restive and anxious to have their fling...there is no doubt but that a more orthodox combined machinery would be far less vulnerable to such attacks.”⁹⁰ These ‘agencies and their subdivisions’ included the naval subcommittee of the Munitions Assignments Committee whose efforts are examined below. It also included the Petroleum Reserves Corporation whose plans are analysed in the next two chapters as they formed part of the background to the Anglo-American oil talks of 1944-5. The British followed a policy of resisting these bodies by putting forward their own plans for a far more limited combined machinery.

4.3.1 BUILDING ON THE INFORMAL ADMINISTRATION

As the last tankers from the civilian trade entered Allied service in 1942, Petroleum Co-ordinator Ickes lost the ability to influence tanker allocation. Wilkinson observed that “I have always had the most immense support from him in my dealings, and he has always been ready to accept political disfavor or difficulties in the course of helping our position when I could persuade him that circumstances properly

⁸⁹Louis Turner, Oil Companies in the International System, 40.

⁹⁰PRO POWE 34, 12, Wilkinson to Butler, 10 March 1945.

warranted.”⁹¹ The feeling was mutual as Ickes spoke of the “great assistance that your appointment of Mr Wilkinson has been to us in our petroleum work on this side...your selection of Mr Wilkinson is shown to have been a most fortunate one in practical terms, i.e. getting a highly important work done without friction and without delay.”⁹² As tanker allocation now involved the military authorities, the British were concerned that their influence would be decreased. However, Captain (later Rear Admiral) Carter, himself an oilman, now serving as Secretary of the United States Army-Navy Petroleum Board, supported the informal machinery “to look after matters, and generally hits the malcontents...a ‘smack in the eye.’”⁹³ However, as this was not a body comprised mainly of co-opted oilmen the ‘malcontents’ in the American Service Departments kept trying to retaliate.

In the first half of 1942 three million tons were sunk for the loss of fourteen U-boats, out of an operational total, at any one time, of one hundred. The situation became worse as the U-boats began to be deployed along the eastern seaboard of the United States. 1942 saw the destruction of eight million tons of Allied shipping and the tanker shortage worsened after the summer, for in June 1942 the United States won the Battle of Midway. As a result 150,000 more troops were used in the Pacific war than had been accounted for in earlier plans in which the Allies had planned to focus on the European theatre. By the end of 1943 the United States had two million troops committed against Germany and the same number against Japan. The diversion of shipping added to the shortages in Britain and plans to open a second front in Europe in 1942 were postponed.⁹⁴ If the British opposed the second front in Europe in 1943 too strongly this would support a diversion of resources to the Pacific theatre. The Combined Chiefs

⁹¹Shell SC7/P24, Letter from Wilkinson to William Fraser, 2 September 1943, 3.

⁹²PRO POWE 33, 808, Ickes to Lloyd, 21 May 1942.

⁹³PRO POWE 34, 12, Wilkinson to Butler, 10 March 1945.

⁹⁴Robin Edmonds, The Big Three: Churchill, Roosevelt and Stalin in Peace and War, 255, 278-9, 308-13.

agreed on a formula in January 1943, which would retain sufficient resources in Europe to take advantage of any favourable opportunity for the defeat of Germany.⁹⁵

The shortage of oil could prove disastrous. Hitler had been advised that “unless the Caucasian oilfields were won, the Reich would collapse.” Hence, the “primary idea” of the plan adopted for the invasion of the Soviet Union in 1942 was “the seizure of Russian oil” for by the end of 1941 Germany had barely one month’s supply.⁹⁶ At the Battle of Stalingrad, “the primary cause of the loss of momentum was lack of petrol.”⁹⁷ Rommel also blamed petrol for many of his difficulties.⁹⁸ Given that the British were dependent on supplies from the Americas they did not want any diversion of resources. But the American Navy continued to support a ‘Pacific first’ strategy. In October 1942 as the Naval establishment became more significant in supply issues due to the growing demands of the Pacific war the British wanted more information about naval needs and priorities in the Pacific. However, due to the unwillingness of the Services to divulge their needs to the civilians such integration between Service and civilian departments and even effective sharing of information failed in the United States.⁹⁹ The British oilmen, therefore, preferred an informal meeting with their American colleagues at the end of 1942 to discuss oil stocks. “I fully realise that it suggests a Mission comprised entirely of unofficials, but I put it forward without hesitation and with all facts before me. We are looking for results and the men whom I have proposed...are thoroughly versed in every phase of the oil situation.” It was proposed that the mission be headed by

⁹⁵Ibid., 320.

⁹⁶Major-General J.F.C. Fuller, Decisive Battles of the Western World and their influence upon History, Volume 3 – from the American Civil War to the end of the Second World War (RSPCA, 1956; reprint, Stevenage: Spa Books, 1994), 517-8 (page references are to reprint edition).

⁹⁷Ibid., 529.

⁹⁸Daniel Yergin, The Prize, 340-3.

⁹⁹D.J. Payton-Smith, Oil, 365.

Godber and Heath Eves and “should not be required to work under the British Petroleum Mission in Washington.”¹⁰⁰

Pre-empting any more formal American proposal and in an effort to break the deadlock and start combined programming, the Secretary for Petroleum, Geoffrey Lloyd, decided, in January 1943, to take a team to Washington. The agenda included discussions about supply responsibility for the North African theatre, the Caribbean Area Petroleum Committees and the allocation of tankers. Lloyd wanted a mechanism for the pooling of information.¹⁰¹ Simultaneously, the companies tried to influence the programmes managed by the Army Navy Petroleum Board using their “experience” as their major asset.¹⁰² This was a significant resource since all other parties conceded its importance. For instance, when a technical person was needed for General Eisenhower’s staff, the British identified a suitable candidate but had two caveats. First, there would not be any transfer without the permission of Godber, the Shell director and chairman of the Overseas Supply Committee. Second, if the role was not developing and the person felt underused, he would be permitted to return to work on the North African supply.¹⁰³

The supply of oil for the North African campaign, Operation Torch, led to the proposed creation of formal allocation machinery by the Americans. The British objected but claimed to have “no intention whatever on our side to question the prime responsibility of Washington, to decide in agreement with London, as to the sub-division of oil supplies between the West and the East.” But rather than establishing a quadrilateral arrangement between Algiers, Washington, London and Cairo, the British proposed that once London and Washington had agreed in detail on programmes, the

¹⁰⁰BP 43672, Question of Supplies. UK Stock Position. Mission to USA. Sir Andres Agnew to Geoffrey Lloyd, 19 December 1942.

¹⁰¹Shell SC7/P20, Lloyd to Churchill, 15 February 1943.

¹⁰²PRO POWE 34, 10, Letter to Sir William Brown, 6 September 1943.

¹⁰³PRO POWE 34, 10, Charvet to Godber, 2 July 1943.

information should be given to local headquarters who should pass it on to the companies. There was hope that the visit of Carter would provide an opportunity to “arrive at a mutually satisfactory arrangement.”¹⁰⁴ During the Lloyd Mission it was agreed that supplies to areas no longer involving operational questions, should be managed by the Overseas Supply Committee and Foreign Operations Committee machinery.¹⁰⁵ But this victory was not decisive.

The Americans then began to consider the setting up of a new body to allocate tankers. Brewster Jennings held discussions with the Ministry of War Transport in April 1943. (In May 1941 the Ministry of War Transport was created through the merger of the Ministry of Transport and the Ministry of Shipping. The purpose had been to combine “the management of our shipping with all the movement of our supplies by rail and road.”¹⁰⁶) They proposed replacing the Combined Shipping Adjustment Board, so far as tanker management was concerned, by a new Allied Tanker Co-ordinating Committee (ATCC). The committee was to be composed of the usual triumvirate - Carter, Jennings and Wilkinson, together with a British Admiralty representative. The committee was to have two main functions: to ensure that tankers were allotted to the trades they were best suited for; and to coordinate the work of the four tanker operating agencies (United States Navy Department, War Shipping Administration, Ministry of War Transport and Admiralty). The British remained opposed because of their suspicion about the Navy Department, with whom the new committee would be housed. They offered, instead, the compromise of an ‘informal committee’ which would not carry such official authority. This ‘informal committee’ was, in fact, the triumvirate, fed with fuller exchange of information. By January 1944, the Ministry of War Transport wanted a

¹⁰⁴PRO POWE 34, 10 Sir William Brown to Colonel Irish, 26 July 1943.

¹⁰⁵PRO POWE 34, 12, Brief for proposed conversation between Sir William Brown and Colonel Irish.

¹⁰⁶Winston S. Churchill, The Second World War, vol.3, The Grand Alliance (London: Cassell, 1965), 132.

complete analysis of tanker distribution and this necessarily required more than informal arrangements. Thus, they agreed with the idea of an Allied Tanker Co-ordinating Committee providing that it dealt only with tanker management, not priority so that it was for discussion of information, not executive decision making. Moreover, there was to be a twin committee structure with one in London, the other in Washington. Finally, there was to be no encroachment on the control of the Ministry of War Transport over British-controlled tankers.¹⁰⁷

This was not the only defeat for the Americans. On 15 June 1943, the Americans proposed the creation of a new permanent combined body, on which British, though not American, civilians might sit. The proposed Combined Petroleum Board was to be composed of four representatives of the Army-Navy Petroleum Board, and the same number of 'appropriate' British representatives.

Attempts to set up one over-arching co-ordinating body, the Combined Petroleum Board, foundered on Britain's uneasiness about putting what was, in effect, their combined civil and military supply operation under a committee whose US members would be entirely military.¹⁰⁸

The British maintained the informal working relationship of Wilkinson, Carter and the head of the War Shipping Administration's Tanker Division, Admiral Brewster Jennings as responsible for projecting the forward planning of tankers. This group liaised with the British Admiralty when convoys were organised.¹⁰⁹ On 10 October 1943, a British working party arrived in Washington to collaborate with officials of the Petroleum Administration for War, the War Shipping Administration and the Army-

¹⁰⁷D.J. Payton-Smith, *Oil*, 371-374.

¹⁰⁸Louis Turner, *Oil Companies in the International System*, 39.

¹⁰⁹PRO POWE 33, 778, extract from letter from Sir Cyril Hururb, 8 June 1943.

Navy Petroleum Board in drawing up the first United Nations Oil and Tanker Programme.¹¹⁰

4.3.2 REGIONAL MACHINERY

Beneath this machinery for policy coordination the Allies made a series of ad hoc arrangements in the course of 1942 to cooperate at operating level in each area or 'theatre' since where sterling and dollar resources existed side by side there was an obvious need for local coordination. Two examples were the Caribbean and the Persian Gulf. In the Persian Gulf the main issue was that its cheap production had been limited by the As Is and associated arrangements so as not to disturb world market prices and existing market positions. Thus, the Socal concessions and refinery at Bahrain established in the 1930s became a problem since it introduced a new supply source into the eastern area. For this reason, Socal was a disruptive element in As Is though the merger with the Texas Oil Company which created Caltex eased the disruption as Texas had well developed markets in the eastern hemisphere.¹¹¹

In spite of this, the development of the concessions and refinery led to increasing supplies which persistently led to Caltex pressing for increased sales in markets like Egypt, India and Australia. There were continuing attempts to bring them within the cartel. The Company War Record of the Anglo-Iranian Oil Company describes how "an arrangement had been made by members of the Bunker Pool to allow the Caltex an outlet of 200,000 tons per annum in the bunker market. This arrangement was made by permitting Caltex to pick up business at agreed prices at ports such as Port Said and Colombo, and if they failed to sell their full allowable tonnage, the major companies

¹¹⁰Shell SC7/P23, Petroleum Mission April-May 1944.

¹¹¹Daniel Yergin, The Prize, 299.

agreed to lift the balance direct from Bahrain.”¹¹² A large portion of this was with the Anglo-Iranian subsidiary in Italy but this arrangement came to an abrupt end when Italy entered the war against Britain. Caltex insisted that other groups lift the difference, but they did not; and this led Caltex to seek to obtain different bunker business. In 1938, Bahrain's output had been equal to only one-tenth of that of Abadan, but due to its sales in the eastern hemisphere which were unaffected by war, by 1941 there had been an increase of forty per cent in contrast to Abadan's decrease by forty per cent. On the thirtieth of January 1940, at a meeting of the Oil Control Board, there was a suggestion “that as regards Bahrain, as soon as matters had been further developed regarding Abadan, Caltex should be asked to reduce their proportion in the same ratio as will be applied to the Anglo-Iranian.”¹¹³

Caltex were uninterested and by March 1941 Abadan's prospective loss of outlet due to strict enforcement of the short-haul policy led to the Trade Control Committee putting to the Petroleum Division a scheme for compensating members of the Petroleum Board adversely affected by this development. The British Government on grounds of principle turned down this proposal.¹¹⁴ The proposal was the result of prior talks with Singleton, the London representative of the Texas Oil Company, and consequently involved the idea that the American as well as the British companies would be compensated for the loss in business. The failure of this state-firm initiative led to the breakdown of a possible inter-firm agreement. Singleton had wanted compensation for

¹¹²BP 71480, Company Record, Chapter Four , Section Six, part a.

¹¹³Shell SC7/P13, Oil Control Board, Minutes of meeting of 30 January 1940.

¹¹⁴BP 71480, Company Record, Chapter Four , Section Six, part b. There were three main issues at stake - political questions between the U.K. and Reza Shah, enforced unemployment in Iran through reduced production, and loss of revenue to Anglo-Iranian. One proposal was to bring all three of these issues on to a financial basis so that political questions, and questions of unemployment would disappear having been liquidated by financial consideration. They suggested a royalty for the Shah, money for unemployed or road works or other public service, and compensation to AIOC by agreement in London. Thus, the problem might be treated in the same way as the premium on Roumanian oil in London, or through the whole Empire through the Trade Control Committee of the oil industry introducing price schedules with a sliding scale approved by HMG. Shell SC7/P19.

restricting Bahrain output. The unwillingness to offer any compensation led to the temporary breakdown of the talks.¹¹⁵

The failure of these state-firm discussions led to reliance on firm-firm negotiations. Basil Jackson in New York entered into discussions with Standard-Vacuum for sales from Abadan and spoke with Herron of Caltex (sometimes referred to in Anglo-Iranian correspondence as 'Wading Bird') to come to an agreement. Proposals were passed to Caltex through Singleton suggesting an exchange of figures. Caltex refused to limit production or exchange figures, instead arguing that since it was geographically closer, all Bahrain production should be distributed before any oil from Iran, in strict compliance with the official short haul policy. These disagreements became less urgent as, in the event, the Japanese invasion led to the collapse of the Far Eastern markets and by the middle of 1942 the level of deliveries from Bahrain had fallen substantially.¹¹⁶ Between May and July information exchange began but the resulting agreements were not purely private arrangements. The situation of these two refineries and their rate of production involved issues including their concessionary obligations and so both the British and the United States Governments gave their approval to the agreement, which was reached. The agreement which was reached in August 1942 permitted Bahrain to continue with its average production level for 1939-41, which was only ten per cent below maximum. Anglo-Iranian agreed to lift any quantities which Caltex were unable to dispose of through normal channels. The price was fixed as the "price level had, by that date, been agreed to by all the other major oil companies buying at Abadan."¹¹⁷ So that Caltex could increase black oil production for naval use in the Pacific there was a short termination period and a note about force majeure. Due to high bunker

¹¹⁵Shell SC7/P19, Letter to Starling, Petroleum Department, from Sir Andrew Agnew, Sir William Fraser and Heath Eves, 24 April 1941. In cable from New York, no. 1838, 28 April 1941, Singleton refused to consider a reduction in offtake without compensation. BP 63649, Cables exchanged with Basil Jackson regarding sales/product exchanges with American companies from Abadan between 1941 and 1942.

¹¹⁶BP 71480, Company Record, Chapter Four, Section Six, part b.

requirements from the Navy, Anglo-Iranian's liftings from Bahrain were in white fuels. In the eighteen months up to December 1943, Anglo-Iranian purchased 204,000 tons of benzene and 87,000 tons of kerosene from Caltex who made net purchases from Abadan of 127,000 tons black oils. "Actually it seems probable that during this period, their production of black oils slightly exceeded their allowable figure but, having regard to the way in which the situation was developing at the end of 1943, this was not a matter of great concern to us."¹¹⁸

The collapse of supply from the Netherlands East Indies due to the success of the Japanese invasion led to increased demand from Abadan. The new situation brought about the formation of the Middle East Petroleum Supply Committee as a sub-committee of the Overseas Supply Committee. Anglo-Iranian's Spooner became its Chairman. The role of this new administrative body was to coordinate production of various refineries so as to meet Allied demand. It arranged with Caltex production above the allowable margin so that "although the Agreement nominally continued to operate after this date this variation meant that it ceased to be of any importance."¹¹⁹ Indeed, Caltex remained reluctant to make any sort of restrictive arrangements as the Aramco refinery in Saudi Arabia started to operate.¹²⁰ Caltex was increasingly supported in Government circles, especially after the return of the DeGolyer fact finding mission from the Middle East which had concluded that the centre of world oil was now shifting to the Middle East.¹²¹ The increasing American interest in the Middle East is examined in the next two chapters.

¹¹⁷BP 71480, Company Record, Chapter Four, Section Six, part c.

¹¹⁸BP 71480, Company Record, Chapter Four, Section Six, part d.

¹¹⁹BP 71480, Company Record, Chapter Four, Section Six, part d.

¹²⁰BP 71480, Company Record, Chapter Four, Section Six, part d.

¹²¹Shell SC7/P24, Petroleum Reserve Corporation; DeGolyer Mission, September 1943-March 1944. Claims that the British were restricting production to store up for a post-war advantage tied in with the fear of depletion of American reserves and British pre-eminence in the Middle East. This affected the production and supply strategy as Abadan which had been sidelined due to

In the Caribbean region companies including Jersey and Shell operated oilfields in the South American mainland in Venezuela and Colombia, and refined most of the output from these fields on the Dutch West Indian islands of Aruba and Curacao. The crude oil was ferried from Venezuela to these refineries in a fleet of shallow-draught tankers, and the refinery products were exported to Britain and other markets. Apart from these sources on Dutch territory, two British oil companies, Trinidad Leaseholds Ltd and Shell, operated oilfields and refineries on Trinidad side by side with smaller British crude oil-producing companies. Refining policy in 1942 was to produce maximum quantity of white products, and to keep the combined output of fuel oil from exceeding market requirements. On two occasions towards the end of 1942, and again in the spring of 1944, the Shell refinery on Curacao was brought almost to a halt because all the storage space available had been filled with unwanted fuel oil.¹²² In circumstances like this there was clearly an urgent need for coordinating machinery; for one thing the production policy required that refineries should only treat the lightest of the local crude oils regardless of ownership connections. At a meeting held in Aruba it was decided that all the companies with offices in New York should set up a committee there, as a sub-committee of the Foreign Operations Committee, to coordinate refinery operations. Later the scope of the sub-committee was widened to include oilfields as well. This Caribbean Area Petroleum Committee met for the first time on 9 December 1942, and set up separate sub-committees to deal with production and refining. The intervention of the Foreign Operations Committee had important implications:

This new organisation created a number of sub-committees, which set about the collection of an enormous amount of information regarding the oil fields, refineries, distributing facilities and the pre-war trade of its members and other companies in nearly all the countries of the world apart from the U.S.A. The collection of this information which was handled here by

short-haul was provided with the means to increase its black oil production to supply Asian markets, and not only 100 octane aviation spirit.

¹²²Shell SC7/P33, Trinidad: Supply Position, November 1940-February 1942.

Distribution Department has continued at intervals up to the present date and at times has involved a very great amount of work on this side. These data when completed were made available to the Governments of the USA and the UK and in principle to all companies who assisted in preparing the information, so that it may be said that the major companies operating world wide no longer have any important secrets from one another in regard to their past and present activities.¹²³

Much of this information was to become important as the basis for the post-war antitrust cases brought against the companies. The companies had been aware of this eventuality, and it had affected their decision to assist the United States Government for, "It should be added that the power of these US Committees were circumscribed to a greater extent than in this country by the fact that they acted directly under the instructions of the PAW [Petroleum Administrator for War]. The majority of the PAW executive officials were formerly prominent members of oil companies and therefore possessed a detailed knowledge of the industry which enabled them to establish a considerable control of the companies' operations, although this does not imply that the PAW's activities were necessarily more welcome to the Oil Companies than they would have been in this country. Further, the US Oil Companies always had at the back of their minds the fear of proceedings under the Anti-Trust Laws against which the Committee set-up was intended to protect them and for this reason they were anxious to work in the closest collaboration with the Government organisations."¹²⁴

This American initiative in the Caribbean had been watched with mixed feelings in London.¹²⁵ Regional cooperation would be useful but they did not want the production policy of British companies in the area to be determined in New York. Both the Government and companies realised that it would reduce Britain's independence and so as a counter move it was decided to set up an equal and parallel committee in London, composed of representatives from all oil companies operating in the Caribbean with

¹²³BP 71480, Company Record, Chapter Four, Section Eight, part b.

¹²⁴BP 71480, Company Record, Chapter Four, Section Eight, part b.

offices in London. This Caribbean Area Petroleum Committee (London) also held its first meeting towards the end of 1942. The next step was to get the Americans to acknowledge its authority. In January 1943, the whole question of cooperation in the Caribbean was raised during Lloyd's visit to Washington. The twin committee system was formally adopted. It was laid down that if cooperative action between 'sterling' and 'dollar' companies was called for, the approval of both the London and New York committees would have to be obtained. In 1944, when the Americans suggested further amendments to the organisation, the British remained suspicious:

I pointed out that the tone of PAW's observations made me wonder whether this was the beginning of another attempt to get control of Curacao and Trinidad into American hands, and that our views on this had not changed. I have now received a cable from Wilkinson in which he says that he thinks the policy has been at fault and not the mechanics, none the less, just so long as we run into this recurrent trouble, a number of people are going to feel that the cure lies in improving centralisation or co-ordination of information. Wilkinson suggests that it is not exactly the control that is at stake in the normal sense of the word but an incessant demand for machinery which will speed relevant information from one source and eliminate the delays which are alleged to result from the present triangular route. It appears to Wilkinson that the only stable counter argument is that the policy of allocation is at fault. Until that is rectified no improvement in mechanics can provide more than a palliative or conversely that if the allocation policy is straightened out then the present mechanics will satisfy.¹²⁶

Hence, the British continued to argue that effective allocation was more important than the machinery, and that information was necessary for effective allocation. Thus, while the Americans sought more publicly accountable machinery, the British focused on achieving more information. In this, they were supported by the companies.

¹²⁵D.J. Payton-Smith, *Oil*, p.259.

¹²⁶Shell SC7/P5/3/2, Starling to Godber, 16 March 1944.

4.3.3 TRANSGOVERNMENTAL COALITIONS AGAINST THE UNITED STATES

NAVY

The Service Departments also tried to increase their control over the allocation of tankers. In 1942 the then Chairman of the Munitions Assignments Committee (MAC (Navy)), had asked that petroleum could be exempted from prior assignment procedures whereby the MAC (Navy) would assess claims for oil prior to assessment by the Foreign Economic Administration which examined all Lend-Lease claims. The Combined Munitions Assignments Board (CMAB), of which MAC (Navy) was a subcommittee, endorsed schedules of approved lease lend oil in arrears. However, in November 1944, at a specially convened meeting, Admiral Reeves recommended a reversion to prior assignment by the Navy Department, which was unanimously approved.¹²⁷

The special meeting of the MAC (Navy) was called at less than a day's notice. The Admiral announced that in future assignments would be made monthly in advance by MAC (Navy). He provided a schedule which he claimed to have agreed with all parties. The British representative, Admiral Walker, had dissented arguing that the MAC (Navy) was not competent to scrutinise the figures and that "the way the recommendations had been compiled was a travesty of any combined committee procedure, and only in fact represented a unilateral effort to press through allocations designed to meet certain objectives laid down by the U.S Chiefs of Staff."¹²⁸ The British Chiefs of Staff pointed out that MAC (Navy) itself had originated the policy because actual deliveries depended on transportation which could not be predicted.¹²⁹ Moreover, there was a veiled threat that the London Munitions Assignments Board might begin

¹²⁷PRO POWE 34, 12, Memorandum by United States Chiefs of Staff, "Assignment of Petroleum Products", 9 January 1945.

¹²⁸PRO POWE 34, 12, Wilkinson to Duke, 25 January 1945, 3.

¹²⁹PRO POWE 34, 12, Memorandum by the Representatives of the British Chiefs of Staff, "Assignment of Oil Products for January 1945", 29 December 1944.

prior assignment procedures for the large per centage of the Pacific fleet's oil which was drawn from British controlled sources.¹³⁰

The British recognised that Combined Munitions Assignments Board "insist that the present machinery" be turned into a subcommittee, but writing to the Joint Staff Mission they observed that "Wilkinson's views have been asked" and we "welcome your views after consultations with Wilkinson."¹³¹ A letter to Wilkinson the next day noted that "the Principal Administrative Officers' Committee decided that you should be consulted about it" and wanted him to consult the Joint Staff Mission. The proposal was that this new body should be linked with C.M.A.B. directly rather than through MAC (Navy) or any other subcommittee. Moreover, it should be "handled by the same officers and in substantially the same way as at present." By existing machinery they meant, "yourself and the representatives of PAW [Petroleum Administration for War], A.N.P.B. [Army-Navy Petroleum Board] and any other bodies with whom you have contacts."¹³²

Wilkinson had written a memorandum for British military personnel on C.M.A.B. and the Joint Staff Mission and wondered if some of "your own British military friends" in London might not find it useful.¹³³ For given the British dissent in the C.M.A.B., the status given to the American members in London had been queried.¹³⁴ In fact, they were invited to all meetings and were "more than sympathetic to our point of view, but the military members had their hands tied by the directions issued by the United States Chiefs of Staff."¹³⁵ Later, Admiral Reeves was revealed as "the villain of

¹³⁰PRO POWE 34, 12, Memorandum by the Representatives of the British Chiefs of Staff, "Assignment of Petroleum Products", 16 January 1945.

¹³¹PRO POWE 34, 12, Telegram to Joint Staff Mission, Washington, 29 December 1944.

¹³²PRO POWE 34, 12, Duke to Wilkinson, 30 December 1944.

¹³³PRO POWE 34, 12, Wilkinson to Starling, 30 December 1944.

¹³⁴PRO POWE 34, 12, Wilkinson to Starling, 25 January 1945.

¹³⁵PRO POWE 34, 12, Starling to Wilkinson, 27 January 1945.

the piece”¹³⁶ and when Carter discovered that no one in the A.N.P.B. had been consulted before the allegedly agreed schedule, “This fact...gave him an ideal opening to really attack his enemies.”¹³⁷ It was generally agreed that the episode was a military move designed to enable the American Chiefs of Staff “to enforce their own views regarding reduction of the stock level in this theatre.”¹³⁸ Admiral Reeves had accused the British of trying to maintain the high stock levels agreed for Operation Overlord, the invasion of Europe, while operations in the Pacific were working with a buffer of between two and three days only.¹³⁹

While this initiative failed, Wilkinson feared that some “more orthodox combined machinery” was now needed as the problem was no longer tanker shortage but meeting the demands of products. Nevertheless, “this will undoubtedly take the form of establishing parallel boards or committees in London and Washington.”¹⁴⁰ In other words, as with aviation fuel the British would agree to formal machinery, but only when it would provide gains. Moreover, the twin committee system would be maintained. The British rather than the Americans set the pace for Allied cooperation in oil, even though the oil was American.

Over aviation fuel the British realised that they would achieve better results by opting for formal combined machinery since it was produced for military purposes. British contacts with United States civilian agencies could be little help in this particular battle. Accordingly, the British pressed strongly at all levels for the setting up of combined allocation machinery that, as Air Chief Marshal Sir Charles Portal put it, would enable that “the limited amounts available should be distributed where they can

¹³⁶PRO POWE 34, 12, Wilkinson to Duke, 9 February 1945.

¹³⁷PRO POWE 34, 12, Wilkinson to Duke, 25 January 1945.

¹³⁸PRO POWE 34, 12, Duke memorandum, “Assignment Procedure for Petroleum Products Obtained in the United States of America”, 24 January 1945.

¹³⁹PRO POWE 34, 12, Wilkinson to Duke, 25 January 1945.

do most good.”¹⁴¹ In fact, production of aviation fuel both in the United States and in other parts of the world developed more quickly than expected with the aid of a new and simpler process, developed by the Anglo-Iranian Oil Company, for the manufacture of iso-butane.¹⁴² This gave Anglo-Iranian an important role to play in aviation fuel as examined in the next chapter. Moreover, even in the issue area of aviation fuel Wilkinson or his deputy attended the meetings of the Aviation Petroleum Products Allocation Committee and the Munitions Assignments Committee (Air). Finally, aviation fuels produced by British refineries were controlled from London. From the spring of 1942, there were attempts to impose upon A.P.P.A.C. to allocate the output of Curacao and Trinidad 100-octane plants, which, for ‘short-haul’ reasons, was distributed within the American area of supply responsibility. In September 1942 the Chairman of APPAC led a mission to London to discuss these issues.¹⁴³ The British responded by setting up an Aviation Petroleum Products London Assignments Committee (APPLAC) to allocate sterling production.¹⁴⁴ Even where formal combined machinery developed, the use of corporate contacts, control over British property and twin-headed committee systems were adopted.

4.4 CONCLUSION

British wartime diplomacy in oil depended to a large extent on the corporate ‘diplomats’ of the inter-war period. With regard to relations among firms, Bull’s

¹⁴⁰PRO POWE 34, 12 Wilkinson to Duke, 12 January 1945.

¹⁴¹D.J. Payton-Smith, Oil, 261.

¹⁴²Jim Bamberg, History of British Petroleum, 198-204.

¹⁴³Shell SC7/P34, United States, Aeronautical Board: Mission To The United Kingdom, September 1942.

¹⁴⁴PRO POWE 33, 988, United Kingdom Aviation Products Co-ordinating Committee, Minutes of Meeting, 21 October 1942; PRO POWE 33, 983, Aviation Petroleum Products London: Assignment Committee, Minutes of Meetings. Its other members were from the Petroleum Department, the Ministry of Aircraft Production (which was responsible for U.K. production of 100-octane fuel, mainly at Billingham), the two American services and United States Petroleum Attaché, from D.J. Payton-Smith, Oil, 263.

discussion of the role of diplomacy may be fruitfully applied to these men. Bull argued that diplomats served several purposes. These included employment as envoys, intelligence gathering, and reduction of international friction in oil supply. Cooperation in oil was based on company diplomacy working against the grain of Anglo-American rivalry.

Wartime Anglo-American oil cooperation was orchestrated through corporate managers who had worked together in private committees in the inter-war period. The most outstanding individual was Harold Wilkinson, chairman of Shell's subsidiary in the United States. Amicable and effective relations between the British companies and authorities meant that British demands had a more privileged status before the industry-manned committees than they would have had in formal intergovernmental relations. The British Government supported the companies in resisting more formal machinery. Wilkinson of Shell was the lynchpin of the system and claimed to be,

perfectly satisfied that we never could have got the results over the last few years if we had worked through the rather shackling methods of complete orthodoxy with its combined secretariat, its formal meetings, minutes, etc. We would always have been less vulnerable and certainly would have minimised personal responsibility and generally have had less headaches, but I can unhesitatingly and with complete conviction say that we would also have paid the price of having a damn sight less oil...we have up to very recent times had a strength which the orthodox machinery would never have given us.¹⁴⁵

Allied cooperation in oil was largely managed through a committee structure designed and manned by the industry operating transgovernmental policy coordination. Transgovernmental policy coordination refers to activity designed to facilitate smooth implementation or adjustment of policy, in the absence of detailed policy directives from higher offices. It was possible for the British to use their corporate contacts to prevail upon their American friends to assist in Britain's chronic tanker shortage. But there was

also evidence of transgovernmental coalition building as the British oil authorities, the American civilian authorities, and Commodore Carter united to defeat the plans of the American Service Departments to control tanker allocation.

The chapter queries the assumption of the unitary and rational state as the central actor in world politics in two ways. First, Allied collaboration involved transgovernmental rather than intergovernmental negotiations and second, these transgovernmental relations involved company rather than civil servant managers in making and implementing policy. There is a double movement against the centrality of the unitary and rational state actor: from intergovernmental to transgovernmental, and from transgovernmental relations among public bodies to transgovernmental relations involving non-state actors seconded to the Government.

The main historical point is the role of warm company relations as a result of intercompany 'diplomacy' in securing Allied supply in the teeth of Anglo-American tensions which detract from the vision of a 'Special Relationship'. The key theoretical point is to emphasise transgovernmental relations. The two are related because intercompany diplomacy would be more effective in transgovernmental relations, and more marginalised in intergovernmental relations. The companies could potentially use this privileged position to secure their own agendas. Whether they did so is examined in the next chapter. The findings also tend to widen the scope of the concept of 'national power'. In so far as the company managers played a decisive role in Allied oil cooperation and the British authorities were able to manipulate their closer relations with these foreign policy actors to achieve the foreign policy objective of increased oil supplies, the companies may be regarded as an aspect of 'British' resources in the oil issue area.

¹⁴⁵PRO POWE 34, 12, Wilkinson to Butler, 10 March 1945.

CHAPTER FIVE: INTERFIRM RELATIONS AND REGULATED TRADE WARS DURING THE SECOND WORLD WAR

5.1 INTRODUCTION

Contacts between the international managers of the different companies in the inter-war period provided the basis for the wartime Anglo-American collaboration. Large numbers of senior personnel in the wartime committees had been previously working together in the inter-war cartel committees. These personnel now became the effective organisers of the oil effort; rather than simply implementing policy, they were shaping policy. Both the companies and the British Government effectively opposed attempts by the United States Government to subject the 'system' to more formal and transparent intergovernmental control.¹ Nevertheless, wartime pressures tore through many of these arrangements leading to a trade war during the Second World War. However, it is crucial to appreciate that this trade war was not a fight-to-the-death of the sort that might have been expected in an undifferentiated international anarchy. Instead it was shaped by and in its turn reinforced the society of majors. Hedley Bull wrote that war might perform three roles in international society – restoring the balance of power, enforcing international law, and promoting just changes.² Wars fought for any of these purposes may be said to demonstrate the vibrancy of an international society rather than its breakdown.

¹D. J. Payton-Smith, interview by author, 31 January 1994. He remarked that, "I have no doubt that they had their own agendas. It would be interesting to know how these were treated during the war." Through the courtesy of British Petroleum and Shell in providing access to hitherto untapped archive sources, it is now possible to establish that the companies maintained their prewar arrangements as far as was practicable.

²Hedley Bull, The Anarchical Society: A Study of Order in World Politics (New York: Columbia University Press, 1977), 188.

The As Is arrangements were designed to provide order in the international society of majors through mechanisms such as pricing structures and quotas which would support its less formal institutions. In the inter-war period these mechanisms continued to develop. However, during the Second World War, the embargo of markets such as Germany and Japan, the changing supply needs of the Allies in response to evolving wartime needs, the development of new products such as aviation fuels, changing transport routes due to threats from U-boats, and the emergence of new customers such as the United States navy all resulted in disruption of pre-war arrangements. As Governments became leading customers they became more interested in pricing mechanisms and concerned to dictate them. In these circumstances the oilmen managing the Allied oil diplomacy and industries tried to limit the disruption by reforming the mechanisms. Thus, As Is mechanisms were reformed, but not abandoned.

This task was complicated by the attempt of interests centring on Caltex, whose parents were Socal and Texas, to improve their own prewar position and expand their own Persian Gulf production. Apart from the short-term difficulties in reforming the agreements, the longer-term issue was that any company establishing a strong position in the Persian Gulf would become far more important and perhaps offer a challenge to the domination of Jersey, Anglo-Iranian and Shell. The inter-war regime had restricted Persian Gulf production by establishing Gulf of Mexico pricing as the global standard and establishing quotas. Since increased market share could not be achieved because of the quotas there was no need to exploit cheap Persian Gulf production in a price war. Moreover, lower production costs ensured that Persian Gulf producers earned super-profits when they sold at the global Gulf of Mexico prices. The system worked well so long as it appeared that United States production could continue indefinitely. However, coupled with depleting American reserves was a growing recognition that the huge reserves of the Persian Gulf would soon place it at

the centre of world oil production. All companies realised that Persian Gulf production must increase; they also realised that different companies must share in this to maintain a balance between the parties. Thus, on the one hand, the companies tried to patch up the disruption caused by the war to existing arrangements, while, on the other, they sought a deeper solution that would increase American participation in anticipated post-war Middle East production. The first of these strategies forms the subject of this chapter, the second is examined in chapter 6.

Many of the attempts to adapt the old legal regime foundered on uncertainties about the likely extent of Government regulation in the post-war world. The companies pushed for Anglo-American oil talks among public officials to clarify the limited role of Government and support the removal of restrictions on Persian Gulf development, caused in particular by the Red Line agreement which effectively prevented Jersey and Socony-Vacuum from joining the Caltex concession in Saudi Arabia. Persian Gulf production was likely to become more important than production in the Americas and the Dutch East Indies, both because of its natural reserves but also because the fields in the Americas had been more exploited and those in the Dutch East Indies were war damaged. American companies therefore feared that unless they could enter and expand in the Middle East they might lose their existing marketing positions. Moreover, Anglo-Iranian might upset the market structure of the industry by seeking new markets for its surplus productive capacity in the Persian Gulf, where it enjoyed a strong position due to its investments in Iran, Iraq, and Kuwait. War may be seen as “a means of preserving the balance of power, that is the situation in which no one state is preponderant and can lay down the law to others. The preservation of a general

balance of power has been perceived as essential to the survival of the states system, and war directed to this as carrying out a positive function.”³ For ‘state’ read ‘firm’.

In this chapter we focus on how “The international order is notoriously lacking in mechanisms of peaceful change, notoriously dependent on war as the agent of just change.”⁴ The trade war took place to promote changes which were considered ‘just’ not only by Caltex, but by the other American majors, who now realised that Middle Eastern production would become more significant than the production of the Americas, and even by Anglo-Iranian, who had the most extensive interests in the Middle East, with a monopoly in Iran, a half-share in the Kuwait Oil Company and a share in the Iraq Petroleum Company. Thus, as Socal and Texaco tried to effect changes to the inter-war agreements by increasing production and establishing new market positions, it might appear that cooperation in the international industry had come to an end. However, the dispute concerned existing ‘law’, but not the idea of a private international ‘legal’ order.

Throughout this trade war there were attempts to adapt the private legal order, for instance, the mechanisms for under- and over-trading of quotas and price agreements. The other companies reacted to Caltex hostilities with a mixture of retaliation and conciliation. “Given the absence of a central authority or world government, international law can be enforced only by particular states able and willing to take up arms on its behalf.”⁵ Again, for ‘states’ read ‘firms’. The attempt to create a new legal order in response to wartime disruption and to anticipate the post-war importance of Middle East oil demonstrate the strength of the cooperative norm in the society of majors. The six sections of this chapter

³Ibid., 189.

⁴Ibid., 189.

⁵Ibid., 188.

deal first with the pricing structure and the relationship between the wartime short-haul policy and pre-war product supply agreements, and then with issues of price and market share, first in the web of global inter-firm relations and then through a more concentrated study of the Asian markets.

5.2 AS IS PRICING AGREEMENTS DURING THE WAR

There has been an implicit assumption that As Is activities had ended by 1939, which is why the continuation of As Is inspired activities has not been examined in earlier published work. The Federal Trade Commission (FTC) argues that so far as the 'big three', Jersey, Shell and Anglo-Iranian were concerned, "in or before the early part of 1938, verbal notice was given...of termination of agreement. Any activities that may have survived came to an end in September 1939, as a result of the outbreak of the war. They were never renewed." However, it is interesting that the FTC itself also presents a contrary view. "Even though there may have been no formal comprehensive international agreement after 1938 or 1939, the 'as is' principles were apparently of such durable nature as to be regarded as trade customs, to be observed as the basis for subsequent arrangements in particular markets."⁶ Nevertheless, it is the former view which has been supported by most commentators. After 1938, Jersey gave verbal notice of withdrawing from As Is inspired arrangements. As companies worked for Governments during the war, As Is activities were largely, but not completely, suspended.⁷

⁶Congress, Senate, Staff Report of the Federal Trade Commission on the International Petroleum Cartel, Subcommittee on Small Business of the United States Senate, 22 August 1952, 198. [Hereinafter FTC, Report], 266.

⁷B.I. Kaufman, The Oil Cartel Case: A Documentary Study of Antitrust Activity in the Cold War Era (Westport, CT: Greenwood Press, 1978), Introduction.

However, customs are an important source of law; indeed in public international law, customary international law is regarded as one of the main sources of law, alongside treaties, imposing obligations even on states that are not parties to relevant conventions. This is a useful analogy since customary international law is taken to apply to states whether they agree with it or not. Its main sources are expressed statements and state practice, rather than formal agreements. As Is formed trade customs in much the same way. It was very much inscribed into the way firms operated and was discussed as pervading the entire process of firm cooperation. The pricing system was an integral trade custom.

One issue is whether the pricing system could be maintained if the cartel was unable to conduct regular meetings. The FTC cites a Swedish Government report which shows that before the war the cartel had been active, with weekly meetings of the principal officers of the cartel members as the main administrative device. Between 1933 and 1936 the cartel controlled between ninety-six and one hundred per cent of the market. There were 55 meetings in 1937 discussing 897 subjects, 49 meetings in 1938 discussing 656 subjects, and 51 meetings in 1939 discussing 776 subjects.⁸ In February 1939 there was a new agreement though it was never formally ratified. In 1943 there were discussions of adjustments for under- and over-trading, and in 1946-7 prices and terms of sale were jointly agreed. Thus, even in the absence of formal mechanisms and agreements (analogous to intergovernmental treaties), As Is trade customs (akin to customary international law) continued to be applied. To some extent, As Is activities even got Government sanction. Thus, in the United Kingdom the Petroleum Board was composed of nine members representing the whole of the industry. It maintained the relative market share of each company, and engaged in price

⁸FTC, Report, 291. This is part of chapter nine, "Case Studies in the Application of Marketing Agreements in Selected Areas". BP 113356 contains notes on the FTC report which were prepared by the company. Concerning chapter nine, they argue that it is factually accurate, but at the time of writing, no longer relevant.

fixing and licensing. It was also responsible for international supply. "Thus during the war and for more than two years after the cessation of hostilities, the Board's activities in the fields both of international supply and local distribution were carried on with the added force of Government sanction."⁹

Pricing was an integral part of the As Is agreements. Since one of the aims of the agreements had been to prevent Middle Eastern production being used to undercut production from the Americas, the world price was fixed at the prices offered for sale at the Gulf of Mexico. Prices were fixed at prevailing Gulf of Mexico levels as reported in the trade press such as 'Platt's Oilgram'. Since the largest exporter at this point was the Texas Oil Company, their prices were effectively the world market prices. A federal sanctioned body, the Texas Railroad Commission had been set up to prevent over-production and the collapse of Texas prices, under the policy of 'conservation'. To this extent the United States Government was indirectly involved in fixing the world price for oil. Another element in the As Is price structure was the fixing of freight charges so that the oil was sold as if the oil was transported from the Gulf of Mexico. Thus, shipments from the Middle East attracted a greater netback or net realisation of profits the nearer the Persian Gulf and further from the Gulf of Mexico. For instance, buyers in the eastern Mediterranean paid more for oil products than customers in western Europe. This was because although they may have been geographically nearer the source of production in Iran, with transport through the Suez Canal, they were charged as if the oil had been produced and transported from the Gulf of Mexico.¹⁰ In this system there were identical delivered prices for oil products at the destination, for example, in India, whether the oil had been produced and transported from

⁹FTC, Report, 267; J.E. Hartshorn, Oil Companies and Governments: An Account of the International Oil Industry in its Political Environment 2d rev. ed. (London: Faber and Faber, 1967), 140.

Iran or Pennsylvania. Since the production costs were lower in Iran and the transport costs to India lower than for a comparable cargo refined and transported from Pennsylvania, but the costs to the consumer were the same, the profit margins would be substantially higher for the Persian Gulf producer.

Thus, when the Pacific theatre opened up, the companies who were supplying from the Persian Gulf charged as if the oil were transported from the Gulf of Mexico. The British Government became concerned about these 'phantom freights' and insisted on another basing point in the Persian Gulf for bunker fuel oil. Although they were able to achieve a second basing point they were unable to discover the actual cost of Abadan production and had to accept the Gulf of Mexico prices at the Persian Gulf basing point.¹¹ The United States Navy Department who were buying largely from Bahrain and Saudi Arabia also agreed to this price. By providing specific prices to customers the principle of identical delivered prices was lost.¹² The high cost of supplies to the United States Navy Department for its supplies necessary for its major role in the Pacific campaign caused a great deal of anger which led to Congressional investigations in 1947-8. They discovered that the cost of producing Saudi Arabian crude was 40c. per barrel, including the royalty of 21c. The cost of producing Bahrain crude was 25c. per barrel, including a royalty of 15c. The Navy was charged at least \$1.05 and frequently more. In other words, the As Is pricing structure of international oil was affected but not ended by the war. However the war also affected other prewar arrangements. To examine these effects it is useful to look closely at a particular case.

¹⁰Anthony Sampson, The Seven Sisters: The Great Oil Companies and the World They Made, New Edition (London: Hodder and Stoughton, 1993), 107 for a discussion on phantom freights.

¹¹FTC, Report, 364. Chapter Ten deals with pricing in general. For the importance of the trade journal, "Platt's Oilgram", refer to 352.

¹²J.E. Hartshorn, Oil Companies and Governments, 146-148.

5.3 THE ANGLO-IRANIAN OIL COMPANY AND PRODUCT EXCHANGES

Anglo-Iranian's fundamental problem was in developing and expanding market outlets to take advantage of its cheap production costs. Companies had already established market shares in different markets. Anglo-Iranian could only enter these markets as retailers by selling at a cheaper price, but this would risk a global price war. Due to the promise of super-profits because of its cheaper Middle East production, but identical delivered prices, there was little incentive for them to reduce prices to try to win market share. In the inter-war period Anglo-Iranian focused on making deliveries of oil under long term supply contracts to organisations including the Admiralty, and companies with established markets, such as Asiatic and Burmah-Shell. It also made product exchanges. This involved allowing the other company to pick up supplies from Abadan in return for the right to draw equal quantities of the same product at another supply point, such as Curacao or Aruba. While no payment was made either way, these exchanges normally included an arrangement which provided for an equal sharing between the two companies of the freight savings.

For instance, Standard-Vacuum would inform Anglo-Iranian that they intended to ship one hundred thousand tons of benzene from Aruba to South Africa. They would ask Anglo-Iranian to place this quantity at Abadan for the actual shipment. In turn, they would place a similar quantity at Aruba which Anglo-Iranian could use to supply the United Kingdom. Standard-Vacuum might save two pounds per ton by supplying South Africa from Abadan rather than Aruba, and Anglo-Iranian might save twelve pounds per ton in lower shipping costs from Aruba to Britain, as compared to Abadan to Britain. Each party would receive half of the joint freight savings; that is, seven pounds per ton each. Anglo-Iranian

would give effect to this at the end of the year by paying Standard-Vacuum five pounds per ton on the quantities shipped.¹³ The main arrangements at the outbreak of war were with:

1. Standard-Vacuum, under which Anglo-Iranian lifted supplies at Aruba for the United Kingdom in exchange for supplies ex Abadan for South and East Africa, and India.
2. Socony-Vacuum, under which Anglo-Iranian lifted supplies at Aruba in exchange for supplies ex Abadan for Egypt and the Levant.
3. Atlantic Refining Company, under which Anglo-Iranian lifted supplies at United States Gulf ports in exchange for supplies ex Abadan for South Africa.
4. Asiatic, the Shell marketing subsidiary, under which Anglo-Iranian lifted supplies of fuel oil at Curacao for the United Kingdom in exchange for their drawing ex Abadan for the eastern areas generally.¹⁴

Only minor modifications were needed to these agreements at the beginning of the war. However problems began to occur with the tanker shortage for it became difficult to compute freight savings since freight rates were extremely varied. Before the war they had not been based on the fluctuating spot rates for single voyages, but rather on long-term averages.¹⁵ During the war, British Government fixed rates were low, but neutral ships could charge more. Moreover, oil loaded from the Americas was, for the most part, sold free on board (f.o.b.) to the Petroleum Board. Anglo-Iranian could not, therefore, benefit from the

¹³BP 71480, Company War Record, Chapter Four, Section Four, part a.

¹⁴BP 78233, Intra-Group Agreements Branch. AIOC.-Shell Supply Agreements.

¹⁵J.E. Hartshorn, Oil Companies and Governments, 140.

freight saving except to the extent of the origin differential, which was a series of tariffs attached to oil coming from different sources, which is discussed below. These origin differentials were not finally agreed until mid-1941, but before this happened Anglo-Iranian had agreed a basis for calculating the freight savings in respect of 1940 and the first half of 1941 in order to continue the exchanges. It was impossible to revise this agreed price later and Anglo-Iranian's loss was considerable; after June 1941 they were unable to continue the freight saving element of exchanges.¹⁶ However, the use of exchanges proved very important for the supply position, since it provided an incentive for American firms to provide tankers and thus allay the tanker shortage in the period of neutrality.

It is considered advisable that exchanges on these lines should still be carried out. One of the principal reasons for this is that American suppliers disposing of free tonnage, and therefore not in any way bound by the short-haul policy, would be more likely to fall into line if the system of sharing freight savings on exchange of products were maintained.¹⁷

The exchanges ended with the advent of Lend-Lease. From the beginning of July 1941 Lend-Lease was made applicable to all imports of petroleum products into Britain from American sources. This resulted in stricter application of the short-haul policy which stipulated that supplies had to come from the nearest supply point. When it was no longer possible to make longer voyages than those made under short-haul, there were no freight savings to share.

¹⁶BP 63800, Memorandum on Offtake from Abadan, 1939-1943, 22 December 1943, 3.

¹⁷Shell SC7, P19, "Note on Product Exchanges", n.d.

5.3.1 THE GOVERNMENT AND THE SHORT-HAUL POLICY

What is interesting about the product exchange system is that the companies should have been able to maintain this pre-war system during the first two years of war at all. From the outbreak of war the voyages of British flag tankers were controlled by licenses. Then, in January 1941 the Ministry of Supply requisitioned all tankers. Under either system the companies lost control of the final destination of their tankers in principle.¹⁸ In practice, through their position in the Allied oil programme, they maintained a considerable degree of control. Anglo-Iranian's War Record states that, "The term short-haul implies that all requirements should be shipped from the nearest supply point and to this extent it could be said that it was the guiding principle of shipping policy from the beginning of the war."¹⁹ This is not quite true. Other considerations were important, for instance, the link between oil supplies and the "export of foodstuffs and commodities essential to the Allies" which Argentina and Brazil might prevent if their supplies were limited.²⁰

Another important factor was the currency position. Stringent application of short-haul would reduce the production of sterling oil in the Middle East since the Axis control of the Mediterranean had forced tankers to go around the Cape of Good Hope. After July 1940, however, when the Norwegian and Dutch merchant navies had been co-opted, there was little more that could be done towards increasing available tankers apart from new constructions since the American neutrality laws still made it impossible to use United

¹⁸BP 63800, Memorandum on Offtake from Abadan, 1939-1943, 22 December 1943, 1. POWE 33, 605, 1937-1938, Tanker Tonnage: Control of Shipping in Time of War, PE 12/2.

¹⁹BP 71480, Chapter Four, Section Three, part a; see also, POWE 33, 632, 1940-1941, Tanker Tonnage, Short-haul scheme for Supply Programme.

²⁰Shell SC7, P13, W.Richardson, Secretary Overseas Supply Committee to Chairman of the Petroleum Board, 5 January 1940; for a fuller discussion on Argentina see POWE 33, 1056, 1940, Exchange Requirements Committee: Exchange Questions Arising from Proposed Disposal of Oil to Argentina against Imports of Wheat into Peru.

States registered vessels in dangerous waters. U-boats had made the Atlantic as well as the east coast of England unsafe. This early tanker crisis was eased by the collapse of France and the other continental European Allies as the existing tankers could now concentrate on supplying Britain. However, by September 1940 the continuing loss of tankers to enemy action had made it imperative to enforce the short-haul policy effectively, whatever the consequences for production in sterling areas. Astonishingly, given the grave implications for the balance of payments, this decision was initiated, without the knowledge and in spite of the reservations of public officials and representatives, by the companies themselves.

Hence, by the end of March 1941 loadings from Abadan for the United Kingdom had virtually ceased. As clarified in the preceding chapter the passing of the Lend-Lease Act in March 1941 pointed the way to the solution of any currency difficulties arising out of the reduction in sterling production. However, by this time the short-haul policy had already been in operation for six months on the initiative of the companies and unknown to Government officials. The enforcement of short-haul during the winter of 1940-41 had made it necessary for Anglo-Iranian to draw supplies for Australia from the Netherlands East Indies and an exchange was, therefore, made with Asiatic, a Shell subsidiary. Under this exchange Anglo-Iranian eventually drew some 90,000 tons of crude oil and 75,000 tons of other products. This was the last major exchange which was dealt with in this manner and, subsequently, everything was handled on a purchase and sale basis.²¹

5.3.2 THE COMPANIES AND THE SHORT-HAUL POLICY

In April 1941, having read three Memoranda submitted by Godber and a further note bringing their knowledge up to date, the Development and Co-ordination Committee reported:

1. STARTING DATE

It is not clear when short-haul policy was laid down, but it is known that approximately since some time towards the end of 1940 tankers were being routed in such a way as to carry products to markets from those sources of origin which are the nearest...in so far as supplies and tonnage for various markets are under the control of H.M.G. or the industry in the U.K., what is known as short-haul routeing will be shortly completely in effect. There may not be great practical importance in this point except to draw attention to the fact that the effect of short-haul routeing may extend back into 1940.²²

It was only in March 1941, following the passage of Lend-Lease, that the companies admitted to implementing a policy which had not been officially adopted. A year earlier, Godber had written to Sir Cecil Kitch, a senior official in the Petroleum Department, attempting to persuade him to reverse the Government decision not to implement short-haul routeing. He confirmed that:

...the Government have decided that no steps should be taken for the present to re-route our Oil Supplies so as to increase the imports from Venezuela and the Gulf at the expense of supplies from Iran...No re-routeing, so far as I am aware, has been arranged and therefore, to give effect to the decision referred to above requires no action.

Yet at some point in the following months the companies unofficially adopted the short-haul policy which they had been considering seriously since January 1940. Godber

²¹BP 71480, Company Record, Chapter Four, Section Four, Part g.

²²Shell, SC7, P13, Development and Co-ordination Committee, Report on Short-Haul Policy, 17 April 1941.

lobbied strenuously to persuade Government finally to adopt this policy and it is in the light of this correspondence that one may appreciate the independence of the companies' earlier action. In March 1941 he wrote to Geoffrey Lloyd, the Minister of Fuel and Power, "Having regard to the present tanker position, therefore, and to the imperative need of making the maximum possible use of the available ships, it is the strongly held view of the Trade Control Committee that the present situation demands the universal adoption of short-haul routing."²³ Geoffrey Lloyd responded the next day:

I fully appreciate the motives behind this suggestion and the self-sacrifice it represents on the part of some of the Companies, but the political situations are such that I do not think we can give effect to it until it has been submitted to, and approved by, a higher authority.²⁴

A week later, Kitsch wrote to Godber:

...it does not seem that we are yet within sight of even balancing consumption with imports, and this means a continuation of the declining stock position. I shall endeavour at this afternoon's meeting to rub this point home in the light of the paper we have put in, and appeal to the Admiralty to help us, since I feel sure that the possibilities of material time-saving within the trade control are getting pretty well exhausted.²⁵

Godber provided Kitsch with an astonishing response:

Fortunately we are in practice operating on the short-haul principle although I am sorry to say some of your august bodies have not yet grasped the nettle and taken the decision. However, I feel sure that circumstances will at last force the issue.

I am glad to read the last paragraph of your letter. It seems to me that the tanker position is the key to the whole situation and you who have more

²³Shell SC7, P19, Godber to Geoffrey Lloyd, M.P., Petroleum Department, 11 March 1941.

²⁴Shell SC7, P19, Geoffrey Lloyd to Godber, 12 March 1941.

²⁵Shell SC7, P19, Sir Cecil Kitsch to Godber, 19 March 1941.

influence than the Trade with controlling bodies like the Admiralty and the Ministry of Shipping, should miss no opportunity of pointing out two things –

- 1. the need for more tankers, either by purchase or charter, particularly from the USA, and**
- 2. the saving of time in convoys and assembly points and in fact anywhere where the Admiralty requirements may hold back the free movement of ships.²⁶**

Having stated that the short-haul policy was in operation whatever the “august bodies” might have to say about it, Godber brushes aside any disbelief on the part of his reader who is at this point still negotiating for the change which has, he has just realised, been implemented in any case. Godber goes on to make two further suggestions. This episode could be interpreted in either of two ways, either as evidence of deliberate covert action or, more weakly, as companies implementing short-haul measures before it became official policy. This weaker reading of the evidence is sufficient for my case which is that the oilmen, rather than official bureaucrats, were the significant implementers of the Allied oil policy.

In this context, his memoranda, and the subsequent April report were thus an attempt to fill in and gloss over official ignorance of the supply arrangements that had been initiated by the companies. Knowledge that the state depended on the companies for the American connection, as discussed in the previous chapter, strengthened the hand of the companies. They expected and received no retribution for this insubordination. While they regarded the Ministry of Shipping as a limiting factor on their activities, they enjoyed close relations with the Petroleum Department. For example, Fraser wrote to Godber, comparing the Ministry of

²⁶Shell SC7, P19, Godber to Kisch, 21 March 1941.

Supply's own figures for voyage times with those of the Petroleum Department which he described as "ours".²⁷

The Ministry of Shipping calculated that forty-two rather than twenty-four tankers would be saved by switching the supply pattern from Abadan in Iran to Curacao. Fraser would have appreciated at once that such figures very much damaged the possibility of using Abadan as a major source of supply, and indeed Abadan's offtake reduced considerably in the period before the development of aviation production facilities there as is discussed below.²⁸ Moreover, the Development and Co-ordination Committee meeting on 26 March 1941 noted that, "political considerations arising from the relationship between the British Empire and the Shah of Iran are very much involved in this question."²⁹ However, the tanker shortage was limiting the imports of oil into Britain.

Even if all tankers were re-routed for their shortest journeys, the tanker shortage could only be dealt with by hiring American tankers. A letter from the Jersey director, Bedford, to the Director of the Petroleum Department noted that the companies were unable to charter tonnage to meet requirements though prices for transport had risen from 18c. to 70c. per barrel coastwise.³⁰ American ships were unwilling to sail in dangerous waters. One solution would be to buy oil from the Americas. This way the long and hazardous Cape of Good Hope route could be replaced by a crossing of the Atlantic. However, since Persian Gulf production was paid for in sterling while production from the Americas would have to be paid for in dollars, such a switch would worsen the dollar shortage. Aware of possible

²⁷Shell SC7, P13, Fraser to Godber, n.d.

²⁸BP 63800, Memorandum from Offtake from Abadan; J. H. Bamberg, The History of The British Petroleum Company, vol.2, the Anglo-Iranian Years, 1928-1954 (Cambridge: Cambridge University Press, 1994), 238-242.

²⁹Shell SC7, P19, The Development and Co-ordination Committee, 26 March 1941.

political objections Bedford suggested that buying in the dollar area should be offset against current payments to charterers which were converted into dollars in any case. But he had been repulsed when, two months earlier, at the first meeting of the Petroleum Board, Bedford had suggested the short-haul policy, at that time, labelling it the "ideal solution".³¹ Gass, an Anglo-Iranian director, hastily dictated and pencilled a note the next morning.

I was so fogged and even mesmerised by Bedford's formula that every Company must desire the minimum number of vessels employed at the present time, which led in turn to the decision to explore the 'ideal' solution of the nearest sources of supply, that I almost persuaded myself at the time that this was also in the National Interests [sic].

He added in pencil,

P.S. I should of course have been quick witted enough to say this at the meeting but I could not at the time see through Bedford's smokescreen.³²

The effect of re-routeing would have been a loss of sales from the Persian Gulf of 4,173,598 tons of which Anglo-Iranian would lose 4,144,150 tons. Bedford's proposal was that this loss would be made up from increased liftings from the Americas. Anglo-Iranian and Jersey represented production from the Persian Gulf and Americas, respectively. Shell, possessor of both eastern fields (Indonesia) and western fields (South America and United States) stayed neutral. Thus, the industry found it hard to develop a unified line on this issue for the Government. The first industry memorandum went through two revisions as a result of Gass's observation. The copy which was sent to Anglo-Iranian for their approval is

³⁰BP 37134, Bedford to Director, Petroleum Department, 27 March 1940.

³¹BP 37134, Minutes of first Oil Control Board meeting, 19 January 1940.

³²BP 37134, Note by Gass, 20 January 1940.

crossed through in pencil. Mention of exchange was subsequently deleted altogether in the final version of Memo 1.³³

Gass's calculations were not altogether accurate. Shell would also sustain a loss in the Netherlands East Indies amounting to a net reduction of 523,000 tons. However, this reduction would be shared between Shell and Standard-Vacuum.³⁴ In the Persian Gulf, Anglo-Iranian would have to bear the loss of production on their own. Their position was also complicated by the suspicion that the Caltex group (Socal and Texaco) would take advantage of Anglo-Iranian's reduction due to short-haul to increase their own trading.³⁵ When the suspicion was confirmed the struggle between Anglo-Iranian and Caltex was to develop into open Anglo-American antagonism, with American companies trying to alter the pre-war restrictions on production levels and new companies in the Persian Gulf. These issues underlay the talks at the intergovernmental level in the Anglo-American Oil Agreements of 1944 and 1945. To better comprehend the status of those talks it is important to review the state of war between the companies in this chapter. The state of war between the companies is also interesting in its own right as it demonstrates the difference between war in an undifferentiated international anarchy and war in an international society.

5.4 INTERFIRM RELATIONSHIPS DURING THE SECOND WORLD WAR

A private note in the Anglo-Iranian archives states that "the objective to which we are working is:- All parties to make available all their tankers, whether owned or chartered,

³³BP 37134, Allied Requirements of Petroleum, 24 January 1940.

³⁴BP 37134, Cable from Bedford to Harper of Jersey, New York, 20 January 1940, No.512, "Assume you expect to maintain your proportion annual supply and find tonnage to move same...Please advise first estimated market requirements your and Standard-Vacuum interests in markets referred to market by market and product by product."

³⁵POWE 33, 634, 1941-1943, Abadan and Bahrain in Relation to Short-Haul Policy.

which tankers will be treated as common carriers and allotted to each supply base in numbers sufficient to carry the supplies which are to be drawn from that base. Any rationing of tankers that may be necessary to be applied to the respective supply bases on a fair proportionate basis. The respective 'as is' distribution positions of each group to be maintained either by means of exchanges or where this is not possible, by purchase of the short supplier on an equitable basis having regard to the circumstances."³⁶

Some writers seem to have assumed the companies distributed the petroleum and petroleum products as they were directed. Yergin, for instance, asserts that, "in large part, any surviving 'As-Is' activities came to an end in September 1939, with the outbreak of World War II."³⁷ The FTC Report states that, "These agreements covered the period from 1928 to the outbreak of World War II."³⁸ In fact, the previous chapter demonstrated the considerable delegation of powers to the companies. It has already been suggested that one of the main reasons for their willingness to work for the Governments was prudential. It made sense to concede what they could not withhold, and such concession provided the opportunity to delineate the 'national interest' in the way least antagonistic to corporate interests. Hence, "The fact that Caltex (Standard of California and Texas Company) was not permitted to market in areas west of Suez until after the Jersey-Socony [Socony-Vacuum]-Aramco agreement is an indication that the 'as is position' for sharing markets, which was in operation in 1941, may have continued to be the international oil companies' modus operandi as recently as 1947."³⁹ This appears to be an example of this class of agreement surviving the Second World War unchanged.

³⁶BP 37134, "Note", unsigned, 2 February 1940.

³⁷Daniel Yergin, The Prize, 268.

³⁸FTC, Report, 197.

Market sharing was integral to As Is. But the lack of tankers led to a drastic cut in deliveries of oil products from the Middle East to Europe. Since the As Is pricing mechanism focused on identical prices for the purchaser and elimination of price competition among the producers, whenever the product exchange was of an identical product the value of the oil at the source of supply had never affected the calculations. However, the fixing of 'origin differentials' by the Petroleum Board, whereby the f.o.b. price which it paid for the oil varied in accordance with the place of origin, raised new issues. These differentials were introduced to assist in the dollar shortage. At the Gulf of Mexico, the f.o.b. price was the "basic price", while oil from the Persian Gulf carried a differential of twelve shillings per ton less than this price, and oil from Aruba was charged at four shillings and three pence per ton extra. The result would be that, in the example given, the Petroleum Board would be asked to pay sixteen shillings and three pence per ton more for the oil from Aruba than it would have done had the oil been shipped from the Persian Gulf.

Shell was also a producer in the Americas and suggested that Anglo-Iranian pay compensation to those producers whose supply was being targeted.⁴⁰ Unsurprisingly, Fraser argued to the contrary, that as regards any benefit, "it should be employed in the first place to adjust the position of those suppliers whose offtake has been detrimentally affected by short-haul routing."⁴¹ Fraser's obstinacy prevented any industry recommendation to the Government. Shell and Jersey who both had operations in Venezuela and the United States now tried to create a private global agreement on price. Bedford of Jersey wrote to Fraser,

³⁹FTC, Report, 122.

⁴⁰Shell SC7, P19, Note on Product Exchanges, 17 April 1941, 2.

...in view of our varied contractual relations both with local affiliated companies with minority interests and local Governments, it would be extremely complicated and not practical to envisage anything but a world market basis less a certain per centage.⁴²

In a later letter he suggests what price this might be:

...if and when it becomes necessary for the Anglo-Iranian to contract for and purchase supplies from the Jersey group from the Caribbean, you agree to the price basis which Jersey has indicated, namely the low of Platt's in the Gulf less 5% f.o.b. Aruba,... I think I have already made it clear that Jersey will require payment to be made in U.S. currency.⁴³

As far as Bedford was concerned the same price basis would apply for Jersey purchases from Abadan. He further opined, "I also take it that this understanding would constitute the mutual basis to be observed by both parties for the duration of the war."⁴⁴ Fraser was unmoved. In the meantime, Godber had written to Bedford, despatching a copy for Fraser, suggesting a split on geographical areas and confirming agreement with Bedford's offer for wartime prices. Fraser was unhappy with this apparent fait accompli through the letter to Bedford, and unwilling to accept the suggested limits on geographical areas and price fixed for war. He replied to Godber's letter on 5 March, and sent a copy to Bedford with counter-proposals. The latter replied the next day:

While I am not critical of this conception it, of course, takes the matter completely out of the category of an agreement of any kind, and puts it on the plain of an exchange of views as to the price basis which should be applicable as between buyer and seller...

⁴¹Shell SC7, P19, Sir William Fraser, 18 March 1941, in Development and Co-ordination Committee of 26 March 1941.

⁴²BP 37134, Bedford to Fraser, 21 February 1940.

⁴³BP 37134, Bedford to Fraser, 27 February 1940.

Fraser's response was terse and to the point.

Many thanks for your letter of 6th March. I quite agree with the definition you give in the last paragraph, which is in accordance with my own understanding of the matter.⁴⁵

That ended attempts between the 'big three' to define a general inter-company agreement for the war. While the Governments – as buyers – continued to purchase oil based on Gulf prices, between the companies themselves there was something of an open market. With Iran's cheap production, this would seem a positive development from the perspective of Anglo-Iranian, but a combination of short-haul routing which shifted Britain's source of supply from the Persian Gulf to the Americas, and unrestricted production from Caltex in Bahrain limited the advantages of Fraser's defection on the issue of price. The price advantage of the origin differential and the opportunity to undercut in the eastern markets were his only consolation as the short-haul policy reduced Iran's supplies to Britain. Also, Fraser was apprised of how serious the inability to reach agreement might prove. On 6 February, Jackson had urgently telegraphed him from New York:

Sparks cabling tonight urging broad view minor irregularities and prompt action to fuse rates. Major friends here strongly support scheme but delay causing concern and serious danger defection. Earnestly invoke your assistance influence avoidance further delay.⁴⁶

Internal correspondence reveals that Fraser consciously wanted to escape the binds of the As Is agreement, at least as far as the Middle East and Asia was concerned. In a letter dated 15 February 1940, Fraser observed that, "If it were possible to incorporate in the deal a cancellation of all 'As Is' outstanding claims, as a make weight, it would be a most

⁴⁴BP 37134, Bedford to Fraser, 21 February 1940.

⁴⁵BP 37134 provides a record of the correspondence between Fraser, Godber, and Bedford.

⁴⁶BP 37134, Telegram from Jackson, New York to Fraser, 6 February 1940.

valuable help to A.I.O.C....Taking a broad view, I think so far as our actual sales from Abadan are concerned, we will probably do better than he estimates. It is obvious that we will get the cream of the business because prices will be fixed at Gulf prices on which basis it will be uneconomical for competitors to supply. Also, outside competition will be eliminated. I would even go so far as to hazard an opinion that if 'As Is' were suspended, and A.I.O.C. took just its geographical trade, then we would make as much money off 4,500,000 tons as we were doing on prewar 10,000,000 tons."⁴⁷

However, it was not until 1942 that this potential could be exploited. At that point in the war, the Pacific War with Japan eliminated competition from Far Eastern sources which were destroyed in denial operations in Burma and the Dutch East Indies. Simultaneously, demand from the Allied fleets was growing. Following pressure from the Governments over phantom freights, oil products were supplied to the Allied fleets at Persian Gulf f.o.b. prices, rather than Gulf of Mexico f.o.b. prices for all. This led to price competition between these sources. Certainly, the prices of crude and of products were still fixed at the prevailing level of the Gulf of Mexico, but the difference in actual transportation costs led to the creation of a natural market in which freight rates would be cheaper from the Persian Gulf than the Gulf of Mexico. The watershed where the prices would become equal was around Italy. East of this point it would make more sense to obtain supplies from the Persian Gulf. In the post-war period, the ongoing dollar shortage led to the creation of refineries in the consuming markets to reduce the dollar outlay on petroleum products. Moreover, the European Cooperation Administration were determined not to pay more than any other substantial buyer. As a result, Persian Gulf prices fell twice in 1949, and by September 1949 the equalization point for delivered price competition was the eastern seaboard of the United States. In 1950, Socony-Vacuum started posting prices, meaning that they would sell to all

⁴⁷BP 37134, Letter from Sir John Lloyd to Fraser, 15 February 1940.

at these prices. This was linked with the shift from royalties to income taxes in their concession agreement. Host Governments became interested in pricing as these became benchmarks for tax purposes.⁴⁸

Thus, Fraser's defection should not be taken to imply that the trade war between the parties took place in an anarchy. For one thing, it was a measured response to the changing pricing forced on the companies by the war and the custom of the naval fleets. For another, many of the regional arrangements incorporating As Is principles were merely shelved rather than discontinued. The trade war took place as companies tried to protect themselves in an uncertain period, and also to effect changes to prewar agreements where better options could now be seen. The norm of private arrangements governing relations was not lost. A letter from Godber to Anglo-Iranian in 1946 referred back to the pre-war arrangements.

We have your letter of 22nd March and agree your statement of the position that, failing agreement by both of us, supplies cannot continue to be drawn from Abadan under sale for or delivery to the Red Area. The fact that there will be a continuing call on Abadan for supplies to some or all of the companies you have named for their outlets in the Consolidated area, is the very condition that was contemplated and dealt with in Clause 16 of the Consolidated Agreement of 19th December 1933.

He continued,

We would, however, be prepared to agree the continuance temporarily of such sales despite the provisions of Clause 16 of the Consolidated Agreement and you may take it that it will be in order for you to continue as heretofore to supply the companies you have named until we give you notice of one month that the provisions of the Consolidated Agreement are again to apply in their full force. For your information we may add that it is not at present our intention to give this notice so long as we are satisfied that the supply of oil

⁴⁸J.E. Hartshorn, Oil Companies and Governments, 146-149.

products to the Red Area continues to be effected [sic], as at present, under the direction and control of the Overseas Supply Committee.⁴⁹

The close intersection of corporate and British Government programmes contrasts with the Americans. For instance, in the first meeting of the Oil Control Board it had been agreed under the heading of "Groups' Interests" that, "When re-routeing the supplies according to geographical position, it should be remembered that existing interests should be carefully considered, as an improvement in sources of supply, while reducing the number of tankers required, may have a disastrous effect on the general position of any one of the suppliers, which might not necessarily give counter advantages."⁵⁰ This idea was more practicable in Britain, where there was implied consent for the inter-firm contacts, than in the United States where the State Department became very uneasy about exchanges between Standard Oil Company of New Jersey and Shell. There, it became necessary to surrender control over any such arrangements to officials in the regional committee.

The question of the division of market between Shell and Standard, which has caused a certain amount of uneasiness in the State Department, is, we hope, about to be settled by bringing supplies to Spain under the same arrangements for division between Willemstad and Aruba as are already in operation for other markets. The Caribbean Committees in London and New York will make the allocations in consultation, having regard solely to supply considerations.⁵¹

These committees were likely to be less sensitive to the interests of the oil companies. One example which took place at the end of the war involved Mexican oil. Godber wrote to Wilkinson recording that he had been "considerably disturbed lately" by the Petroleum Administration for War "choosing outlets for these products in a somewhat

⁴⁹Shell SC7, P2/3, Godber to the Anglo-Iranian Oil Company, 5 April 1946. In a subsequent letter of 15 May 1946, Godber clarified that the 'companies' referred to were Standard-Vacuum, Vacuum, Atlantic and Caltex.

⁵⁰BP 37134, Minutes of first Oil Control Board meeting on 19 January 1940.

⁵¹Shell SC7, P5/2/1, Godber telegram, No.138 Arfar, 15 January 1943.

haphazard manner and without regard to the possible disturbance to the established trade of the oil companies which might result as a consequence."⁵² Later in the war there were to be similar complaints about the movements of light Venezuelan crude oil to the North Atlantic.⁵³ Thus, even when the agreements were undermined by the defection of firms or by state agendas which affected the payoff from the agreements, the main point is that the companies continued to make them. Thus, after the American companies officially came into the war, an international agreement was signed setting out the arrangements for a global exchange system. It provided that:

Accounts will be maintained by each company for these exchanges in which the companies will evaluate the tonnage supplied and received on the basis of the calculated cost, at a time charter to be mutually agreed upon each six months, in a theoretical 12,000 D.W.T. diesel tanker 11.5 knots with a daily fuel consumption of 13 tons at sea and 3.5 tons in port at bunker prices to be agreed upon from time to time.

It is expected that occasions will arise when actual voyages (converted to a voyage by the theoretical ship) may be in substantial excess of the time allowed for a normal voyage by the theoretical ship, due to interference by reason of war conditions (not allowed for when calculating the original theoretical voyage). In such cases it will be open to the company affected to claim a fair and equitable basis of adjustment in the account for excess time consumed on any particular voyage.

If there are sizeable outstanding balances in the accounts in favour of any of the companies, repayment of which in tonnage is not immediately possible, such outstanding balances will if requested be settled by cash payments.

When there is a credit balance for which cash settlement has been requested, this shall be made in dollar and/or sterling currencies in proportion to the total value of dollar and sterling costs incurred in the freight account of the party claiming, and where it is necessary to pay the whole or part of this in dollars, the rate of exchange shall be the Bank of England selling rate for dollars at the date of payment. Where the claim has been based upon freight having been

⁵²Shell SC7, P2/2, Godber to Wilkinson, 24 July 1945.

⁵³Shell SC7, P7/2/1, Godber to Sir William Brown, 30 September 1943.

paid from convertible sterling, this for the purpose of the account shall be treated as a dollar payment.⁵⁴

The terms of this agreement were quickly made redundant by the ongoing sterling crisis and by the development of Lend-Lease, but the spirit of private agreement as the proper way to operate was to lead directly to the negotiations around the Anglo-American Oil Agreements investigated in chapter six. It also shaped the defection of Anglo-Iranian in the Asian market.

5.5 THE CONSOLIDATED AREA AND THE FAR EAST

Before the war, world trade in oil consisted predominantly in products rather than crude. Refineries were located at source and this was aimed at preventing the cross-hauling of products which local markets might not absorb. The movement of American crude was initially coastwise from the Gulf of Mexico to refineries in New Jersey. Later, Caribbean refineries on Curacao and Aruba were constructed which were nearer the sources of production and so western Europe, Latin America and the north-east United States were supplied from there. Products refined from Abadan were supplied to the Near and Far East, and from Iraq to the Mediterranean and Persian Gulf partly as products and partly as crude for the limited refineries in France and Italy. There was comparatively little supply from Saudi Arabia or Kuwait. This geographically logical system was possible because of product exchanges.⁵⁵

As discussed above, the exchange between Anglo-Iranian and Asiatic during the winter of 1940-1 was the last product exchange Anglo-Iranian made during the war.

⁵⁴Shell SC7, P26/2, Compensation for Tanker Tonnage Balances between the Companies, 19 November 1941. (Whole text reproduced.)

Supplying the Australian market from the Netherlands East Indies provided plenty of 'phantom freight'. This arrangement had a long history, pre-dating the As Is agreement of 1928. Indeed, the Benzine Agreement with the Asiatic had been in existence since 1922. It was revised in 1927 and then again modified to accommodate the As Is arrangements in 1931.⁵⁶ Substantial quantities were lifted under the agreement. There was between 400,000 – 500,000 tons per annum of motor spirit and gas oil. Between 1930 and 1938, this agreement provided between fifteen and twenty per cent of Anglo-Iranian's total motor spirit sales.⁵⁷

Delivery was made to Asiatic f.o.b. Abadan and, in spite of As Is, in practice Asiatic were free to ship to any market which suited them. In general they supplied the United Kingdom, the Far East, and Continental markets. As the Axis occupation proceeded they pleaded *force majeure* in respect of the supplies for the Continent. They also protested about difficulties supplying the United Kingdom market because of tanker shortages and the set-up of the Petroleum Board. After an extended period of discussions, in 1941 a revised agreement was signed which addressed Asiatic's concerns. Even so, arrears continued to mount up.⁵⁸ Clearly, the main cause was the fact that Asiatic, in the same way as Anglo-Iranian, could not deliver outside the bounds of the short-haul area. However, the difficulties were exacerbated by an exchange arrangement which they made with Caltex in late 1940. They drew supplies from the Netherlands East Indies for deliveries in their Far Eastern markets which would normally have been supplied from Abadan.⁵⁹

⁵⁵J.E. Hartshorn, Oil Companies and Governments, 140.

⁵⁶Jim Bamberg, History of British Petroleum, 120-122.

⁵⁷Calculations from information in BP 109194.

⁵⁸BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.e.

⁵⁹BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.f. This arrangement ensured that certain tankers which were under the control of Caltex were used on short-haul lines to the general advantage of the war effort. Altogether some 450,000 tons – of which 300,000 tons

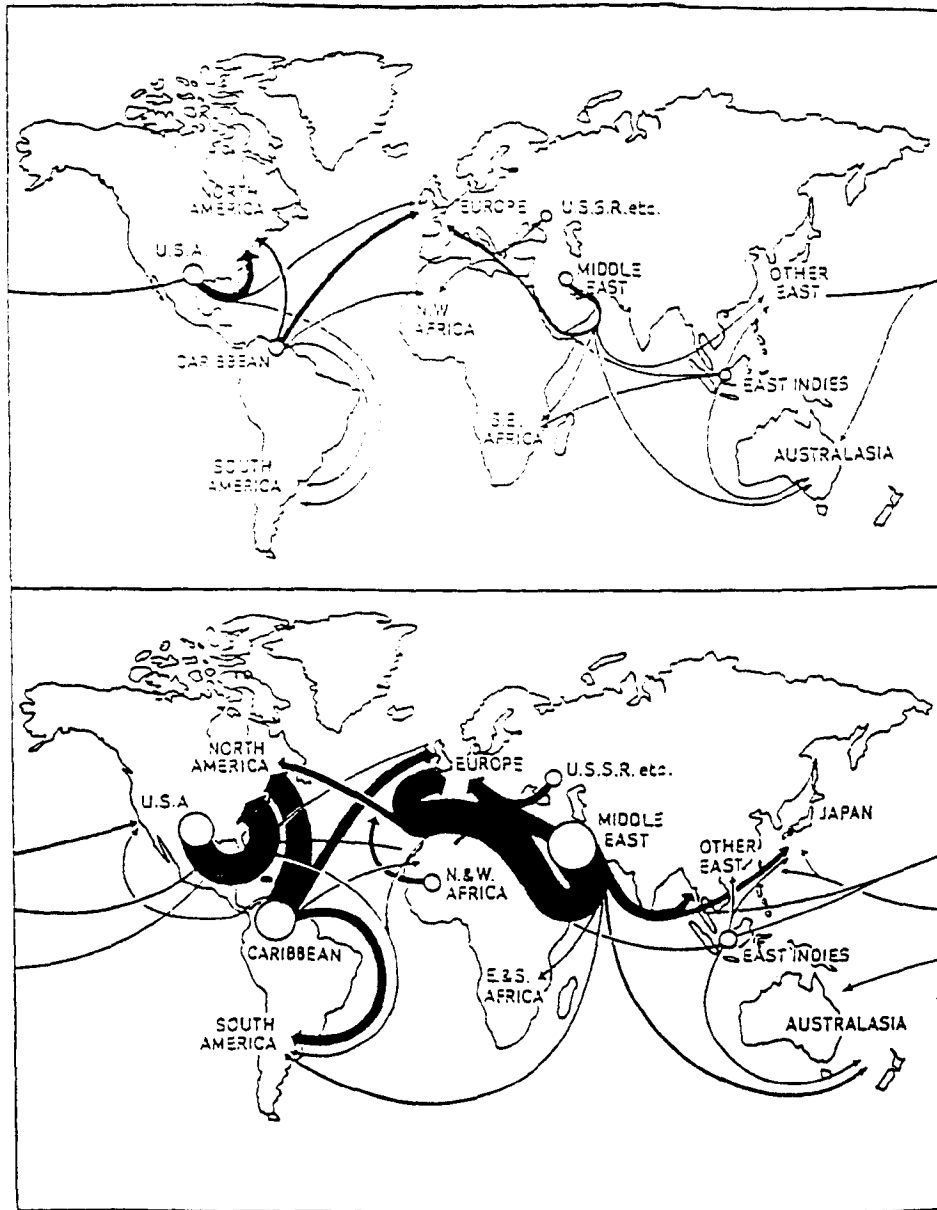


Figure 2. Main Oil Movements, 1938, above and 1965, below. J.E. Hartshorn, Oil Companies and Governments: Account of the International Oil Industry in its Political Environment. 2d rev. ed. London: Faber and Faber, 1967, 188.

Since the oil industry itself was at the heart of the oil executive of the British Government these new arrangements were organised with only cursory reference to non-

consisted of Benzene – were handled in this manner before the end of 1941 when the exchange broke down as a result of the Japanese invasion of the Netherlands East Indies.

oilmen. Shell director, Duggan, now at the Tanker Division, wrote to Anglo-Iranian director, Heath Eves, chairman of the Tanker Tonnage Committee, on 11 December 1940. Referring to the Norwegian tonnage owned by Texas and used by Caltex in the Eastern and Australian markets he observed that shipments could also be made from Bahrain to New Zealand, Australia, Phillipines and China. Almost apologetically, he noted that a copy of the letter was also sent to Starling, "since it is necessary to have Petroleum Department collaboration, since the issue involves supplies as well as tonnage." Nevertheless the letter closed, "You will appreciate that it is most desirable that this proposal should not be mentioned to the Texas people until we have had an opportunity of approaching them officially."⁶⁰

In other words, during the war the companies continued to maintain the initiative in global oil matters as in the inter-war period. The main difference was that the network of intercorporate action now had an additional loop, the Government. This did not mean that the network was now redundant. Duggan had obviously also sent a copy to his chairman in Shell, Godber, who replied to Duggan that, "The point you raise is also one that concerns Abadan because similar shipments are also being made from that centre. With a view to eliminating cross haul, the Overseas Supply people here had already taken in hand an exchange arrangement by which additional quantities would be shipped from Bahrain and Abadan to Suez and Greece, whilst supplies needed from New Zealand, Australia, Phillipines, etc. would come from the N.E.I. [Indonesia]."⁶¹ Godber, it will be recalled was serving as chairman of the Overseas Supply Committee.

However, despite being part of the loop, Government officials simply lacked the working knowledge of the industry common to company personnel. Continuing this set of

⁶⁰Shell SC7, P19, Duggan to Heath Eves, 11 December 1940.

⁶¹Shell SC7, P19, Godber to Duggan, 13 December 1940.

exchanges with Duggan, Godber had to write a letter whose contents explained the recent developments in inter-firm relations which had been discussed with Duggan in his official capacity. The tone and content of many similar letters is reminiscent of a company publication for the benefit of shareholders. Godber informs the public official Faulkner, "I should explain that some of these exchanges have been in operation between the Groups for quite a considerable time and as such they are not additional savings in tanker tonnage. The more recent exchanges refer principally to the Caltex and the Anglo-Iranian insofar as the Far Eastern requirements will now be supplied from the N.E.I. [Indonesia] instead of from Bahrain and Abadan respectively. These exchanges have only recently become possible."⁶²

At this time, because of the location of Abadan and short-haul routeing Anglo-Iranian experienced a huge reduction in its offtake for the markets west of Suez from three million tons each year to almost nil.⁶³ However, after 1942 and the collapse of the Netherlands East Indies, Abadan supplied the marketing needs for three of the biggest producers from that area, Socony-Vacuum, Shell/Asiatic and Burmah. Moreover, this policy was congruent with the objective of the Allied Governments of increasing Abadan's contribution to 100 octane aviation fuel production and supply, and the United States provided equipment to increase its production.⁶⁴

The introduction of short-haul routeing resulted in Anglo-Iranian failing to keep to their quota in Shell-Mex and B.P. for the Petroleum Board.⁶⁵ The Shell-Mex and B.P. Ltd. had come into being in 1932 as a result of an agreement between the Anglo-Persian Oil

⁶²Shell SC7, P26/1, Godber to Duggan, Petroleum Department, Ministry of Shipping, 6 January 1941, and same letter to Faulkner, Petroleum Department, 6 January 1941.

⁶³BP 63800, Memorandum on Offtake from Abadan, 1939-1942, 3.

⁶⁴BP 71485, Company War Record, Chapter Twenty-Two, Abadan Refinery, Section 1.a.

⁶⁵Shell SC7, P30, Supply Companies Quota Position, May 1940 – January 1942.

Company and Shell to combine their marketing activities in the United Kingdom in a joint venture.⁶⁶ In contrast to Anglo-Iranian's earlier attitude, there was an attempt to establish a price basis between the majors so that they could make purchases in the Americas to fulfil their quota. The strengthening of their position due to the collapse of competitors producing in the Far East was also an important factor. When therefore in October 1941, Standard-Vacuum approached them regarding supplies to replace losses in the Netherlands East Indies, Anglo-Iranian suggested the price basis adopted by the Petroleum Board for the United Kingdom; that is, the mean of Platt's export quotations f.o.b. loading port. The negotiations with the Standard-Vacuum took place over a long period of time and were influenced by different outside factors.⁶⁷

The foremost was that Caltex offered to underprice them. However, on the other hand, the collapse of production from the Netherlands East Indies meant that necessary replacement offtake from Abadan would be considerable. Thus, Anglo-Iranian became less concerned about the maintenance of a relatively high price level.⁶⁸ Moreover, by January 1942 Standard-Vacuum was prepared to offer Anglo-Iranian their whole business. One reason was that Caltex could only supply part of their requirements. Of greater importance, however, was that before the Second World War Standard-Vacuum and Caltex had been bitter rivals in the Asian and Australasian markets, where they had been involved in skirmishes over prices for bunkers, whereas trading relations with Anglo-Iranian had always been friendly.⁶⁹

⁶⁶Jim Bamberg, History of the British Petroleum Company, 119.

⁶⁷BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.i.

⁶⁸BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.i.

⁶⁹BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.i.

At first, Anglo-Iranian was hesitant regarding Standard-Vacuum's offer for black oil prices, which was based on the Caltex offer to them.⁷⁰ However, they eventually accepted the offer and Standard-Vacuum began to draw virtually all their supplies from them.⁷¹ After July 1942, the Standard-Vacuum agreed to increase their prices for black oils, and finally, at the end of the year accepted an Anglo-Iranian price. This was the low of Platt's quotations in respect of all products with a discount of five per cent. This price level became the recognised selling price for supplies between the majors.⁷² One of these companies was Asiatic, the Shell subsidiary, who, after the loss of their Caltex supply from the Netherlands East Indies, had immediately given notice that it was their intention to take up their arrears under the Benzine Agreement as early as possible. These arrears amounted to 450,000 tons at the end of 1941. Hitherto, they had been supplied f.o.b. Abadan at a price some thirteen shillings per ton below the United States Gulf figure. Anglo-Iranian wanted to extend the new pricing structure agreed with Standard-Vacuum. Simultaneously, they were anxious to make an agreement which would also provide supplies in the Americas and thus enable them to implement their quota in the Shell-Mex and B.P.⁷³ Eventually, the Reciprocal Supply Agreement was signed on 1 October 1942.⁷⁴

The agreement developed the nature of cooperation between Anglo-Iranian and Asiatic since a common price applied whether the oil was drawn from Abadan or the Americas. Previously, the Asiatic had argued for a premium for supplies from Curacao over

⁷⁰It should be added that Ministry of War Transport freight rates subsequently put shipments from Abadan and Bahrain at the same level, thus leaving buyers from each refinery on the same basis. Subsequently, in 1944 a differential of 1/6d. per ton was reintroduced but, by that date, the competitive element had largely been removed by other factors.

⁷¹BP 45882, Socony-Vacuum Oil Company – Four Year Agreement with Supplementary Freight Saving Economies.

⁷²BP 43853, Oil Industry – Intercompany Relations: War Period and Post-war Problems, draft agreement between Shell and A.I.O.C.

⁷³BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.j.

the United States Gulf prices on the basis that freight costs to the United Kingdom would be lower since it was closer. On the same basis, they tried to purchase at prices below Gulf parity from Abadan since it was more distant. Furthermore, exchanges involving the sharing of joint freight savings had always led to a payment being made to the Asiatic.⁷⁵

The loss of Rangoon after the invasion of Burma in February 1942 eliminated the production of the Burmah Oil Company. Under the Burmah-Shell Agreement for the Indian market which came into force in 1928, Burmah were entitled to supply up to the total requirements of any grade of petroleum from indigenous production. Moreover, they could bring up to half of the requirements of benzine and kerosene from any source. In practice, the balance was imported by the Asiatic and the Anglo-Iranian on a fifty-fifty basis.⁷⁶ Unable to maintain their production Burmah approached the other two companies for a modification which was agreed later in 1942. Due to tanker shortages, exchanges were carried out from Abadan at the new international price charged to Socony-Vacuum and Asiatic.⁷⁷ In sum, the As Is price formula had been modified, but not destroyed, by the war.

Supplies from Abadan substituting for Dutch East Indian oil arrived on India's west coast (Bombay) rather than its east coast (Calcutta).⁷⁸ In the context of Japanese success in Asia, Shell, Burmah, and Anglo-Iranian arrived at a 'Joint Statement of Aims'. It confirmed that the companies would not take advantage of each other in the wartime situation and that

⁷⁴BP 65360, Asiatic and AIOC Reciprocal Supply Arrangements.

⁷⁵BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.j.

⁷⁶BP 37143, Fraser to Eady (enclosing note on India), 20 December 1944.

⁷⁷BP 71480, Company War Record, Chapter Four, Distribution, Section 4.4.k..

⁷⁸Shell SC7, P3/1, Faulkner to Sir D.Montearth, India Office, Supply of Petroleum Products to India, 18 May 1942.

they would try and re-establish market positions.⁷⁹ This, of course, implied the re-establishment of As Is market share. However, total trade in India by the middle of 1944 was seventy per cent higher than in 1939. Shell felt that these special arrangements should be discontinued, and called for a reversion to the basic agreement from the beginning of 1945. Godber confessed,

My feelings I must admit are also somewhat reinforced by the knowledge that your Company's large interests in the Anglo-Iranian must be providing you with a very considerable set off to your loss of revenue from Burma, whereas our Group's losses of production have no similar compensation.⁸⁰

The question of Indian oil, and the Burmah-Shell agreement was linked to the wider issues of the Far Eastern trade and also involved Socony-Vacuum and Caltex. Thus, in spite of inadequate information – “largely because the transport has been in the hands of the Americans, it has been impossible for any reliable information to be obtained” – Shell felt that “we ought not any longer to defer getting together to agree upon some arbitrary figures of trade over the past three years which could reasonably be regarded as China trade and consequently as calling for adjustment between the companies interested in the Indian trade and those interested in the trade of China.”⁸¹ In their war with Japan Chinese armed forces were being supplied from India. The use of a formula basis for apportionment of trade would be extended to Socony-Vacuum and Caltex.

Since both the S.V.O.C. and Caltex are participants with us in the China trade both the American companies will be entitled to retain the proceeds of their Indian trade which would then be regarded as having accrued to their China business...The position as between us and the American companies is that,

⁷⁹BP 106600, Joint Statement of Aims, 30 September 1942. The pattern of their co-operation in 1938 is clarified in BP 59544, while BP 53131 provides a more general account. BP 1474 contains a copy of the original agreement of 20 March 1928.

⁸⁰Shell SC7, P2/2, Godber to R.I. Watson, 5 February 1945.

⁸¹Shell SC7, P2/2, Godber to R.I. Watson, 5 February 1945.

whereas we have a complete understanding with the S.V.O.C., we cannot say the same of Caltex and I can see no prospect of reaching agreement with that company either in respect of what share of the trade is to be regarded as their due or in respect of their past overtrading and how it is to be settled between us.⁸²

Godber's suggestion was that if Burmah settled with Shell for both India and China, then Shell would settle with Socony-Vacuum. Caltex continued to cause problems because of their tendency to break quotas. Finally, in 1946, they tried to leave the wartime machinery which had curtailed, to a considerable extent, their freedom of action. In 1946, a Shell memorandum observed that, "Caltex have now advised that they can no longer continue to agree to the existing principle for division of imports, in territories where such a ruling is not imposed by the existence of Government pools or other regulations."⁸³ Shell's negative reaction towards this suggestion is explicable in terms of self-interest – the almost certain loss of market share while they were rebuilding their production facilities in East Asia. However, it is also explicable in terms of a conception of the general interest, an interest that was protected through cooperation between the companies leading to balanced rather than cut-throat competition. This line of argument becomes more plausible when one recalls that the reasons for the poor relations which Standard-Vacuum and Anglo-Iranian suffered with Caltex were the result of the latter's tendency not to cooperate. When referring to the Caltex proposal for unilateral secession from the machinery, the memorandum warns:

This would be a confession of failure on the part of industry and certainly a retrograde step at a time when every effort is being made to maintain free and competitive trading. It is certainly no wish therefore to continue controls, or to avoid free and open competition between parties, that prompts the request by O.S.C. [Overseas Supply Committee] for continued cooperation but merely the fear or certainty of a breakdown, which might in fact result in undue extension and re-imposition of more than is necessary.⁸⁴

⁸²Shell SC7, P2/2, Godber to R.I. Watson, 5 February 1945.

⁸³Shell SC7, P3/2, Richardson to Keefe, 7 August 1946. Attached Memorandum, 7 August 1946, 2.

⁸⁴Shell SC7, P3/2, Richardson to Keefe, 7 August 1946. Attached Memorandum, 7 August 1946, 3.

This was a pertinent fear in the post-war period, which is examined in the next chapter. But during the war itself the emergency conditions had deterred Governments from probing too closely into corporate plans. Reliance on the companies gave them a key role in agenda-setting and confirmed their control of information. On some occasions, their inter-firm agreements set the agenda and were adopted through the relevant official channels. An agreement for sharing tankers between the companies was adopted without any change by the Petroleum Administrator for War as Plan Number 26 by the Near East and Far East Committee. As discussed in the previous chapter, this sub-committee of the Foreign Operations Committee was closely associated with the industry. The Plan reads,

It is proposed as a necessary and essential...measure and to facilitate the exchange of tanker tonnage that in order to maintain adequately with the tonnage available the most satisfactory level of stocks in all markets with as little as possible disturbance to the interests of the Companies involved, the tanker tonnage used by all the above Companies serving the Far East and Near East territories shall be shared in such a manner as to allow each Company to maintain their relative market position in each field with their own produced, purchased or otherwise obtained supplies from broadly speaking nearest available sources. It is understood that the tanker tonnage thus to be shared will be that available after allocating to parties not subscribing to this agreement sufficient tonnage to maintain their relative market position.⁸⁵

Each company was to make a joint monthly forecast for three months ahead from December 1941. Three things were involved: opening stocks at beginning of three month period, estimated monthly offtake, and tanker arrivals required month by month. This was to be part of a joint composite picture within local Government targets for consumption and stock levels, described as a "proper relative position and a safe working stock." The allocation of tankers would take place as London and New York continued to share a

complete list of all vessels with information about cargo capacity, speed and location for two zones – Near East Zone (Abadan / Suez / Haifa / Bahrain) or Far East Zone (Netherlands East Indies / Borneo / Rangoon). Further, the home office of each company would have its own loading schedule based on tanker arrivals required.⁸⁶

This example shows the interrelationship between the principle of the 'twin committee' system in defiance of some United States public authorities examined in the previous chapter, the central position of the company experts within the Allied cooperation, and the continuing development of private cooperation during the war. The war certainly disrupted many of the pre-war arrangements, but this only meant that the form which cooperation took changed; it did not mean that cooperation ended.

5.6 CONCLUSION

The war was a catalyst for the breakdown of the As Is agreements. These had been designed as a buffer against the Depression and to contain the growth of Middle Eastern oil which, being cheaper to exploit, threatened established market positions. During the 1930s this system worked fairly well and the contact among these corporate diplomats was the basis for the Allied oil committees. It has been assumed that the As Is system simply collapsed during the war because oil supply was a matter for Allied cooperation rather than interfirm cooperation. However the oilmen managed the Allied cooperation; thus, many of the same individuals were able simultaneously to manage both Allied cooperation and

⁸⁵Shell SC7/ P26/2, Memorandum. Scheme for Sharing Available Tanker Tonnage in Eastern Areas between Shell, Anglo-Iranian, Burmah Oil Company, Standard-Vacuum, Socony Vacuum and Caltex companies. Shell SC7, P21 has a copy of the Petroleum Administrator for War Plan, Number 26.

⁸⁶Shell SC7/ P26/2, Memorandum. Scheme for Sharing Available Tanker Tonnage in Eastern Areas between Shell, Anglo-Iranian, Burmah Oil Company, Standard-Vacuum, Socony Vacuum and Caltex companies.

ongoing interfirm cooperation. In brief, this chapter establishes that specific As Is arrangements and more broadly conceived private cooperative activity continued after 1939.

There were changes to the As Is inspired agreements, in part due to the exigencies of war, but also because of pressures building from the anticipated post-war competitive edge of Middle East oil over production from the Americas, and the result of these pressures was a trade war between the companies. Yet in spite of breaches of specific agreements, the norm of private agreement remained. The aim of the trade war was the creation of a new order, not the end of private international order. Through their role in supply matters the trade war between the companies became an element in British foreign oil policy. Yet this factor in British foreign policy would have remained obscure without an investigation of the company records. Since consideration of the trade war was an important element in the minds of the foreign policy decision-making and implementing company officials it becomes harder to disentangle the threads of national and corporate policy. The trade war affected many of the schemes for private global governance during the Second World War. Officials in the United Kingdom were generally unconcerned about private arrangements. In the United States, however, the public authorities took a much more regulatory approach. The Justice Department became involved in an investigation of the role of the United States companies during the war. In the post-war era they were to launch criminal suits against the companies. Both the State Department and the Petroleum Reserves Corporation also proposed various public measures which would lead to the termination of the society of majors, which are examined in the next chapter. In this way, the trade war also impacted upon schemes for private global governance of oil in the post-war period.

The intermingling of corporate and national goals shows the limits of the assumption that state policies are the product of rational procedures by state actors to discern the national interest. It squarely poses the question of whose interest is the 'national' interest. Another theoretical issue is that the national interest may not be established by any kind of decision at all; it may be established in the process of implementation. In other words, British policy regarding As Is activities was what the companies made of it – it was what they were doing. There is a link between the main theoretical and historical point. The laissez-faire attitude of the British state with regard to the companies provided them with a wide scope for implementing policy which, in practice, meant establishing policy. One of the policies was to negotiate for the continuance of the As Is arrangements during the trade 'war' sparked by wartime conditions which accelerated the growing importance of Middle East oil.

From the late 1920s till the mid-1950s (the terminal date for this thesis) the companies constantly developed and reshaped their collaborative global web. A thread of interconnections was woven by the interlocking directorates in the joint ventures. "The boards of directors that manage the labyrinth of foreign corporations, which are jointly owned by the major international oil companies, provide organisational opportunities for joint action and the establishment of a common oil policy throughout the world."⁸⁷ When it seemed that the United States Supreme Court would begin to take action against the international oil cartel in the late 1940s, senior managers at Anglo-Iranian balked. After American overtures in As Is and the Mesopotamian concession, Anglo-Iranian "had then gone on building a barrier against unrestricted competition with the waste and price cutting

⁸⁷FTC, Report, 31.

which it implied...Sir William Fraser had taken an active part from 1928 onwards in formulating this policy and in endeavouring to preserve the security of the structure which had been thereby erected. It was hardly fair to expect him to take the first step in destroying what he himself had helped to build, merely because a democratic Supreme Court in the United States had placed a new and radical interpretation upon an old law."⁸⁸

⁸⁸BP 43855, Kuwait Oil Company, Note, Folder 10/3.

CHAPTER SIX: LAW AND GOVERNANCE OF THE INTERNATIONAL OIL INDUSTRY IN THE POST-WAR PERIOD: PRIVATE ARRANGEMENTS AND THE MYTH OF AMERICAN HEGEMONY

6.1 INTRODUCTION

In 1944 and 1945 two separate Anglo-American Oil Agreements were signed. However, the failure to secure Congressional ratification meant that the necessary enabling legislation was absent. Thus, the Agreements never passed into law. This is one reason why scholars have relatively overlooked them. The only existing detailed study is based exclusively on United Kingdom and United States Government archives and the archives of public figures. Corporate archives have not been used.¹ A study of the events surrounding the negotiations and the reasons for the non-ratification by the Senate sheds light on the processes of foreign policy. The bureaucratic rivalry between the Petroleum Reserves Corporation (PRC) and the State Department and the influence of lobby groups in the United States political system were important factors during the negotiations. On the British side the Treasury, Foreign Office and Ministry of Fuel and Power were all involved. Also important was the role of Anglo-Iranian and Shell in the British foreign policy process. The contrast between the process in the United Kingdom and the United States is instructive because the different treatment of the firms impacted on the negotiations and their outcome.

The British intended to promote greater American company participation in the Middle East through parent Government tolerance of inter-company agreements along the lines of the pre-war informal entente. The chief importance of these talks lay in their articulation of transnational law. Such law governs those situations where neither domestic nor public international law are appropriate, for instance, in cases of

nationalisation.² Bull had argued that international law contributed to international order in three ways – it identified the basic principle of organisation, stated the basic rules of co-existence, and mobilised compliance with the rules of international society.³ The Agreements first clarified that the international oil industry would be populated by privately managed firms; second, that it would be regulated and re-shaped from within to develop a new balance of power to underpin the society of majors; and finally, that it was lawful to relax the Red Line agreement effectively limiting American participation in the Middle East as a prelude to creating new legal instruments to include the Americans so that the trade war could end.

According to Claire Cutler, “the law merchant is a crucial mediator of domestic and global political/legal orders. It establishes the fundamental rules governing private property and contractual rights and obligations operative across the full range of international commercial activity.”⁴ It provides for the extraterritorial application of national commercial laws, but without direct Governmental regulation. As such it is part of the “embedded liberalism” which John Ruggie argued characterised the early post-war period. This combined domestic interventionism to support the national economy and multilateral liberalism to promote world economic growth.⁵ However, the role of private power in the construction of global authority has been overlooked as realists restrict study to official Governmental instruments. This has also led to overlooking the resources of the firms. They played an important role in the international negotiations which led to the Anglo-American Oil Agreements, and together with the British

¹Michael B. Stoff, Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1941-1947, Yale historical publications, no. 125 (New Haven: Yale University Press, 1980).

²Louis Henkin, Richard Pugh, Oscar Schachter, and Hans Smit, 2d ed. International Law: Cases and Materials, American Casebook Series (St Paul, MN.: West Publishing, 1987), 1128-1130.

³Hedley Bull, The Anarchical Society: A Study of Order in World Politics (New York: Columbia University Press, 1977), 141.

⁴Claire Cutler, “Locating ‘authority’ in the global political economy,” presented at British International Studies Conference, Leeds, 15 –17 December 1997.

achieved their objective of a new legal order, which would not be publicly regulated. Working together they defeated various United States initiatives in this period intended to achieve greater control over the companies. The chapter divides into nine sections dealing with three American initiatives - the Arabian concession, the Arabian pipeline and the Anglo-American Oil Agreement.

6.2 THE SAUDI ARABIAN CONCESSION

Middle East oil was used to fuel the economic recovery in post-war Western Europe and conserve strategic reserves in the Americas. The expansion of Middle East production was, therefore, an important goal of United States post-war planning.⁶ The Saudi Arabian concession originally held by Standard of California (Socal) was developed into a joint venture in 1936, when Texaco bought a half-share in the California Arabian Standard Oil Company (Casoc). Texaco also bought a half-share in Socal's Bahrain Petroleum Company (Bapco) and turned over its marketing east of Suez to a Bapco subsidiary, the California Texas Oil Company (Caltex). This was to prove important as Socal had useful connections with Government departments.⁷

Socal had originally achieved the concession in 1933 because King Saud had been impressed that Socal was not British and because it had offered him the most money.⁸ Financial considerations were to remain crucial to his relations with the companies. From 1933 to 1939 the Caltex group loaned the King over two and a half million dollars above the royalties and other rents accruing from the concession

⁵John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," International Organization 36 (1982): 379-415, 393.

⁶Simon Bromley, American Hegemony and World Oil (Cambridge: Polity, 1991), 112-113.

⁷Aaron Miller, Search for Security: Saudi Arabian Oil and American Foreign Policy, 1939-1949 (Chapel Hill: University of North Carolina, 1980), 24.

⁸Leslie McLoughlin, Ibn Saud: Founder of a Kingdom (London: Macmillan, 1993), 126-8. Aaron Miller, Search for Security, 19-20.

agreement. The King could expect the company to increase these payments should he wish to.⁹ With the cutback in production due to the closing of the Mediterranean in the war he did. In 1941, King Saud demanded \$6 million per annum for the next five years. At this point the company was only paying \$1.5 million in royalties. In seeking aid from the United States Government they approached James A. Moffett. During the First World War he had supervised petroleum purchases for the Allies through the United States Fuel Administration. At that time he was working for Jersey and after 1924 he became senior vice-president. In 1933 he left to work with Socal and also helped draft the Oil Code which introduced a measure of regulation to the domestic industry in the United States. “[O]ver the years Moffett became [President] Roosevelt’s unofficial adviser on oil matters.”¹⁰

Another important Socal employee was Max Thornburg. Thornburg was an executive in the Bahrain Petroleum Company (Bapco) who continued to receive twenty-nine thousand dollars annually in addition to his eight thousand dollar Government salary. Though this practice was not unusual for senior company executives, it was usually revealed. The concealment in this case may be explained by the fact that Thornburg continued to see himself as a company man. The copy of an exchange with Socal vice-president R.C. Stoner about a Government-sponsored project in Saudi Arabia is revealing. “I don’t see any good coming out of getting another man [a non-company man] into our part of the picture. And, of course, his interests are not ours.”¹¹ Unlike Ickes’ deputy, Ralph Davies, also of Socal, who withdrew from any issue which might affect his company and was consequently sacked after the war, Thornburg actively pushed Socal interests.

⁹Rodgers memorandum, 27 April 1944, reprinted in Petroleum Agreements with Saudi Arabia, 80th Congress, 2d session, Washington, 1948, hereafter cited as Arabian Oil Hearings, 25380-87.

¹⁰Michael Stoff, Oil, War and American Security, 48; Benjamin Shwadran, The Middle East, Oil and the Great Powers (New York, Praeger, 1955), 315-317.

Thornburg became the petroleum adviser to the State Department in July 1941. His job was to assist Herbert Feis in the accumulation of strategic raw materials and advise the State Department generally.¹² He quickly began, in the words of his immediate senior Feis, "operating as a semi-independent branch of the department."¹³ His expertise enabled him to draft the contours of policy within the department. The internal Governmental struggle with the Office of the Petroleum Co-ordinator, where Ickes and Davies were based, only increased his influence within the State Department until he was asked to resign in December 1943 by Secretary of State Cordell Hull when the payments from his company became known.

6.3 PETROLEUM RESERVES CORPORATION

The State Department proposed setting up a Petroleum Reserves Corporation (PRC), a Government body to purchase options on overseas oil starting with Arabian oil. After hearing of these proposals from the State Department Ickes, the Petroleum Administrator for Oil, sent his own proposals to Roosevelt which entailed the federal control of oil, which he had wanted from the early days of the New Deal. "Mr Ickes is an honest believer in the necessity of extending Federal control over the oil industry."¹⁴ His version of the PRC would not merely purchase oil; it would also own shares in the oil companies and manage them. The Joint Chiefs of Staff had an even more interventionist plan, adding a certain twist to Ickes' proposal by suggesting that the PRC should also negotiate a new concession agreement in Saudi Arabia. The inter-departmental

¹¹Thornburg to Reginald Stoner, 29 September 1941, reprinted in Arabian Oil Hearings, 25444-5.

¹²On Thornburg, Arabian Oil Hearings, 25272, 25273, 24857, 25213.

¹³Michael Stoff, Oil, War and American Security, 66.

¹⁴Samuel Pettegill, Hot Oil: The Problem of Petroleum (New York: Economic Forum, 1936), 251.

committee that sorted through these three visions of the PRC broadly came out in favour of Ickes' plans.¹⁵

Ickes was very keen to remove the restrictions of the pre-war agreements, an objective shared by all five American majors. The Red Line agreement which was linked to the Iraq Petroleum Company (IPC), prohibited members from seeking other concessions within the area of the Red Line, except through the IPC. This particularly affected Jersey and Socony-Vacuum who were part of IPC, but were also interested in expanding their concessions. Socal and Texaco - the Caltex Group - continued to develop an advantage through their defection from pre-war agreements. They wanted these pre-war agreements to be reviewed. They were able to combine cheap Middle East production with an established marketing base in the Far East, but now wished to enter other markets, especially in Europe. Gulf was also critical of Anglo-Iranian. In the joint venture which had established the Kuwait Oil Company (KOC), Anglo-Iranian was effectively given control of the pace of development through, for instance, clauses requiring Gulf to obtain oil from Anglo-Iranian in Iran and Iraq in place of increased Kuwaiti production. In addition, there were clauses preventing Gulf from selling its portion of the limited production from KOC in Anglo-Iranian's markets, in other words, all the pre-war outlets for Kuwaiti oil in the Far East.¹⁶

During the spring of 1943 Gulf saw the possibilities for Kuwaiti oil for the Far East and for Europe after the war. They tried to remove the restrictive clauses by informing Anglo-Iranian that the clauses were in violation of American antitrust laws. Anglo-Iranian remained unimpressed and refused to accept any modification until the scope and jurisdiction of United States legislation had been cleared through an intergovernmental accord. It was rightly suspected that an application of the Sherman

¹⁵Aaron Miller, Search for Security, 74-82.

Antitrust Act to the Kuwait Oil Company would imply the United States claiming extra-territorial jurisdiction.¹⁷

While this would be opposed by other states, the American companies who would be concerned about the precedent it would set for political control of worldwide operations would also oppose it. On the other hand, it was clear that new international agreements were needed to accommodate the growing importance of Persian Gulf oil. Without an agreement there would continue to be wasteful trade wars of the kind examined in the previous chapter. These would be exacerbated in the post-war period, as local states would insist on higher production to secure higher royalties. An agreement on the scope of the antitrust legislation was a prerequisite for new global governance arrangements designed to facilitate and accommodate increased Persian Gulf production.¹⁸

In April 1943 Basil Jackson of Anglo-Iranian met Terry Duce of California Arabian Standard Oil Company (Casoc), which was a subsidiary of Standard of California, and, therefore, part of the Caltex interests. He was on temporary leave to head the Foreign Division of the Petroleum Administration for War. They decided that the huge quantities of post-war oil could only be managed through adjustments to the present regime including the clarification of the law of antitrust. In Britain, one month before the PRC was created, Jackson proposed an Anglo-American meeting on the basis that since American policy had not been fixed the British could gain a hold upon events through a conference. Churchill rejected the idea put forward in May 1943 as premature possibly because it might betray fear on the part of the British. Harold Wilkinson, the British Petroleum Representative, soon supported Jackson's efforts. He supported

¹⁶Aaron Miller, *Search for Security*, 83.

¹⁷BP 43855, Note, "Kuwait Oil Company," 15 July 1943.

Jackson's analysis that concern about domestic reserves was dominating all consideration of oil matters. He regarded the PRC with suspicion, describing it as a "Washington Santa Claus bidding for...concessions with the lush money bags of the Treasury and Fort Knox." He preferred, along with Jackson, cooperation among private parties as the "only solid basis to a real and lasting United Nations' oil policy."¹⁹

Wilkinson started activities to change British policy regarding oil talks. When Ickes proposed talks Wilkinson implored officials at the Ministry of Fuel and Power to accept this informal invitation. Meanwhile, Jackson provided copies of his correspondence with Fraser which had stressed the dangers of current American directions to Ronald Campbell, charge d'affaires at the British embassy in Washington. Campbell repeated the arguments, passing them off as his own and providing no indication for the source of his knowledge. Thus, advice from both corporate staff and officials in Washington dovetailed.²⁰

6.4 CONFLICTS OVER MIDDLE EAST OIL IN 1943

Some Americans continued to believe that the British were hoarding Persian Gulf oil in order to dominate post-war markets, although during the Second World War supply factors limited the usefulness of Middle East supply. These factors included the closing of the Mediterranean, the length of the haul from the Persian Gulf to Europe, and the shortage of tankers.²¹ Now there was a scramble for oil concessions in Iranian Azerbaijan. Since February 1943 there had been wooing of American companies to seek concessions in the northern territories of Iran by the Iranian commercial attaché in

¹⁸Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power (London: Simon and Shuster, 1991), 400.

¹⁹PRO FO 371, 34210, Harold Wilkinson to Sir William Brown, September 2 1943, Wilkinson to Brown, 29 September 1943.

²⁰Michael Stoff, Oil, War and American Security, 98-99.

Washington. From the Iranian perspective it seemed that American commercial interests would involve American Government support for the independence of Iran and offer a counterbalance to Anglo-Russian rivalry. The approach to Jersey in February was followed up by Standard-Vacuum, the subsidiary of Jersey and Socony-Vacuum after hesitation due to the bitter memories of the negotiations of 1940.²²

Nevertheless, in spite of State Department support for Standard-Vacuum, Anglo-Russian objections forced the Iranians to suspend the offer. Although it culminated in a non-event the scramble for Iranian petroleum resources was important. In the short term it was one of the factors precipitating the Anglo-American oil talks of 1944, while in the longer term it contributed to the Azerbaijan crisis of 1946. The Iranians failed to realise that the Soviets would not so easily be thwarted in their attempt to maintain a sphere of influence in northern Iran. United States authorities failed to see how their support for oil interests would undermine their efforts to protect Iranian territorial integrity and sovereignty by provoking Soviet fears along its southern flank. Furthermore, the possibility of losing oil to the United States worried the directors of Shell who, having received the assent of the British Government sent their own representative to Tehran in November 1943. In particular, Shell's move was supported by the Petroleum Division and the Treasury who, motivated by the dollar shortage and debt to the United States, could not afford to lose any source of sterling oil.²³

²¹PRO FO 371, 34210, Butler minute, "America and Oil," 1 October 1943.

²²PRO FO 371, 47685, Wilkinson to Lloyd, 12 December 1943. Benjamin Shwadran, The Middle East, Oil and the Great Powers, chapter four.

²³PRO FO 371, 35127, Maurice Peterson to William Brown, 23 September 1943; PRO FO 371, 35127, Peterson minute, 25 October 1943; PRO FO 371, 35127, Hankey minute, 23 October 1943; PRO FO 371, 35127, Peterson minute, 23 September 1943; PRO FO 371, 35127, Lloyd to Law, 20 October 1943.

The Foreign Office argued that the Shell bid was imperative since the United States would not share the concession with the British should they win it.²⁴ At the same time most officials in the Foreign Office agreed that, if necessary, an Anglo-American consortium could be created after Shell had won the concession. The heart of their proposal was for joint ownership and management of the concessions. Indeed, the Petroleum Division took the same view. His fellow directors and the officials in the Petroleum Division accepted Wilkinson's warnings. Geoffrey Lloyd, the minister in charge of petroleum matters in the Ministry of Fuel and Power, followed the view of his department and, suggested that British policy "should aim at an orderly development with considerable intertwining of British and American interests."²⁵ The two departments however differed on the tactics of Shell's concession seeking. For whereas the Petroleum Division were convinced that the United States would never share a concession, and so Shell must apply in their own right even if they would later share the concession, the Foreign Office felt that the Petroleum Division could have proposed joint application.²⁶ This Anglo-American competition over petroleum resources increased Soviet interest in Iran's northern provinces which helped provoke the Azerbaijan crisis which Louise Fawcett has identified as among the first of the Cold War crises, and which is examined in the next chapter.

During October 1943 William Brown, the Deputy Secretary for Petroleum, produced a draft set of principles, which would contribute to cooperation between both Governments and their companies.²⁷ The idea of an oil pact was supported by the Foreign Office, which also had plans for civil aviation, international monetary policy and

²⁴PRO FO 371, 42685, Hankey minute, 18 January 1944; PRO FO 371, 42686, Butler minute, 26 January 1944.

²⁵PRO FO 371, 34210, Lloyd to Churchill, 22 October 1943.

²⁶PRO FO 371, 35127, Law minute, 15 October 1943; FO PRO 371, 34210, Hankey minute, 30 October 1943.

²⁷PRO FO 371, 34210, Butler minute, "America and oil," 1 October 1943, P. Mason minute, 8 October 1943; PRO FO 371, 34210, Brown, "Draft Oil Principles," 5 November 1943.

collective security, and feared that friction over oil now threatened all schemes for post-war economic cooperation.²⁸ However, the plan was resisted by some in the Petroleum Division such as Bridgeman who observed that, "It would be unfortunate if we had to regard it as an accepted principle that no British interest in the Middle East is safe unless an American company is established next door to give it the necessary support."²⁹ There were also disgruntled noises from the industry. Godber, like Jackson, wanted the companies to retain the initiative in Anglo-American cooperation over oil, yet whereas Basil Jackson and Anglo-Iranian in general were willing for Whitehall to frame general rules, Godber wanted in the words of Michael Stoff, "first to transact, then to consult." This, of course, was precisely the strategy which Godber had employed earlier over product exchanges. Stoff explains this approach to the international Agreement as "a strategy that typified the less intimate relations his company had always had with Whitehall."³⁰

Early in October 1943 Godber observed that the issue of greater United States participation in Middle East oil development "is not one in which the Governments of the two countries should plunge, but that it should be in the first instance the subject of negotiations between the British, Dutch and American oil companies."³¹ If the American Government had not intervened in the industry or at least not threatened to do so, then the broad tendency of the British Government would have been to accept private cartel arrangements. They had worked easily with the cartels and had benefited from this close working relationship. The response to the creation of the PRC was to enter into talks in order to protect the system from Government-sponsored competition.

²⁸PRO FO 371, 34210, Mason minute, 13 October 1943; PRO FO 371, 34210, Scott minute, 14 October 1943; PRO FO 371, 34210, Law minute, 15 October 1943.

²⁹PRO FO371, 34210, Butler to Campbell, 21 October 1943; PRO FO 371, 42690, Bridgeman to LeRougetel, 17 March 1944.

³⁰Michael Stoff, Oil, War and American Security, 108.

6.5 EARLY INITIATIVES FOR AN OIL AGREEMENT

Late in October 1943 Petroleum Secretary Lloyd recommended to Churchill that the British invite the United States to discuss oil policy. According to Neville Butler of the North American Department of the Foreign Office Churchill turned down Lloyd's suggestion on the advice of Lord Leathers who recommended leaving discussions to the companies.³² The visit of a State Department mission to London to discuss Anglo-American problems in the Middle East provided an opportunity to discuss the oil issue. The Foreign Office seized the initiative. Charge d'affaires Ronald Campbell informed the United States that "we and the Oil Board would be very ready to have explanatory talks regarding the general principles which our two Governments would adopt towards oil resources in all parts of the world, if the United States Government cared to send representatives of their Petroleum Administrator for War with Mr Murray [the Near East Division chief who accompanied the group] and his party."³³

Deadlock over the Petroleum Reserves Corporation (PRC) led the Americans to prefer an Oil Agreement. Indeed, Ickes claimed that the PRC was simply a means of increasing leverage in the talks.³⁴ "It was indicated in subsequent discussions between Mr Ickes and Mr Wilkinson, the British Petroleum Representative, that the arrangement between the Petroleum Reserves Corporation and the American oil companies is still in a very nebulous state... he hoped that the injection of this somewhat explosive proposition would serve to overcome the inertia which he felt was retarding the initiation of Anglo-American oil discussions."³⁵ Since March 1943 the United States Government had begun looking more favourably on the idea of an oil pact. Feis supported such talks.

³¹PRO FO 371, 34210, Butler minute, "America and Oil," 1 October 1943.

³²PRO FO 371, 34210, Butler minute, "Oil," 4 November 1943.

³³PRO FO 371, 34210, Scott mission, 4 November 1943; PRO FO 371, 34975, Campbell to Foreign Office, 2 November 1943.

³⁴Aaron Miller, Search for Security, 89.

They would prevent misunderstandings about American intentions from the Allies - Russian and British - and also provide an alternative since the attempt to acquire a company had failed. Finally, it would establish the primary role for foreign oil policy with the State Department. However, Ickes had also been persuaded of the usefulness of the talks through Terry Duce of Social who had been persuaded by Jackson of the need for rationalising oil development along the Persian Gulf.³⁶ They had agreed on the problems caused by antitrust legislation and pressures from host Governments, which would require a clear policy from the parent Governments. Ickes agreed to the talks but continued his search for the unilateral solution - Government ownership of Caltex's Arabian subsidiary, Casoc, along the lines of the British Government ownership of the Anglo-Iranian. This analogy was false since while the relationship was based on close support there was no Government interference in Anglo-Iranian; it was a purely financial 'sleeping partnership' as the British kept repeating to the United States in 1943 and 1944.³⁷

Moreover, the American industry was set against the PRC. The Foreign Operations Committee on which Jackson and Wilkinson also sat reported in November that private initiative was the best for oil development, and in December the Petroleum Industry War Council asked for the federal Government to stay out of the international industry. Even the small producers in the Independent Petroleum Association of America passed a resolution in December repudiating overseas Government ownership.³⁸ In December 1943 Hull requested talks with the British and by February 7 the British had agreed to meet.³⁹ During the first few months of 1944 Ickes and Hull took their cases to

³⁵BP 43761, Preliminary discussions, 7 March 1944, 13.

³⁶Michael Stoff, Oil, War and American Security, 112.

³⁷PRO FO 371, 42690, Wright to Eden, 13 March 1944; PRO FO 371, 34210, Wilkinson to Brown, 2 September 1943.

³⁸Aaron Miller, Search for Security, 78-82.

³⁹PRO FO 371, 42685, Memorandum by Ministry of Fuel and Power, "Anglo-American Oil Policy," circa January 1944; PRO FO 371, 42686, Law to Lloyd, 18 January 1944; PRO FO 371,

the president. This bureaucratic battle was sorted out in the compromise presented to the British side which, however, prejudged the site and level of the talks, issues which the British had thought were open.⁴⁰ The main compromise was that Hull would head a cabinet-level delegation to the oil conference and that Ickes would serve as vice-chairman. The British did not welcome these changes from the original Hull offer.⁴¹ When the Hull offer had originally been made in December 1943, the British had assumed that it would involve a staff level meeting in London where they would have ready access to the corporate teams of Anglo-Iranian and Shell. These technicians would be shielded from the political pressures of Washington in an election year, and going to America to discuss oil might be interpreted as expressing a change of leadership in the Middle East.⁴²

6.6 PROCEDURAL DISCUSSIONS PRIOR TO THE TALKS

Foreign oil was crucial to Britain's future after the war. With declining coal reserves and no known petroleum resources, the United Kingdom depended on oil from abroad to meet its industrial and military requirements. Oil was also one of the country's most valuable overseas sources of income. Petroleum sales generated much capital for British firms and tax revenues for the British Government. Of immediate importance they served as a vital source of foreign exchange. The United States policy of holding down British gold and dollar balances, the blow of a recent forced reduction in Lend-

42685, LeRougetel to Law, 25 January 1944; PRO FO 371, 42685, LeRougetel minute, circa January 1944.

⁴⁰PRO FO 371, 42687, Halifax to Foreign Office, 15 February 1944; PRO FO 371, 42688, Halifax to Foreign Office, 20 February 1944.

⁴¹PRO FO 371, 42687, Halifax to Foreign Office, 15 February 1944; PRO FO 371, 42688, Halifax to Foreign Office, 18 February 1944.

⁴²PRO FO 371, 42685, Memorandum by Ministry of Fuel and Power, "Anglo-American Oil Policy," circa January 1944; PRO FO 371, 42685, LeRougetel minute, 13 January 1944; PRO FO 371, 42686, Lloyd to Law, 20 January 1944; PRO FO 371, 39984, Hankey minute, 26 January 1944; PRO FO 371, 42688, Law to Churchill, 19 February 1944.

Lease assistance, and repayment of the dollar debt shaped the policy options with regard to foreign oil.⁴³

The British remained suspicious of American intentions. On three occasions there had been demands for British oil concessions. In October 1943 James Byrnes, the director of the Office of War Mobilization, had suggested one-third of the Iranian concession as payment for the Lend-Lease petroleum products. In February 1944, Harold Ickes suggested that the British turn over the Anglo-Iranian half-share of the Kuwait Oil Company to the Petroleum Reserves Corporation. Finally, there had even been demands for British oil concessions in a Congressional report.⁴⁴

However, in reality it seems that the United States preferred cooperation to compensation. In January 1944 Roosevelt told Halifax that he wished to pool resources. Ickes followed with a suggestion for developing Persian Gulf oil resources under the aegis of a joint Anglo-American Middle Eastern Holding Company.⁴⁵ While these comments may have reflected long term aims, in the short term they reassured the British about American intentions in the conference.⁴⁶

Apart from these carrots the United States also employed sticks. On February 6 1944 Ickes announced that the Petroleum Reserves Corporation was building a pipeline

⁴³PRO FO 371, 42685, Memorandum by Ministry of Fuel and Power, "Anglo-American Oil Policy," circa January 1944; PRO FO 371, 42686, Petroleum Division memorandum, "Anglo-American Oil Policy," 27 January 1944; PRO FO 371, 42687, Beaverbrook to Churchill, 14 February 1944; PRO FO 371, 42688, Memorandum by Albert V. Alexander, First Lord of the Admiralty, "Oil Conference with the United States of America"; PRO FO 371, 42686, Petroleum Division Memorandum, "Anglo-American Oil Policy," 27 January 1944; PRO FO 371, 42691, Petroleum Division Memorandum, "Oil Policy," March 1944.

⁴⁴Byrnes to Roosevelt, October 15, 1943, reprinted in *Arabian Oil Hearings*, 25430; PRO FO 371, 42687, Halifax to Foreign Office, 11 February 1944; PRO FO 371, 42688, Halifax to Foreign Office, 20 February 1944.

⁴⁵PRO FO 371, 42685, Halifax to Foreign Office, 19 January, 1944; PRO FO 371, 42687, Halifax to Foreign Office, 11 February 1944.

⁴⁶PRO FO 371, 42688, Halifax to Foreign Office, 18 February 1944.

from the Persian Gulf to the Mediterranean.⁴⁷ The cost of the pipeline was estimated at between \$130 million and \$165 million. In return, the Government would get an underground reserve of one billion barrels, which the Government could purchase at a discount of twenty-five per cent of market price in the United States. The Government would also enjoy a veto on the sales of the production to other countries and in the case of war it would enjoy pre-emptive rights to buy all the oil produced. Moreover, the charges for use of the pipeline would repay the investment in twenty-five years.⁴⁸

The origins of the pipeline lay with the industry. Max Thornburg, the former petroleum adviser, now with Aramco, mentioned the need for State Department support to secure the necessary transit rights in December 1943. Ickes's PRC soon became involved however. Everette Lee DeGolyer was the geological consultant to the PRC. His report of January 1944 concerning the shifting of the centre of world production from the Americas to the Middle East also contributed to Ickes' determination to enter the Middle East. DeGolyer was a pioneer in the study of geophysics. He had been the chief geologist of the British firm, the Mexican Eagle, which had been owned by Lord Pearson. When it was sold on to Shell, DeGolyer left and started his own oil exploration firm. His views about the relationship between British oil interests and political interests were published in 'Time'. He argued that, "It is difficult for our people to realise the degree to which the Chancellories of the great European nations are willing to interfere particularly in support of the business interests of their nationals or the degree of economic vassalage accepted by the smaller states of the Persian Gulf in the treaties by which they are Allied to Britain. Able as American business may be, it cannot support itself against such inequal [sic] competition."⁴⁹

⁴⁷PRO FO 371, 42688, Halifax to Foreign Office, 18 February 1944.

⁴⁸PRO FO 371, 42687, Halifax to Foreign Office, 11 February 1944.

Commodore Carter, the executive officer of the Army-Navy Petroleum Board who worked so closely with Wilkinson as discussed in chapter four, was another oil man. He provided a means for the PRC to become involved for on returning from Saudi Arabia he suggested PRC ownership of the pipeline. The various agencies of the Government supported the pipeline agreement but the industry was hostile. Apart from the three companies involved - Gulf in the Kuwait Oil Company, Socal and Texaco in Aramco - the industry condemned the proposal. The Texas Railroad Commission set up under the New Deal and the wartime cooperation with the Government both involved public-private cooperation. However, in these cases under various umbrella organisations the industry still made national policy for oil. The Government supervised but did not direct policy. The Arabian pipeline would represent an entering wedge for Government interference in the industry.⁵⁰

The Pipeline polarised the Allies. Certain Americans continued to maintain that the British were deliberately keeping production down in the Middle East.⁵¹ On the other side, the Petroleum Division noted that industry criticism in the United States might kill it.⁵² But some in Britain adopted a less hostile attitude, arguing that a Government-sponsored pipeline terminus might involve the United States in sharing great power obligations in the Mediterranean.⁵³ On 19 February 1944 Anthony Eden reminded the War Cabinet of the wider importance of oil. Outstanding issues included international

⁴⁹Everette Lee DeGolyer, *Time*, April 3, 1944, quoted in Richard O'Connor, *The Oil Barons: Men of Greed and Grandeur* (Hart-Davis MacGibbon: London, 1972), 341.

⁵⁰Michael Stoff, *Oil, War and American Security*, 134-7, 140-2.

⁵¹PRO FO 371, 42688, Wilkinson to H.E., The Ambassador, 16 February 1944; PRO FO 371, 42691, Petroleum Division memorandum, "Oil Policy," 17 March 1944, especially part 7; PRO FO 371, 34978, Memorandum, "Development of Oil Supplies in the Middle East," 11 January 1943; PRO FO 371, 42690, Cheetham to LeRougetel, 6 March 1944.

⁵²PRO FO 371, 42691, Petroleum Division memorandum, "Oil Policy," 17 March 1944, especially part 7; PRO FO 371, 42690, Hankey minute, 7 March 1944; PRO FO 371, 42690; Cheetham to LeRougetel, 6 March 1944.

⁵³PRO FO 371, 42693, Report by the Chiefs of Staff, "Strategic Aspects of the Discussion on Oil Policy," 5 April 1944; PRO FO 371, 42686, Hankey minute, 5 February 1944; PRO FO 371, 42686, Butler minute, 24 February 1944.

monetary policy, civil aviation, and Lend-Lease. "In these circumstances to deny the United States Government an opportunity even to discuss oil problems would almost certainly prejudice the development of our oil industry after the war...and would also play into the hands of all enemies of Anglo-American co-operation."⁵⁴ The British had agreed to the talks and now tried to adjust the terms. Lord Halifax continued trying to get the talks to London at the staff level, and also to exclude existing concessions from the discussions.⁵⁵ Churchill maintained this stance and insisted that the British were prepared to talk at the technical level and that no changes to concession ownership would be proposed. Roosevelt had argued with Churchill over their true intentions and the British and Americans drew lines on a map indicating their relative share of Middle East oil. Roosevelt realised that compromise was necessary and agreed to technical talks.⁵⁶ Their change in attitude was also prompted by press speculation about an Anglo-American rift over oil.⁵⁷

By mid-March the Americans had selected their team. It was headed by Charles Rayner, the petroleum adviser to the State Department, with Ralph Davies of the PRC as vice-chairman. Rayner had worked for Socony; later in 1922 he became owner of an 'independent' in Texas. Sir William Fraser referred to him as "Charlie" in private correspondence, while continuing to refer to Harold Ickes as Mr Ickes.⁵⁸ Rayner knew the industry well. It wanted an Agreement with Britain as evidenced from a report on national oil policy submitted by the Foreign Operations Committee of the Petroleum Administration for War and endorsement by the National Oil Policy Committee of the

⁵⁴PRO FO 371, 42688, Eden memorandum, "Oil," 19 February 1944.

⁵⁵PRO FO 371, 42687, Halifax to Foreign Office, 15 February 1944; PRO FO 371, 42688, Halifax to Foreign Office, 18 February 1944; PRO FO 371, 42688, Halifax to Foreign Office, 18 February 1944.

⁵⁶PRO FO 371, 42689, Halifax to Foreign Office, 2 March 1944; PRO FO 371, 42690, Churchill to Roosevelt, 6 March 1944. Daniel Yergin, The Prize, 401.

⁵⁷PRO FO 371, 42689, Halifax to Foreign Office, 2 March 1944. Aaron Miller, Search for Security, 102.

⁵⁸BP 43851, Special Visits 109, Petroleum Reserves Corporation, 109.1, Note, 12 May 1944.

Petroleum Industry War Council.⁵⁹ Nevertheless, he knew that they would not accept any Agreement. In meetings in April the domestic producers stressed that they would suffer no interference from foreign Governments, while the majors wanted to take part in the negotiations directly.⁶⁰

Officers from the British companies were automatically chosen for the discussions. Sir William Fraser of Anglo-Iranian and Sir Frederick Godber of Shell were regarded as absolutely vital to the success of the negotiations. They were accompanied by Sir William Brown, head of the Petroleum Division of the Ministry of Fuel and Power who served as chairman of the group, by the career diplomat John LeRoutegel, chief of the General Department of the Foreign Office, Frederic Harmer, a young Treasury official specialising in currency exchange, Commodore A.W. Clarke representing the three service departments, and Frederick C. Starling and V.S. Butler of the Petroleum Division.⁶¹

The Americans remained sceptical of such close links between Government and industry. The State Department pressed for a list of delegates which the Foreign Office provided although such a request was contrary to diplomatic protocol. The Foreign Office list was by name only. The Foreign Office wished "to avoid discussion as to the proper description to be attached to...Fraser and Godber, though there must be no doubt about their status as members of the official delegation."⁶² American officials suspected the close links between state and firm in Britain. They asserted that they were "so intimate that it is difficult to discuss where the oil companies end and where the Government begins... The Government, wherever it has a shadow of influence, uses its

⁵⁹PRO FO 371, 34978, Wilkinson to Starling, 3 December 1943.

⁶⁰Michael Stoff, *Oil, War and American Security*, 153.

⁶¹PRO FO 371, 42693. "Report by the Ministerial Oil Committee," 5 April 1944.

⁶²Winant to Roosevelt, March 19 1944, FRUS (1944), volume 3, 107.

power by fair means or underhand to secure markets or concessions for its British owned companies.”⁶³

The War Cabinet instructed the delegation that they could not make any commitments, that they should widen the discussions from the Middle East to the whole world, that they should not accept to discuss any transfer of property, that they should ensure no impediments to oil production to secure Britain's military and economic future, that there should be pledges to support each other with supply in war and support each other's concessions in peacetime.⁶⁴ This was important since the British were aware of the traditional support given by the State Department to oil interests and the desire of “securing an amelioration of the unfavorable discriminatory conditions under which American nationals were able to obtain rights before the war.”⁶⁵

Evaluating the talks Stoff writes that, “As with many of the Anglo-American negotiations carried on in the closing years of the war, the American draft served as the working model. Since the Americans generally had a stronger economic hand, the finished product followed primarily American lines, although the British were able to obtain some of the assurances they were seeking.”⁶⁶ Though plausible, this assessment is hard to sustain as I will show from a detailed examination of the negotiations.

⁶³Testimony of U.S. State Department's World War II Petroleum Attaché in the Near East, quoted in Robert Engler, The Politics of Oil (New York: The Macmillan Company, 1969), 249.

⁶⁴PRO FO 371, 42693, “Washington Discussions on Oil: Instructions to Official Delegation,” 5 April 1944.

⁶⁵John A. Loftus, Special Assistant to the Director of the Office of International Trade Policy, Department of State, “Petroleum in International Relations,” United States Department of State Bulletin Volume XIII, August 5, 1945: 173-5, quoted in Michael Tanzer, The Political Economy of International Oil and the Under-Developed Countries (London: Temple Smith, 1970), 51-53.

⁶⁶Michael Stoff, Oil, War and American Security, 156.

6.7 THE TECHNICAL DISCUSSIONS DURING THE FIRST ANGLO-AMERICAN OIL AGREEMENT

It is interesting to examine the negotiations for the first Anglo-American Oil Agreement of August 1944 carefully since the second Anglo-American Oil Agreement of 1945 followed it fairly closely. The most significant meeting in this preparatory stage was the ninth, which was a review of informal talks which had concluded that oilmen would effectively implement the broad outlines of the Agreement, which were the elimination of certain public and private restrictions.

The first technical discussions began on April 18 1944 in a one hour meeting. Rayner immediately relaxed the atmosphere by conceding to the British position that there was no shortage of oil, and the main issue was the sharing of increased production. He provided a Draft Memorandum of Understanding, which was the basis for the discussions. The main difference between the parties was that the British thought that all that was necessary was a broad, informal Agreement on principles with details to be left to the private parties, while the Americans still wanted multilateral public supervision of the international industry, even if they had now given up on public participation in the industry. They wanted "an international agreement on petroleum to which all interested nations would subscribe."⁶⁷ There was to be discussion on this point in the sixth and seventh meetings as the Americans wanted the Agreement to achieve multilateral status "as soon as possible." However, the British preferred such progress to be "as soon as practicable" – the British view prevailed.⁶⁸

To achieve these goals it was felt necessary to create a joint Anglo-American Petroleum Commission with certain defined duties and responsibilities. "We feel that the

⁶⁷BP 43730, Fraser, Visit to America, April-May 1944, 3.

implementing procedure we have suggested is the minimum necessary for the application of agreed principles to specific situations.”⁶⁹ However, the British perspective was that, “while it would be for the Governments to aim at agreement or broad essential principles, the filling in of the detailed background of technical and commercial operations can only be done through discussion between the British and American companies concerned.”⁷⁰

In particular, they were adamant that the Joint Commission should not have detailed, particularly not executive, functions - they argued that it was not practical. They feared the sort of control that might be envisioned vis-à-vis the majors might actually fail in practise. For instance, public input into distribution problems could hardly lead to useful results unless there were developed such controls over transportation and similar distributive mechanisms as would be impracticable. To take responsibility for executing approved recommendations was not practical unless there were adequate sanctions and an enforcement machinery. It was doubtful whether either Government would grant to the commission requisite authority to take executive action. The United Kingdom delegation was inclined to favour an arrangement by which the proposed joint commission would have primarily a consultative or advisory function rather than executive responsibilities.

The British still held to the traditional view of private international governance supported by Government power limited to providing support to enforce contracts. In the fourth meeting, 21 April, Sir William observed that the United Kingdom delegation would be glad to consider any proposals for a reciprocal undertaking between the two Governments to use every endeavour to assure to each other supplies of oil from sources

⁶⁸BP 43730, Fraser, Visit to America, April-May 1944, 25, 30.

⁶⁹BP 43730, Fraser, Visit to America, April-May 1944, 4.

⁷⁰BP 43761, Preliminary discussions, 7 March 1944, 3.

under their control in times of national emergency. He took the opportunity to state that the British would be prepared to go further than a commitment to respect all valid concession contracts and would be willing to undertake, so far as might be within its power, to ensure that the terms of such concession contracts would be covered by all parties involved.⁷¹ The British continued this theme in the fifth meeting, held on 22 April.

In that meeting the other main outstanding issue related to the composition of the proposed Commission. Sir William Brown argued that for membership of the proposed Joint Commission, “the United Kingdom participation in the Commission might appropriately consist of one full-time official of the British Government and three outstanding men with wide knowledge of the petroleum industry, these men to be drawn from the industry and to remain active members of the industry during their participation in the work of the Commission.”⁷² The United States preferred to leave the issue of the composition to the Government committees, which would ratify any proposals of these technical groups.

The British continued to insist on the importance of protecting the sanctity of concession agreements. In the sixth meeting, on 24 April, Sir William Brown again urged for more support for the principle of sanctity of contract embodied in article one, paragraph five, of the Draft Memorandum. He suggested that it be strengthened, either by adding words such as “and shall use their best endeavours to ensure that the terms of such concession contracts are observed by the parties thereto” or perhaps more moderately by providing that “the Government of each country...shall respect and support all valid concession contracts.” Rayner pointed out that such provisions might involve commitments of rather large scope and duration and would have to be

⁷¹BP 43730, Fraser, Visit to America, April-May 1944, 16.

considered in the light of relevant foreign policy considerations, but agreed to take the amendment under advisement.⁷³

The British continued to press this issue in the next meeting, held on 25 April. Sir William wanted assurances, which Rayner carefully avoided. Davies suggested a compromise. "One would require firm intervention in concession disputes, intervention by armed forces perhaps in certain cases. The other would require no intervention whatever but merely reciprocal assurances by the two Governments and their nationals of non-intervention with one another's contracts or rights. He thought that perhaps some middle ground could be reached, the terms of which would have required that the United States Government consider more carefully the effect of its policy and actions with respect to particular situations that had arisen in the past."⁷⁴ The background of this discussion was the different responses of the British and American Governments to the unilateral cancellation of the Iranian concession in 1932 and the expropriation of the Mexican concession in 1938. It was then proposed to discuss specific problems in small groups, all discussions to be held without minutes. The British requested Wilkinson's participation since he would have to carry on such further discussions after the British delegation had returned to London. A revised draft memorandum dated April 26 was distributed that day in the eighth meeting; all subsequent discussion was based on this revised draft and changes to the preamble were accepted without discussion.⁷⁵

Small groups were constituted on an ad hoc basis to discuss current operating problems of mutual interest to United Kingdom and United States companies for it was

⁷²BP 43730, Fraser, Visit to America, April-May 1944, 20.

⁷³BP 43730, Fraser, Visit to America, April-May 1944, 25.

⁷⁴BP 43730, Fraser, Visit to America, April-May 1944, 29.

⁷⁵BP 43730, Fraser, Visit to America, April-May 1944, 31.

feared that some of these outstanding issues would provide thorny problems for the new Joint Commission. A review of these meetings was held in session nine.⁷⁶

The issues raised in these informal subcommittee talks included Kuwait and Iraq. Reviewing these talks Davies pointed out that so long as it was recognised that the intercompany contractual limitation upon marketing operations of the Kuwait Oil Company would be inconsistent with the objectives and character of the Memorandum and some appropriate form of action could be initiated promptly, then the actual removal of the restrictive marketing clause would be a private matter for the two companies, the Anglo-Iranian and Gulf. Similarly, discussions took place regarding the Red Line agreement which had been linked to the formation of the Iraq Petroleum Company. The same conclusion - that these agreements were in violation of the Memorandum and would have to be changed accordingly promptly, but through private party negotiations - was reached with regard to the Iraq Petroleum Company as the Kuwait Oil Company's marketing provision. There was also "considerable discussion" of the restrictions imposed by the Indian Government on American companies, which would have to be reviewed should the British Government adopt the Memorandum.⁷⁷

The minutes continue: "The items enumerated...do not constitute an exhaustive list..Other matters had also been taken up and satisfactorily investigated, including particularly political treaties and agreements in the Middle East. Mr Davies stated that the result of all these informal talks was the establishment of an understanding about the applicability of various clauses in the proposed Memorandum of Understanding to existing specific situations."⁷⁸ A demonstration of the remarkable degree of industry cooperation, which had been reached, is provided by the treatment of pipeline projects. It

⁷⁶BP 43730, Fraser, Visit to America, April-May 1944, 35.

⁷⁷BP 43730, Fraser, Visit to America, April-May 1944, 36.

⁷⁸BP 43730, Fraser, Visit to America, April-May 1944, 37.

was felt that the Trans-Arabian pipeline and additional Iraq Petroleum Company pipeline from Kirkuk to Haifa should be referred to the Joint Commission on the basis that one of its main roles would be to recommend long-term rates of development and exploitation from various areas so that the economic merits of any proposed pipeline project could be judged only in the light of the probable production from the area from which the pipeline would originate.⁷⁹ The extent to which these informal talks were based on personalities is illustrated by the presentation of the pipeline talks. "Since Commodore Carter had not been able to be present during the entire discussion of the pipeline problem in the informal subcommittee meetings, Mr Davies took this occasion to ask if Commodore Carter had any comment to make with respect to the statement which had been made by Mr Davies and endorsed by Sir William Brown." The final draft of a Memorandum of Understanding on petroleum was approved by a Joint Session on 29 April.⁸⁰

6.8 FROM THE TECHNICAL DISCUSSIONS TO THE TWO AGREEMENTS

First, Stoff acknowledges the British victory in the insertion of a clause in the preamble stating that petroleum supplies would be sufficient to cover demands. This took the teeth out of the main American concern about depleting supplies.⁸¹ Moreover, the 'open door' principle received affirmation in two provisions, each arising from charges from the British and American companies. The Americans made charges about the Middle East while Shell retorted that the United States Government and companies

⁷⁹BP 43730, Fraser, Visit to America, April-May 1944, 37.

⁸⁰BP 43730, Fraser, Visit to America, April-May 1944, 38.

⁸¹Michael Stoff, Oil, War and American Security, 157; PRO FO 371, 42696, Report of the Ministerial Oil Committee, "Oil Discussions with the United States Government at Washington," 24 May 1944.

were trying to keep them out of Latin America.⁸² Shell complained about rumours that the PRC wanted exclusive concession rights in Peru.⁸³

Indeed, the British technicians were satisfied with the draft Agreement called the 'Memorandum of Understanding' and urged the cabinet to finalise the international Agreement.⁸⁴ Beaverbrook carried on correspondence with Fraser of Anglo-Iranian. Fraser argued that, "I have felt bound to suggest the deletion of new oil policy as this is the first time I have seen consideration directed to the formulation of any national oil policy at all!"⁸⁵ Beaverbrook replied a few days later, observing that, "your suggestions have been substantially adopted as oil policy."⁸⁶ The experts had considerable influence on the decision-making process. On two issues only the British delegation had failed. They had failed to obtain a clause for the mutual support of concessions in peacetime. However, in the American view, an international commission would prevent episodes such as the Mexican expropriation in the future.⁸⁷

The other failure was more serious. Britain's currency positions after the war looked precarious. The Treasury had hoped to sell sterling oil in dollar areas to earn foreign currency and to bar dollar oil imports into Britain but that now looked as if it would violate the Agreement.⁸⁸ Brown tried to reassure the Treasury that the provision for "relevant economic factors" covered the currency position. But the Treasury wanted

⁸²PRO FO 371, 42690, John London to Frank J. Hopwood, 3 March 1944.

⁸³PRO FO 371, 43690, London to Hopwood, 3 March 1944; PRO FO 371, 43690, Wright to South American Department of Foreign Office, 9 March 1944.

⁸⁴PRO FO 371, 42696, Report by the Chairman of the United Kingdom Delegation, "Oil Policy," 15 May 1944; PRO FO 371, 42696, Minutes Ministerial Oil Committee, Meeting of 16 May 1944; PRO FO 371, 42696, Minutes Ministerial Oil Committee, Meeting of 8 May 1944.

⁸⁵BP 43761, Fraser to Beaverbrook, 30 November 1944.

⁸⁶BP 43761, Beaverbrook to Fraser, 6 December 1944.

⁸⁷PRO FO 371, 42696, Minutes Ministerial Oil Committee, Meeting of 16 May 1944.

⁸⁸PRO FO 371, 42696, Report of Ministerial Oil Committee, "Oil Discussions with the United States Government at Washington," 24 May 1944; PRO FO 371, 42697, LeRougetel minute, 15 June 1944.

an express provision which would allow for this. They argued that such a provision would make for British self-sufficiency in oil which would be comparable to the United States, whose domestic production would be untouched by the Agreement.⁸⁹

Ickes and the State Department tried to put the Agreement into force as an executive agreement. Yet the Senate realised that this might prove a dangerous precedent for future commodity agreements and they were anxious to play a major role in framing foreign policy. In August 1944 Ickes conceded to the Senate's position and Roosevelt, remembering the doomed fate of Woodrow Wilson's internationalism after the First World War, agreed. At that time, opposition prevented American entry into the League of Nations. The Oil Agreement was one among many international projects. If the Senate wanted they could destroy all of them. After two meetings in the autumn of 1944 the Petroleum Industry War Council were ready to recommend against Senate ratification and Ickes only avoided this by suggesting that they provide an alternative version. They produced one by December 1944.⁹⁰ In mid-January 1945 the Senate returned the Agreement and the amended version won unanimous support from the Petroleum Industry War Council in January 1945.⁹¹

From then till late spring a special interdepartmental committee under Ickes's supervision blended the original Agreement and the industry alternative. While keeping to the form of the original there were two main changes. Domestic operations were explicitly exempted and the powers of the Petroleum Commission were further curtailed. In June 1945, Roosevelt's successor, President Truman authorised a second oil

⁸⁹PRO FO 371, 42696, Minutes Ministerial Oil Committee, Meeting on 8 May 1944; PRO FO 371, 42697, Report of the Special Oil Committee, "Oil Discussions with the United States Government," 14 June 1944.

⁹⁰Michael Stoff, *Oil, War and American Security*, 178-82.

⁹¹BP 27775, New York Office, War Diary. September 1939 - May 1945, 15/1/h.

conference.⁹² The British wished to postpone this since the forthcoming General Election was already making it difficult to prepare for the Potsdam conference in mid-July.⁹³ After the election Labour under Clement Attlee replaced the Conservatives led by Winston Churchill. Foreign policy did not change much. The main structural constraint was the currency crisis, which had been exacerbated by the abrupt end of Lend-Lease in August 1945. The Treasury wanted to sort this out before oil talks though those who thought that the Americans would be kinder after an Oil Agreement overruled them.⁹⁴ Among these the most important person was Emanuel Shinwell, the new Minister for Fuel and Power. He looked upon the Agreement as an entwining of British and American oil interests which would support British commercial and, therefore, imperial interests in the Middle East. "At the same time under the terms of the Agreement, we should have equal opportunities with the Americans to secure new openings in South America."⁹⁵

The second oil conference, which opened on September 18 1945, led to further concessions to the British position. British protectorates and possessions would now be considered part of the United Kingdom. This would increase the size of Britain's domestic reserves bringing it nearer parity with America's huge reserves. Further, the import-limitation clause, put in at the insistence of the American domestic producers,

⁹²Michael Stoff, Oil, War and American Security, 183-5.

⁹³PRO FO 371, 42686, Law memorandum conversation with Ickes, Davies, and Rayner, 26 January 1945; PRO FO 371, 42699, Gallop minute for Secretary of State, 28 August 1945; PRO FO 371, 42699, "Anglo-American Oil Agreement: Historical note on what has happened since the agreement was signed in Washington last year," 28 August 1945.

⁹⁴PRO FO 371, 42700, Minutes Ministerial Oil Committee, M.O.C.(45), 1st Meeting, 12 September 1945; PRO FO 371, 42701, Minutes Ministerial Oil Committee, M.O.C.(45), 2nd meeting, 22 September 1945.

⁹⁵PRO FO 371, 42701, Minutes Ministerial Oil Committee, M.O.C.(45), 2nd Meeting, 22 September 1945.

made it possible to restrict imports of dollar oil. Finally, the International Petroleum Commission was now confined to fact-finding only.⁹⁶

Hugh Dalton, the Chancellor of the Exchequer, agreed to Shinwell, Minister of Fuel and Power conducting the negotiations "subject to reference to myself and other Ministers having an interest in the matter."⁹⁷ His interest was related to the exclusion of dollar oil. In the first Agreement there was a concession to "relevant economic factors." This provision was now covered by article 7 (2). The Foreign Secretary had attended the first meeting, and the Chancellor the first and last meetings.⁹⁸ Dalton insisted that before signing Ickes must have his "definite and recorded consent" to the exclusion of dollar oil.⁹⁹ His opposition might make it impossible to secure the pact.¹⁰⁰ The Prime Minister was willing for the Agreement to be signed providing an understanding could be reached with the Foreign Secretary and Chancellor.¹⁰¹ The Ministerial Oil Committee had its first meeting on 12 September. On its sixth meeting on 21 September, Shinwell revealed that though the Americans were willing to accept the regulation of imports, to exclude dollar imports completely would be inconsistent with the general objectives of the Agreement.¹⁰² The Prime Minister now clarified that "subject to the point he raises being disposed of I authorise you to sign the Agreement."¹⁰³ Shinwell proposed that minutes

⁹⁶PRO FO 371, 42701, Minutes Ministerial Oil Committee, M.O.C.(45), 2nd Meeting, 22 September 1945; PRO FO 371, 42701, Anglo-American Conversations on Petroleum, Minutes of Plenary Sessions 1 and 2, 18 September 1945, 20 September 1945, Minutes of Joint Official Subcommittee Meetings 1 and 2, 19 September 1945, 20 September 1945; PRO FO 371, 42701, Minutes Ministerial Oil Committee, 2nd Meeting, 22 September 1945.

⁹⁷PRO PREM 8, 857, Hugh Dalton to Attlee, 23 September 1945.

⁹⁸PRO PREM 8, 857, Watson to Rowan, 14 September 1945.

⁹⁹PRO PREM 8, 857, Dalton to Shinwell, 23 September 1945.

¹⁰⁰PRO PREM 8, 857, Rowan minute, 22 September 1945.

¹⁰¹PRO PREM 8, 857, Attlee to Shinwell, 20 September 1945.

¹⁰²PRO PREM, 8, 857, Minutes of meeting of Ministerial Oil Committee, 21 September 1945.

¹⁰³PRO PREM 8, 857, Attlee to Shinwell, 23 September 1945.

from the negotiations could be used and Ickes provided permission for the revised minutes of the second plenary session to be quoted.¹⁰⁴

The new Agreement was signed with the Prime Minister's approval on 24 September 1945. The Chancellor clarified that dollar oil imports could be restricted, that the International Petroleum Commission would only be a fact-finding and advisory body and that the American proposal for a multilateral Agreement had been squashed. Domestic interests in the United States had prevented ratification of the first Agreement, "But it is believed that, as the advisers to Mr Ickes who represent the domestic oil industry support the new Agreement, it will be ratified by the United States Senate."¹⁰⁵ Although the major trade organisations supported it this time, the Texas Independents were still suspicious that more foreign oil would be imported thereby undermining the local economy. In February 1946 Ickes had resigned and the Agreement lost this most pressing advocate. Facing an election in 1948 Truman needed every vote. Thus, even though the Foreign Relations Committee approved the Agreement near-unanimously, the sole dissenting voice of Texan Tom Connally proved decisive. Truman abandoned the Agreement and at Connally's request in 1952 Truman finally recalled the Agreement noting that it had become "obsolete."¹⁰⁶

When it looked like it might be ratified the Foreign Office view was sought.¹⁰⁷ Sir Orme Sargent set forth a memorandum detailing the three continuing reservations of the Senate regarding the Agreement. These were that there was to be no control of the American industry locally or globally, there would be no power to review or assess any concession, and no world body would assume either of those powers. Any world body

¹⁰⁴PRO PREM 8, 857, Shinwell to Attlee, 23 September 1945; Shinwell to Dalton, 24 September 1945.

¹⁰⁵PRO PREM 8, 857, Memorandum by Emanuel Shinwell, "Anglo-American Oil Agreement," 26 September 1945.

¹⁰⁶Michael Stoff, Oil, War and American Security, 189-194.

would be only advisory, not enforcing.¹⁰⁸ The Prime Minister recommended that the advice of the Chancellor of the Exchequer be taken.¹⁰⁹ This was a clear indication of the importance of economic considerations to oil questions in 1948, a situation which was to influence British oil relations. A Government policy of limiting dividend payments was leading to financial difficulties in Iran as the Iranian Government also received dividend payments from the Anglo-Iranian. The policy was to lead to talks between Iran and the company, the failure of which led to the nationalisation crisis examined in chapter eight.

6.9 CONCLUSION

Since the Anglo-American Oil Agreement never became international law it has not received much scholarly attention, even though a re-examination of the oil negotiations as a mood-setting trial for Bretton Woods and other post-war agreements is useful. The post-war order was largely shaped according to the agendas of the companies yet this situation was not inevitable. Due to their privileged position in the wartime Allied oil committees the companies had been able to ensure minimal disruption to pre-war arrangements. The changes which the Second World War and the widely anticipated post-war rise of Middle East oil had wrought in the arrangements had been shaped through informal understandings between the companies. However, as the Middle East became the most lucrative and productive emerging oil-producing region many companies wished to make more fundamental changes to the status quo regarding concessions and market quotas established in the As Is agreements, Red Line agreement, and the establishment of the Iraq Petroleum Company and Kuwait Oil Company. Fundamentally, the American companies wanted a greater share of more productive and cheaper Middle East concessions. It became increasingly feared that in the post-war era

¹⁰⁷PRO PREM 8, 857, Farrell to Hunter, 20 November 1947.

¹⁰⁸PRO PREM 8, 857, Sir Orme Sargent, "Anglo-American Oil Agreement of 14 September 1945, Statement of Problem," Memorandum sent to Attlee, 1 January 1948.

the European market would be supplied from the Middle East rather than the Americas. This private war during the war was concluded successfully during these negotiations, which functioned effectively as intercorporate peace talks.

The failure of Britain and the United States to reach a formal agreement reaffirmed the principle of private governance of the international oil industry, by default. However, one could argue that the British and the majors had secured victory over the American plans to formally introduce public interests - whether equity ownership or regulation - into the international oil industry. From the provisions regarding the advisory nature of the International Petroleum Commission, the slow pace of expansion regarding the number of states ratifying the Agreement, and the formal acknowledgement that private global governance would resolve the outstanding issues in practise, as explained in the ninth meeting of the technical discussions, study of the negotiations casts doubt on the claims of realist versions of hegemonic stability theory that the United States were able to impose multilateral agreements on the world economy following the Second World War.¹¹⁰

From 1946 the British and American companies were to use this clarification of the Governmental position to settle their own war. The Red Line agreement could be challenged which would lead in time through a new series of private agreements to a new balance of power in Middle East oil. At the same time, governance in the industry would remain in private hands as American Governmental initiatives had been resisted. While the Agreements failed to achieve the United States objective of introducing intergovernmental regulation, they were a success from the British and corporate perspectives. They set limits to American Governmental interference in the inter-

¹⁰⁹PRO PREM 8, 857, Attlee to Sargent, 2 January 1948, handwritten.

¹¹⁰Robert Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984); Robert Gilpin, The Political Economy of

company agreements which divided up the production and marketing of Middle East oil in the post-war period and which are analysed in the next chapter.

The academic neglect of the Agreement also betrays a simplistic understanding of the relationship between international law and global governance. This is because realists are basing their view of law and governance on a flawed analogy with the sovereign state's domestic jurisdiction. The importance of the Anglo-American Oil Agreement was not in the establishment of a coercive instrument such as might exist within a state, but in the review of international norms and procedures in the international oil issue area. In effect, the companies and states agreed to increase Middle East production and increase the involvement of United States companies by relaxing the Red Line agreement, while winning concessions on the rights of existing British concessionaires and restriction of currency in favour of sterling balances. Having agreed the basis for an end to the trade wars analysed in the previous chapter, the companies reformed their firm-firm relations to build the Middle East oil cartel which is examined in the next chapter.

From the point of view of the British Government the Agreement was successfully negotiated. It defeated American plans to enter the international industry through the PRC, plans to bring public accountability and regulation into the industry in the Petroleum Commission, and plans to change British concessions and restrict the use of oil to solve the pressing currency crisis. The Americans only won concessions on the right of their companies to participate more fully in Middle East oil which the British, in many cases, welcomed as it promised more stability for their concessions. This is

International Relations (Princeton: Princeton University Press, 1987); Stephen Krasner, "State Power and the Structure of International Trade," World Politics 28 (1976): 317-347.

another example of an occasion when the British were able to shape American plans for the immediate post-war period.¹¹¹

¹¹¹Peter Burnham, The Political Economy of Postwar Reconstruction (London: Macmillan, 1990).

CHAPTER SEVEN: CONCESSION-SEEKING AND THE COLD WAR IN THE PERSIAN GULF

7.1 INTRODUCTION

Commercial rivalry between British and American oil corporations as well as intergovernmental rivalry between the United States and Soviet Union shaped the Cold War. The companies engaged in balance of power manoeuvres with each other. Vattel has provided the classic statement of the balance of power: "such a disposition of things that no one potentate or state shall be able, absolutely, to predominate and prescribe laws to others".¹ To balance the expansion of other companies' Persian Gulf activities Anglo-Iranian and Shell tried to increase their own stakes through concession hunting in the northern provinces of Iran. When this failed, and when the Anglo-American Oil Agreements confirmed that it would be legal to do so, they supplemented this internal strengthening with external alliances. The main mechanism for alliance-building was developing joint venture partnerships.

Two forms of joint venture were used - the equity joint venture in which the companies held shares in a subsidiary and the contractual joint venture through which companies blended core activities while remaining formally separate. The contractual joint ventures established in this period include the two sale of oil contracts between Anglo-Iranian and Socony-Vacuum, and the sale of oil agreement between Anglo-Iranian and Jersey, and Gulf and Shell. This supports the argument that the balance of power was contrived rather than fortuitous, and that in terms of Bull's distinctions we are examining an international society rather than an international system. Hedley Bull clarifies the distinction by referring to the aims of the parties. A fortuitous balance would be "simply a moment of deadlock in a struggle to the death." By contrast, a contrived

¹Cited in Martin Wight, Systems of States (Leicester: Leicester University Press, 1991), 166.

balance “presupposes that at least one of the parties, instead of pursuing the goal of absolute expansion of its power, seeks to limit it in relation to the power of the other.”²

All the parties had a societal interest in an orderly expansion of production and consumption. Since the negotiations around the Anglo-American Oil talks had clarified the scope of private global governance agreements, the companies now seized the opportunity to compete for positions in the Middle East, while simultaneously cooperating to ensure an orderly expansion from which they would all benefit. Martin Wight argued that the balance of power served three important functions in an international society. First, that the balance of power maintained the independence of states. Second, since the balance of power guaranteed independence, the stability that a balance promoted might be considered in the longer-term interests of all states in contrast with a short-termist policy of national-oriented power maximisation. Finally, Wight proposed that international law could only be effectively established on the foundations of a balance of power. He approves Oppenheim's argument that: “an over-powerful state will naturally try to act according to discretion and disobey the law.”³

Analyses of the origins of the Cold War may be placed into three categories - orthodox, revisionist, and post-revisionist.⁴ The orthodox case was that the Soviet Union followed an aggressive ideology, which predisposed it to world domination. The United States was forced into a defensive strategy, which led to the Cold War. The revisionist accounts of the origins of the Cold War, which became popular contemporaneously with the Vietnam War, stressed that economic development in the United States had reached such a point that further corporate expansion tended to be international. The Government

²Hedley Bull, The Anarchical Society: A Study of Order in World Politics (London: Macmillan, 1977), 105.

³Martin Wight, Systems of States, 167. Also, H. Bull, Anarchical Society, 106.

⁴John Lewis Gaddis, “The Emerging Post-Revisionist Synthesis on the Origins of the Cold War,” Diplomatic History 7 (1983): 172.

supported this expansion and, therefore, laid the foundation for American imperialism. However, neither of these stories was archive-driven.⁵

The post-revisionist case restates the primacy of politics in the containment strategy, in particular uncertainty about Soviet designs, and also supports the original claim that the pro-American powers during the Cold War frequently invited American influence. However, it also specifies the ways in which economic means were used to attain political ends, and thus, concedes a link between corporations and Government to serve mutual ends. Examination of American policy in Saudi Arabia highlights the mutual element of the relationship. Over Middle East oil United States corporate and Government short-term aims were clearly linked. Yet British companies and the Government still held the dominant position in these territories. The way in which the British actors, specifically the oil companies, sought to maintain their position becomes crucial in understanding the unfolding of the Cold War in the Persian Gulf.

The six sections examine how the companies were engaged in balance of power manoeuvres while the Governments stumbled into the Cold War in the Persian Gulf. The fact that the United States Government and companies entered into negotiations for concessions in the northern territories of Iran, in Iranian Azerbaijan, increased Soviet insecurities over its borders, and thus precipitated the Azerbaijan crisis. However, they were invited in by the Iranians themselves, who were, in turn, responding to British oil policy in Iran.⁶ Thereafter, American companies and Government developed common interests while playing different games in Kuwait and Saudi Arabia.

⁵Ibid., 172-181.

⁶Lloyd C. Gardner, Economic Aspects of New Deal Diplomacy (Madison, 1964), 229; L. P. Elwell-Sutton, Persian Oil: A Study in Power Politics (London: Laurence and Wishart, 1975), 1-42.

7.2 BACKGROUND TO THE AZERBAIJAN CRISIS

On 18 June 1945 there was a meeting between senior directors of Anglo-Iranian and Jersey. Orville Harden observed that, "Jersey – for reasons which were well known could not adhere formally to 'As-Is' but they wanted no greater percentage of the trade than they had previously enjoyed and they were ready to continue to observe the principles which had governed the trading of the groups over the last fifteen years." The alternative to "orderly adjustments between the half dozen companies concerned" would be a struggle for markets, and it was "urgent for all concerned to try and work out a peaceful solution." Jersey and Shell needed to purchase oil products and Anglo-Iranian wanted Iranian production to enjoy pre-war levels of world market share. There were fears that Caltex would cut prices worldwide in order to establish markets for themselves. Jersey were frustrated since they had markets for these products but found themselves limited in their relationship with Caltex by the Red Line agreement. The parties agreed to meet again, next time also including Shell.⁷ Until these issues were resolved, the companies which were short of products, such as Shell and Jersey began a struggle for a concession in Azerbaijan to strengthen themselves internally. Once it was clarified that the pre-war arrangements such as the Red Line agreement and restrictive clauses could be removed, during the Anglo-American oil negotiations, the companies made compensating external alliances matching the strengths of other companies, for instance, the Gulf Oil Company's share of Kuwait Oil Company production with Shell's need for products.

The role of the Iranian crisis as a turning point in relations between the wartime Allies has been widely noted. Some have interpreted it as a classic Great Power scramble, others as a United States reaction to Soviet aggression, yet others as a

⁷BP 43853, Basil Jackson, "Summary of meeting at Britannic House on 18 June 1945," 25 June 1945.

confluence of United States domestic economic, and international, state agendas.⁸ More recently, Louise Fawcett has demonstrated the extent of the British contribution to the crisis and thus the importance of the United Kingdom as a Cold War actor, and also of the non-European space in the development of the Cold War.⁹ However, one drawback of her account in common with much of the existing literature has been the limits imposed by its examination of the story from the perspective of the great powers.

Stephen L. McFarland who looks at local Iranian factors pulling in the United States has provided the best counterbalance to this bias.¹⁰ However, the importance of the local factor in Iran can only be appreciated in the context of British policy in Iran, which threatened the territorial integrity of Iran, and the decisive factor in British policy in Iran at this time was British capital. Balance of power manoeuvres aimed at the American majors were the motive force behind British capital. Hence, the Azerbaijan crisis of 1946 must also be understood in the context of Anglo-American commercial rivalry.

Britain remained the dominant foreign power in Iran till the Allied occupation of Iran. Operation Barbarossa, the Nazi attack on the Soviet Union on 22 June 1941, brought about a rapprochement between the Soviet Union and the Allies, who had been disenchanted since the Molotov-Ribbentrop Pact. Soon afterwards the new Allies

⁸Richard Cottam, "The United States, Iran and the Cold War," Iranian Studies 3 (Winter 1970): 4-5; G.R. Hess, "The Iranian Crisis of 1945-1946 and the Cold War," Political Science Quarterly 89.1 (March 1974): 119, 146; Richard Pfau, "Containment in Iran, 1946: The Shift to an Active Policy," Diplomatic History 1 (Fall 1977): 359, 372; Daniel Yergin, Shattered Peace: The Origins of the Cold War, Rev. ed. (New York: Penguin, 1977), 179; Bruce Kuniholm, The Origins of the Cold War in the Near East: Great Power Conflict and Diplomacy in Iran, Turkey, and Greece (Princeton: Princeton University Press, 1980), 304.

⁹Louise L'Estrange Fawcett, Iran and the Cold War: The Azerbaijan crisis of 1946, Cambridge Middle East Library, no.26 (Cambridge: Cambridge University Press) 1992.

¹⁰Stephen L. McFarland, "A Peripheral View of the Origins of the Cold War: The Crises in Iran, 1941-47," Diplomatic History 4 (1980): 333-51.

invaded Iran claiming that Iran was a base for Nazi efforts in the Middle East.¹¹ What is clear is that the invasion made it possible to secure objectives including the establishment of a supply route to the Soviet Union, and the complete use of Iranian assets, primarily oil, without any interference from the Iranian Government.¹² The Allied economic policies have been described as “a case of armed robbery against a desperately weak and poor nation.”¹³

The British also dominated the political system. While they replaced the autocrat Reza Shah with his weakwilled and inexperienced son, Muhammed Pahlavi, they did not support the creation of a constitutional monarchy. The lower house, the Majlis, was continuously infiltrated and undermined. A report on Majlis ‘intrigues’ led the Foreign Office to comment that “Persia was not ripe for democracy...unless the Majlis is sat on, it becomes a nuisance.”¹⁴ Thus, British-supported candidates headed six of the ten administrations during the occupation. A sample of the interference from the British Embassy in Tehran is provided by the case of Muhammed Ali Furughi who became Prime Minister while Reza Shah was departing. He was instructed by the Foreign Office to provide an eulogistic account of British policy. It should be “written from the British viewpoint, but so as to appeal to Iranians”.¹⁵ Just as Reza Shah had tried to combat British dominance by turning to Germany, so his successors would turn to the United States employing the age-old Iranian strategy of movazaneh (equilibrium) to play off the

¹¹PRO FO 371, 27206, FO to Jeddah, 22 August 1941; PRO FO 371, 35069, “Middle East Security Summary,” 13 January 1943.

¹²PRO FO 371, 27184, Tehran to FO, 15 August 1941; Leopold Stennett Amery, The Empire at Bay. The Leo Amery Diaries, 1929-1945 ed. John Barnes and David Nicolson (London: Hutchinson, 1988), 711; Frank Brenchley, Britain and the Middle East: An Economic History, 1945-1987 (London: British Academic Press, imprint of I.B. Tauris, 1989), 54.

¹³Homa Katouzian, Political Economy of Modern Iran (London: Macmillan, 1981), 143.

¹⁴PRO FO 371, 31385, FO minute, 10 April 1942.

¹⁵PRO FO 371, 27185, Tehran to FO, 26 September 1942.

foreign powers against each other.¹⁶ In part, this involved offering oil concessions to the United States.

Meanwhile, the political interference of the British was not restricted to Tehran. Britain had long maintained relations with the southern tribes such as the Bakhtiari Khans. Britain's oil interests were also in the south and it was felt that these interests might be promoted through relations with the tribes in case the domination in Tehran was weakened.¹⁷ A policy of closer relations with the tribes was thus held in reserve, even though some senior officials such as ambassador Bullard in Tehran opposed it. He pointed out that it was “undesirable to encourage the tribes...the object is to get the civil administration running, and we cannot have one policy at the centre and another in the tribal areas.”¹⁸

However, Bullard's view was not decisive. It was widely rumoured that General Wilson, Commander-in-Chief in the Middle East, was subsidising the activities of Nasir Khan and the Qashqa'i tribe. His reasoning was, “If you don't fight and don't bribe, what do you do?”¹⁹ At first blush it appears that Bullard and Wilson were supporting contradictory policies and thus this episode might be used as evidence of bureaucratic rivalry in policy making with Bullard promoting the role of the Embassy and Wilson that of the military. However, on reflection it becomes clearer that the bureaucratic politics took place, not in policy formulation (where the ‘bureaucratic politics’ approach is usually applied), but in the implementation of ‘policy’. For one does not find a carefully formulated London policy being applied in Iran; rather, different agencies took different initiatives. In practice, there were contradictory policies in Iran, one of promoting

¹⁶Homa Katouzian, Musaddiq and the Struggle for Power in Iran (London: I.B. Tauris, 1990), 56-61.

¹⁷PRO FO 371, 27169, FO to Tehran, 6 December 1941.

¹⁸PRO FO 371, 27233, Tehran to FO, 1 October 1941.

efficient civil administration on a nation-wide level through the Embassy, and another supporting tribes through bribes in the provinces. Local agencies had developed set procedures for dealing with situations and implemented them regardless of the other Government agencies.

In the early days of the occupation it was suggested that Britain and the Soviet Union form a joint commission, which later developed into Bevin's proposals for a tripartite commission.²⁰ The Tripartite Treaty, signed in January 1942, was only reluctantly accepted by the Iranian Government for in practice both the Soviets and British ignored clauses six and seven of the Treaty, which protected Iranian sovereignty.²¹ When Sayyid Zia, a pro-British Prime Minister, produced a long list of complaints against the Soviets for British consideration in 1944, they only took up the issue of unpaid customs duties. One Foreign Office specialist reasoned: "If the allies win the war, we will owe the Russians a great deal, and whatever happens we owe the Persians nothing. If therefore the Russians are determined to protect their southern frontiers by acquiring further territory in the north, and if we have no means of preventing it, it would surely be advisable to put the best face we can on the matter."²² The Petroleum Division also decided "not to resist the granting of a concession to the Russians because the ultimate depiction of Iranian independence is in any case conjecture."²³ An example of Britain's willingness to accommodate Soviet plans was Bullard's idea of introducing a form of local self-government through the establishment

¹⁹PRO FO 371, 31386, War Office to FO, 4 November 1942; *ibid.*, FO to War Office, 26 November 1942.

²⁰PRO FO 371, 27233, Memorandum to the Soviet ambassador in London, 27 September 1941.

²¹Treaty of Alliance between the United Kingdom and the Soviet Union and Iran, HMSO, 1942.

²²PRO FO 371, 31413, FO minute, 22 April 1942; PRO FO 371, 31388, FO minute, 17 January 1943. 59.

²³BP 79663, Folder 18, Discussion in Petroleum Division, 3 January 1945, Official Note, 8 January 1945.

of provincial councils.²⁴ Local Government would provide all provinces with a measure of autonomy, so that through its representatives in the south Britain could ensure that its interests were protected. Moreover, it might forestall a demand from Azerbaijan for wider concessions. This scheme came to nothing though Bullard continued to raise this issue with every subsequent Prime Minister. It convinced the Iranians that the British wanted to conciliate the Soviets.

United States policy in the developing world was influenced by two main considerations - the first being the containment of communism, the second was the fear of mineral shortages in the United States. By promoting raw materials production in the developing world it was hoped to prevent a United States shortage while simultaneously promoting development as a buttress against communism. During the inter-war period the United Kingdom and United States controlled, commercially or militarily, an estimated forty-eight per cent of the world's iron reserves, fifty-three per cent of coal, seventy-four per cent of zinc, seventy-six per cent of petroleum, seventy-nine per cent of copper, and eighty-one per cent of lead. Anglo-American naval dominance made it possible to deny these critical materials to the Axis powers. Despite shipping problems in the first phases of the war, the Allies suffered no shortages of critical raw materials. Yet consensus regarding the depletion of United States reserves, the underestimate of current mineral reserves in the United States, and the overestimate of future consumption levels provided an impetus for negotiations with the British and also with developing world countries. In the case of oil this implied Middle Eastern countries.²⁵

However, Britain maintained an independent policy as regarded the Soviet Union. Relations between 1917 and 1941 had been suspicious and hostile. Once the

²⁴PRO FO 371, 27233, Memorandum to the Soviet ambassador, 2 September 1941; *ibid.*, India Office to FO, 27 September 1941.

²⁵Robert A. Pollard, Economic Security and the Origins of the Cold War, (New York: Columbia University Press, 1985), 199.

threat of Germany had been removed they resumed the normal pattern. Britain would not provoke tensions and was prepared to accept a Soviet sphere in eastern Europe but not into the region of British interests. So long as the Soviets did not encroach upon British interests they could expand their own sphere of interests.²⁶ While the British became increasingly concerned about the growth of Soviet influence in Iran, this concern was directed towards the preservation of British interests, not the exclusion of Soviet interests. In particular, there was recognition that the Soviets might want a belt of territory in Iranian Azerbaijan to ensure the safety of the Caucasian oil fields.²⁷

This was very typical of the generally pro-Soviet view taken by many Foreign Office people and by E.H. Carr writing in 'The Times'.²⁸ The reasoning was that the Soviets were entitled to a defensive sphere of influence and, moreover, that the United States would withdraw into isolationism again after the war, leaving Britain and the Soviet Union dominant in west and east Europe, respectively. In this case concessions to the Soviets could be justified on the basis of ensuring post-war good relations in Europe, as well as essential for the security of British interests in the Middle East and Asia. Applied to Iran this policy was to lead to a collapse of British power.

7.3 SOVIET PRESSURE IN AZERBAIJAN

The conciliation of the Soviets came to a head over the issue of oil concessions in the northern provinces. The scramble for a new concession can be traced to the trade war discussed in chapter five and concern over Middle East oil which was being discussed at this time in Washington in the Anglo-American oil talks. The political

²⁶Geoffrey Warner, "From ally to enemy: Britain's relations with the Soviet Union, 1941-1948," in Diplomacy and World Power: Studies in British Foreign Policy, 1890-1950 ed. Michael Dockrill and Brian McKercher (Cambridge: Cambridge University Press, 1996), 221- 243.

²⁷PRO FO 371, 31388, Kiubyschew to Foreign Office, 18 January 1942.

²⁸Charles Jones, E.H. Carr and International Relations: A Duty to Lie (Cambridge: Cambridge University Press, 1998).

results were that the United States supported concession seeking by its nationals, which the British also did.²⁹ This Anglo-American scramble for oil provided the Soviets with an opportunity to press their own claims in the northern provinces. Correspondence between Beaverbrook and Fraser reveals that Fraser was aware that Shell “with the support of H.M.G.” had sought a concession in the south. So, also had the Sinclair Oil Company, like the Getty Oil Company, one of the larger ‘Independents’. Yet another interested party was Standard-Vacuum, the joint venture between Socony-Vacuum and Jersey. As these negotiations became public, the Soviets formally asked for a concession in the north toward the end of September. Fraser argued that the Iranians were “foolish not to anticipate it [the Soviet demand] and not to have refused discussions with other interests”, but remained confident that Anglo-Iranian could compete with the Soviets provided that the concession involved “normal commercial terms.”³⁰

Bullard observed: “As to Russia's need for oil, it is certainly no part of our policy to prevent Russia from obtaining oil in north Persia. Indeed the Soviet Union is the natural market for north Persian oil. We do not wish to put any obstacle in the way of the Russians obtaining a concession in Persia by normal methods if and when the Persians are prepared to negotiate.”³¹ The Majlis decision to postpone the oil discussions worried the British more in the possible negative consequences for its own assets, than the exclusion of the Soviets. The Ministry of Fuel and Power observed:

We are naturally very concerned that any designs which Russia may have on Persia should not adversely affect our established position there, or the possibility of our getting the additional concession now being negotiated by Shell...One wonders if the Persian Government is going to deny the aspirations of the Russians in the north, it might not have the effect of increasing Russian interest in Persia in areas in which they are apparently not concerned. If means could be found for an amicable settlement,

²⁹PRO FO 371, 40241 for details of the British application.

³⁰BP 43853, William Fraser to Beaverbrook, 18 October 1944.

³¹PRO FO 371, 40188, Tehran to FO, 10 November 1944; PRO FO 371, 43430, Eastern Department minutes, 20 January 1946.

resulting in the grant of a concession to Russia at the same time as the Persians grant a concession to Shell, one would have thought from the point of view of British interests on oil, that such a solution would have much to recommend it.³²

The real problem for Britain, as elucidated by W.H. Young at the Foreign Office, was the conflict between Britain's petroleum and political interests.³³ Although Bullard felt that the risks inherent in the Soviets obtaining a northern concession were "far graver" than the risk of its attempting to cancel the Anglo-Iranian concession, the Ministry of Fuel and Power won the day, arguing the financial case for a new British concession. While aware of the possible political consequences arising from the award of a northern concession to the Soviets, the Ministry of Fuel and Power insisted that if only "political considerations" could be excluded, the best course would be for the Soviets to get its concession.³⁴ No public statement was made against the Soviet demand, nor did the British Government attempt to close the door on future negotiations.

British appeasement was largely responsible for the more aggressive Soviet posture in the north of Iran yet unable to contain this, they increasingly relied on the United States. After the Yalta Conference of January 1945 failed to produce any Soviet guarantees about intentions in Iran, Churchill wrote to Roosevelt warning of Soviet departure from the Tehran Declaration and of the danger that "Russia would get what it wanted by use of the big stick."³⁵ The surrender of Iranian Government troops to the Azerbaijan nationalists supported by the pro-Soviet Tudeh party in the autumn and winter of 1945 only confirmed to officials such as Bullard that the Iranians were

³²PRO FO 371, 40241, Ministry of Fuel and Power to FO, 10 October 1944; *ibid.*, 18 October 1944.

³³PRO FO 371, 40241, FO minute, 11 October 1944.

³⁴PRO FO 371, 40243, Ministry of Fuel and Power to Cadogan, 15 December 1944; *ibid.*, Tehran to FO, 29 December 1944; PRO FO 371, 40241, FO minute, 11 October 1944.

³⁵PRO FO 371, 45433, Tehran to FO, 20 July 1945.

incapable of self-government and that the United States was the only chance for a united Iran.³⁶

Realisation that Britain was prepared to see Iran fragmented through its attitude to Soviet pressure in the north and its support for local autonomy provoked a nationalist backlash. Once the connection had been made between national unity and oil concessions the position of the Anglo-Iranian was seriously weakened. Even in 1944 one Majlis deputy attempted to find support for a bill to revoke the Anglo-Iranian concession.³⁷ The Iranians looked to the Americans to maintain their territorial integrity while the British looked to them for support against the Soviets. However, in the longer term such involvement would prove inimical to Britain's twin interests in Iran - the oil concession and its informal influence. For the United States were equally determined to promote their own oil interests and to dismantle Britain's Empire, formal and informal.³⁸

This did not alter Britain's greater concern for oil interests than Iranian sovereignty. They supported the linking of the withdrawal of Soviet troops with the granting of a concession to the Soviets. This was a major miscalculation, for the failure to agree on troop withdrawals meant that these troops were available for use in support of the Azerbaijan nationalists/secessionists later. At the time the British hoped that the strong-arm tactics might restart oil negotiations. In March 1946 representatives from Shell had called to suggest the resumption of the negotiations which had been broken off in 1944. The Ministry of Fuel and Power gave their support to these new talks in May 1946.³⁹

³⁶PRO FO 371, 45434, Tehran to FO, 21 August 1945.

³⁷PRO FO 371, 40243, Tehran to FO, 4 December 1944; L.P. Elwell Sutton, Persian Oil, 111-112.

³⁸See further Bruce Kuniholm, The Origins of the Cold War in the Near East, 178-89.

In a circumvention of the 1944 Majlis decision the Soviets were indeed granted an oil concession. Britain's only objection to this agreement which was clearly made under duress in violation of the Tripartite Treaty was that the proposed Irano-Soviet company appeared to offer more favourable terms to Iran than the Anglo-Iranian concessionary agreement of 1933.⁴⁰ A draft report on the question of southeast Iranian oil stated: "A mixed company of the kind suggested would make it impossible to secure the essential flexibility in the operation of British oil resources. During the recent war, British and American companies have been able...to increase or decrease production as required. This would not have been possible had the exploitation of the oil resources in question been operated by joint companies through which the local Government would have been able to insist upon a rate of output to accord with their view of their own interests. It would hamper the British companies at every turn in the task of obtaining the best possible results from an oil field, if the local Government were associated with them in the ordinary day-to-day operations in the field."⁴¹ Soviet-supported rebellions in Azerbaijan were expected although the British did not subscribe to the annexationist theory of Soviet policy. However, developments in Azerbaijan caused a reassessment.

Russian activities in Persia do not square with the theory of a defensive policy. They square well with the theory of a tentative, but essentially offensive policy. If the Russians, seizing a moment of Anglo-American discord, chanced their luck and got away with the absorption of Persia without having to fight for it, their position would be immeasurably strengthened, both for defence and for eventual future aggression. They would acquire the warmwater ports which have been almost a pathological craving since Peter the Great. They would interpose between Baku and India a vast defence

³⁹PRO FO 371, 52728, FO to Tehran, 1 March 1946; *ibid.*, Ministry of Fuel and Power to FO, 3 May 1946.

⁴⁰PRO FO 371, 52667, Moscow to FO, 13 March 1946.

⁴¹PRO FO 371, 52728, Draft report on southeast Persian oil (undated, circa April 1946).

area...They would acquire oil resources of great value, and shake Britain's whole position in the Middle East to the point of collapse.⁴²

The advent of the Azerbaijan nationalists to power led to an assessment that the situation in Azerbaijan was as near to the “classical pre-revolutionary situation of the Leninist textbooks as nature and art can make it.”⁴³ Soviet and American involvement in Iran began to displace British dominance. When Qavam became Prime Minister in January 1946 Young thought that he was neither pro-German nor pro-Allied but was “merely concerned to be well in with both sides without committing himself to either - a normal Persian game.”⁴⁴ In fact, Qavam was anti-British rather than pro-German. Rather than recognising the election of Qavam as the result of widespread anti-British sentiments, it was analysed as due to the “frivolity and irresponsibility of the Persian character”. Allegedly, the Majlis vote, which confirmed Qavam, was “an absurd operation” whereby the Majlis Speaker “sodden with opium” cast the decisive vote to shift the balance in Qavam's favour.⁴⁵ This was not fair though it seems from the records to have been not untypical for the ‘old hands’ of his generation. For this reason it could also be found in the attitude of the Anglo-Iranian board and it was to become an important, though unquantifiable factor in the nationalisation crisis examined in the next chapter. In fact, a more important factor in the weakness of the Majlis was the lack of a party system.⁴⁶

⁴²PRO FO 371, 45434, FO minute, 10 July 1945.

⁴³PRO FO 371, 45478, Tabriz, “Six monthly report”, 23 August 1945.

⁴⁴PRO FO 371, 40180, Tehran to FO, 26 January 1944; *ibid.*, FO minute, 28 March 1944. See also PRO FO 371, 56278, “The devious way of Mr. Qavam,” 24 April 1946, report by Michael Foot, Member of Parliament, following a visit to Iran.

⁴⁵PRO FO 371, 52667, “Russia and north Persia,” 15 March 1946.

⁴⁶Ervand Abrahamian, “Factionalism in Iran: Political Groups in the 14th Parliament (1944-1946),” *Middle Eastern Studies* 14 (January 1978): 32-35; L.P. Elwell-Sutton, “Political Parties in Iran, 1941-1948,” *Middle East Journal* 3.1 (January 1949): 46.

7.4 THE DECLINE OF BRITISH STATE AND CAPITAL IN IRAN

Meanwhile the conspicuous role of the Tudeh in the labour unrest presented the opportunity for a different strategy. Significantly, LeRougetel, who had played an important role in the negotiations surrounding the Anglo-American Oil Agreements, had replaced Bullard as ambassador. This appointment reflected the link between British oil interests, the foreign policy system, and Iran. He thought that the southern unrest was symptomatic of a new countrywide trend in which the right was losing out to the left.⁴⁷ The growing threat from the left provided Britain with the opportunity to rally further the support of the United States on issues that had become the chief focus of concern for them - the Soviet threat and the credibility of the United Nations. One minute noted that, "Neither we nor the United States Government can view with indifference the prospect of Persia's reduction to the status of a satellite under the very eyes of the Security Council with the consequent weakening of world confidence in the United Nations Organization. Further, neither of us wish our great oil interests in the Middle East to be at the mercy of the Soviet Union acting through satellite Governments or subversive agents. The Soviet campaign of weakening what they regard as the Anglo-US combine has begun with Tudeh agitation against the AIOC [Anglo-Iranian] and may well be extended to Iraq, Kuwait, Bahrain and Saudi Arabia."⁴⁸

To prevent any future problems the Government made suggestions to the company, but there were limits to the British Government's influence over the company. Though Anglo-Iranian had once conducted its affairs through the legation, now it acted independently, only "on matters of high policy keeping H.M.G. informed."⁴⁹ What argument could he give, the Foreign Secretary asked during a conversation with the

⁴⁷PRO FO 371, 52677, Tehran to FO, 9 June 1946.

⁴⁸PRO FO 371, 52677, Tehran to FO, 9 June 1946, Dominions Office circular, 15 June 1946.

⁴⁹BP 43850, Report of Meeting Sir W. Fraser and Sir Maurice Peterson (FO), 8, 3, 1943

Anglo-Iranian chairman William Fraser, to anyone who claimed the right to nationalise Persian oil, while the Labour Government was nationalising companies “left and right” in Britain? He even suggested that Britain abandon its concessionary rights and “follow the Soviet Union’s example in offering a 50-50 deal.”⁵⁰

This early British version of the ‘domino theory’ did, however, have special appeal to United States policy makers, many of whom were beginning to formulate their ideas about ‘containment’ of the Soviet Union. Melvyn Leffler has argued that they were responding to British weakness leaving vacuums of power, and possible revolutionary movements drawing on socio-economic dislocation.⁵¹ The United States and Britain did little to reassure the Soviets that mutual cooperation was possible, and of their peaceable intent.⁵² In fact, recent research demonstrates that Stalin’s role models were not Marx or Lenin, but Peter the Great and Ivan the Terrible. His motivations were less world revolution than Russian great power status. Although a native of Georgia he became a Russian patriot in the same way as the Corsican Napoleon and French nationalism and the half-American Churchill and British imperialism.⁵³ From 1945 through 1952 reports clarified that the Soviets were not ready for war. The Soviets were indeed far less aggressive than depicted in the United States writings which lent credence to the campaign in Azerbaijan in 1946, the 1947 Truman Doctrine arming Turkey and Greece, and the later policies confusing Third World nationalists as pro-Soviet, for instance,

⁵⁰PRO FO 371, 52735, FO minute, 52735, 20 July 1946; William Roger Louis, The British Empire in the Middle East, 1945-1951: Arab Nationalism, the United States, and Postwar Imperialism (Oxford: Clarendon Press, 1984), 69-70.

⁵¹Melvyn P. Leffler, “National Security and U.S. Foreign Policy,” in Origins of the Cold War: An International History, ed. Melvyn P. Leffler and David S. Painter (London: Routledge, 1994), 15-52.

⁵²James L. Gormly, From Potsdam to the Cold War: Big Three Diplomacy, 1945-1947, (Wilmington, DE: Scholarly Resources) 1990.

⁵³Robert C. Tucker, Stalin in Power: The Revolution from Above, 1928-1941 (New York: Norton, 1990) 17-23, 60-64, 276-282, 482-486.

Musaddiq and Nasser.⁵⁴ In this context we examine Le Routegel's fear of the possible extension of Tudeh and Soviet influence, as he spoke of the "prime necessity for establishing a definite frontier between the USSR and Iran". He became explicit when he suggested that the Persian Government "may be wise to run the risk of losing this rich province rather than allow the Azerbaijan communists to enter the new Majlis and jeopardise their national independence."⁵⁵

In the event Qavam was able to secure Soviet withdrawal on the basis of promising the Soviets a concession. However, once Soviet troops had left Azerbaijan, and the United States and the United Nations stood prepared to guarantee Iranian territorial integrity, Qavam claimed that he was powerless to influence the Majlis who would not approve it. Iranian troops were able to take control of Azerbaijan once again. Secure of United States support, the Majlis overcame Soviet pressures and rejected the oil concession outright through the single article law of 22 October 1947.⁵⁶

The episode is significant, "For it was the first time that the new tougher American attitude took force as policy. It also represented a shift in the East-West contention from Eastern Europe to a new periphery of conflict that involved a collision in what had been traditionally British and Russian spheres. Finally, it became the first public breach among the superpowers. The United States also took the lead away from Britain and sought to make the Russians back down by playing to the gallery of world opinion."⁵⁷ British oil policies helped to establish the Azerbaijan crisis as a landmark in the emerging Cold War, while also contributing to the decline of British power in the

⁵⁴Richard W. Cottam, "U.S. and Soviet Responses to Islamic Political Militancy" in Nikki R. Keddie and Mark J. Gasiorowski (eds.) Neither East nor West: Iran, the Soviet Union, and the United States (New Haven: Yale University Press, 1990), 265-288.

⁵⁵PRO FO 371, 52685, Tehran to FO, 29 October 1946.

⁵⁶See PRO FO 371, 61974, "Summary of the Soviet-Persian oil agreement", 13 October 1947.

⁵⁷Daniel Yergin, Shattered Peace, 179.

region.⁵⁸ Awareness of Iran's strategic importance and attempts to maintain a balance of power in the region as Britain's influence waned attracted American intervention.

The policy of containment developed before Kennan's famous 'Long Telegram' from Moscow and was applied as a worldwide policy, and not only a policy for Europe. The United States aimed to reform not demolish colonialism, which partly explains why it misconstrued revolutionary nationalism. The wars in Korea and Vietnam paved the way to revive Japan's relationship with its Asian periphery.⁵⁹ Even if we conceive of the Cold War in strategic terms, the economic circumstances of developing countries were an important dimension of the conflict. The relationship between Government and business may have been as significant in the United States as the developing world. This link is central to the corporatist model which argues that the new, organised capitalism of technocratic instrumentality, transnational coordination, bureaucratic planning, associative politics, and state regulation straddled both sides of the Second World War.⁶⁰ However, corporatist writers may argue that American economic goals were not necessarily incompatible with Soviet security, and that Stalin's policy in Eastern Europe set up the Cold War.⁶¹ In other words the link between Government and industry in the United States was an important, though not decisive, factor in the origins of the Cold War. Local conditions, actors, and struggles were also significant.

⁵⁸Louise L'Estrange Fawcett, "Invitation to the Cold War: British policy in Iran, 1941-47," in Britain and the First Cold War ed. Ann Deighton (London: Macmillan, 1990), 199.

⁵⁹Gabriel Kolko, The Politics of War: The War and United States Foreign Policy, 1943-1945 (New York: Random House, 1968), Introduction.

⁶⁰Michael J. Hogan, "Corporatism: A Positive Appraisal," Diplomatic History 10 (Fall 1986): 357-372.

⁶¹Robert A. Pollard, Economic Security and the Origins of the Cold War.

7.5 THE UNITED STATES, THE ARAMCO SETTLEMENTS, AND THE NEW CORPORATE BALANCE OF POWER

The Red Army presence in Iran, the struggle between Communists and Royalists in Greece, and the Soviet territorial demands on Turkey together constituted a crisis in the Near East, an area traditionally within the British sphere.⁶² The British Government did not seek to provoke a shift in American policy, but was merely responding to Britain's own economic imperatives, when Britain no longer provided aid for Greece or Turkey. This precipitated the 'Truman doctrine'.⁶³ The link between oil and the Truman doctrine was not lost on contemporaries. One report noted that, "The loud talk was all of Greece and Turkey, but the whispers behind the talk were of the ocean of oil to the south."⁶⁴ Another commented, "Observers generally agree that President Truman's aim behind giving dollar transfusions to Greece and Turkey is to keep Soviet Russia away from the Middle Eastern oilfields. Besides playing power politics, the U.S. is also playing the old game of oil diplomacy."⁶⁵

Through the war years United States Government and corporate officers continued to maintain that the United Kingdom was undermining political and commercial interests in Saudi Arabia.⁶⁶ One way in which the United States tried to combat this tendency was to provide Lend-Lease for Saudi Arabia from February 1943; others included the proposed part-ownership of Aramco by the Petroleum Reserves

⁶²John W. Young, Winston Churchill's Last Campaign. Britain and the Cold War, 1951-1955 (Clarendon Press: Oxford, 1996).

⁶³Robert Frazier, "Did Britain Start the Cold war? Bevin and the Truman Doctrine," Historical Journal 27 (1984): 715-27. James Petras and Morris Morley, Empire or Republic? American Global Power and Domestic Decay (New York: Routledge, 1995).

⁶⁴BP 35997, "Oil: The Blue Chip Game," Time, 24 March 1947.

⁶⁵BP 35997, News review, 10 April 1947.

⁶⁶Philip J. Baram, The Department of State in the Middle East, 1919-1945 (Philadelphia: University of Pennsylvania, 1978), 223-39; John A. De Novo, "The Culbertson Economic Mission and Anglo-American Tension in the Middle East, 1944-1945," Journal of American History 63,

Corporation (PRC) discussed in the previous chapter. Since the oil companies were very important in the demise of the PRC. plan, it has also been assumed that they were important in the advent of Lend-Lease support. For instance, Benjamin Shwadran called Lend-Lease for Saudi Arabia “the crowning achievement of almost three years of effort on the part of The Texas Company and the Standard Oil Company of California.”⁶⁷ Many writers share this view.⁶⁸ They rely on a conversation between Texaco board chairman, W.S.S. Rodgers, and Harold Ickes in early February 1943 in which Rodgers spoke of the dangers of British policy and proposed a reserve in Saudi Arabia for United States military use. Ickes is supposed to have discussed these matters with Roosevelt on 16 February, which resulted in the announcement of Lend-Lease for Saudi Arabia on 18 February. In fact, Ickes' diary reveals that what he spoke about was the question of the United States Government buying into the Aramco concession. In other words, Rodgers' comments were a starting point for the PRC; Lend-Lease provision came from another source.⁶⁹ The Department of State Near Eastern Division came to see Arabian reserves as crucial. Thus, they established a consulate in Jidda in April 1942. Its head, Paul Alling, had come to the decision, by December, that Saudi Arabia should be given Lend-Lease. His recommendation was authorised by Roosevelt on 18 February, two days after he had met Ickes to talk about the opportunity for Government financial interest in the

(March 1977): 913-916, 922, 930-932; Barry Rubin, “Anglo-American Relations in Saudi Arabia, 1941-1945,” Journal of Contemporary History 14: 253-267.

⁶⁷Benjamin Shwadran, The Middle East, Oil and the Great Powers (New York, Praeger, 1955), 309. Financial reasons were also decisive in obtaining the concession. Leslie McLoughlin, Ibn Saud: Founder of a Kingdom (Basingstoke: Macmillan, 1993), 126-128.

⁶⁸Gerald D. Nash, United States Oil Policy, 1890-1964: Business and Government in Twentieth Century America (Pittsburg: University of Pittsburgh Press, 1968), 171; George W. Stocking, Middle East Oil: A Study in Political and Economic Controversy (London, Penguin, 1971), 96-98; Anthony Sampson, The Seven Sisters: The Great Oil Companies and the World They Made, 3d ed. (London: Hodder and Stoughton, 1993), 75; Mira Wilkins, The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970 (Cambridge, MA: Harvard University Press, 1974), 276-277; Gabriel Kolko, The Politics of War: The War and United States Foreign Policy, 1943-1945 (New York: Random House, 1968), 295-296.

⁶⁹Aaron David Miller, Search for Security: Saudi Arabian Oil and American Foreign Policy, 1939-1949 (Chapel Hill: University of North Carolina Press, 1980), 71.

Arabian concession. Indeed, Ickes categorically denied that he had discussed Lend-Lease with the President.⁷⁰

To Anderson, this suggests that the decision was made for strategic rather than economic grounds, and that the effective recommendation originated from the executive rather than companies.⁷¹ In mid-1944 Anglo-American rivalry in Saudi Arabia extended to aviation. The United States wanted to construct facilities in Dhahran to support the Pacific theatre. However, the construction of military projects was also aimed at providing the United States with a post-war advantage. General H.H. Arnold told the Air Transport Command in 1942 that it should “take action to insure [sic] that our military transport rules and facilities are establishing and furthering our post-war position in the air transport field.”⁷² The British were well aware of this dimension to the construction of air facilities. In 1938 they had carried half of all civil air traffic, the United States only one-ninth. However, the Lend-Lease agreements gave a near monopoly on the building of air transport planes and bombers to the United States and the Air Transport Command was United States-run. Excluding the Air Transport Command directed traffic, by 1943 British air carriers were responsible for only twelve per cent, while the United States now carried seventy-two per cent of traffic.⁷³ Truman had made a speech about the Four Freedoms which would govern the post-war world. In November 1944 the United States presented the Fifth Freedom at the International Civil Aviation Conference being held in Chicago. This meant deregulation of aviation on the terms of the United States. Later, some officials hinted that Lend-Lease and post-war aid might not be easily obtained

⁷⁰Irvine H. Anderson, “Lend-Lease For Saudi Arabia: A Comment on Alternative Conceptualisations,” *Diplomatic History* 3 (1979): 417-419.

⁷¹*Ibid.*, 422.

⁷²John A. Miller, “Air Diplomacy: The Chicago Civil Aviation Conference of 1944 in Anglo-American Wartime Relations and Postwar Planning” Ph.D. diss., Yale University, 1971), 85.

⁷³James L. Gormly, “Keeping the Door Open in Saudi Arabia: The United States and the Dhahran Airfield, 1945-1946,” *Diplomatic History* 4.2 (Spring 1980): 189-205; John A. Miller, “Air Diplomacy,” 4-5, fn. 19.

unless Britain agreed to the Fifth Freedom.⁷⁴ The United States were able also to offer financial largesse to the Saudis to establish their airport over British protests. By 1947 the United States had replaced the United Kingdom as the major foreign power in the Kingdom.⁷⁵

This change over was also visible in the construction of Tapline. It will be recalled that the domestic companies and the State Department opposed the Petroleum Reserves Corporation scheme for the Arabian pipeline. This meant that the international companies would have to find the money to build it themselves. To achieve this they sought to widen the membership of Aramco. This required some consideration of both the Saudi and United States Governments. In an interview, Dr Al-Saleh revealed that, "His Majesty Ibn Saud insisted that the new partners in Aramco be American companies. He was still suspicious of the intentions of the British Government regarding Saudi Arabia. Thus, before the membership of Aramco was enlarged to include Jersey and Socony-Vacuum in 1947, he specifically demanded assurance on this point, and only then he gave permission for the two new companies to join."⁷⁶

The United States Government had also wanted to 'solidify' the American oil concession by widening its membership. In this the State Department took advantage of the changes agreed during the negotiations for the Anglo-American Oil Agreements - the abrogation of the Red Line Agreement and the restrictive marketing agreement between Gulf and Anglo-Iranian in the Kuwait Oil Company. Moreover, the British companies also wanted to increase Middle Eastern production. The only losers were the French Government and Calouste Gulbenkian whose concern was that increased production in Saudi Arabia and Kuwait would limit the increased production from the Iraq Petroleum

⁷⁴John A. Miller, "Air Diplomacy," 5-10, 110-30.

⁷⁵James L. Gormly, "Keeping the Door Open in Saudi Arabia: The United States and the Dhahran Airfield, 1945-1946," Diplomatic History 4.2 (Spring 1980): 197-203.

Company in which they held shares. Finally, a Group Agreement was signed in November 1948 which opened the way for a new order in Middle East oil.⁷⁷ Socony-Vacuum and Jersey could provide the capital and market outlets in Europe, which would permit the further development of the Aramco concession, and Socony-Vacuum in particular had lost production facilities in East Asia.⁷⁸

This new order in the Middle East was not only made up from changes to the equity joint venture in Saudi Arabia, but there were also contractual joint ventures formed by long-term sale of oil agreements. The sale of oil contracts were not conventional arm's length contracts. They involved long periods, large quantities, unusual pricing and conditions of sale, and restrictive marketing agreements. For instance, the 1947 agreement between Gulf and Shell regarding Kuwaiti oil was designed to last for twenty-two years. Profits would be shared by an intricate formula for calculating the amount of profits realised on the production, transportation, refining, and marketing of the oil sold to Shell. Gulf did not receive a fixed price for the oil but a fifty per cent financial interest in Shell sales in the eastern hemisphere. This system was referred to as netback pricing.⁷⁹

The Anglo-Iranian agreements with Jersey and Socony-Vacuum grew out of the continuing negotiations in which Anglo-Iranian and Jersey were engaged after 1945. An early result was the Heads of Agreement with Jersey, which soon involved Socony-Vacuum as well.⁸⁰ These arrangements were soon formalised.⁸¹ The sale involved

⁷⁶Dr Muhammed Al-Saleh, interview by author, 20 July 1998.

⁷⁷BP 20366. The Aramco Release. Iraq Petroleum Company Ltd 1948 Documents Heads of Agreement and Supplemental Documents. 45-7, 3 November 1948.

⁷⁸Anthony Sampson, Rev. ed., *The Seven Sisters*, 139-142.

⁷⁹Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power*, London: Simon and Schuster, 1991), 419-420.

⁸⁰BP 66823, Heads of Agreement between Anglo-Iranian and Jersey, and side letter adding Socony-Vacuum, 20 December 1946.

between one quarter and one third of Anglo-Iranian's daily production in Iran and Kuwait combined. "The two companies, in fact, acquired such a substantial interest in Anglo-Iranian's crude-oil production over a twenty-year period, with special terms as to price and other matters, that they became, in effect, junior partners in Anglo-Iranian's crude-oil-producing enterprises in Iran and Kuwait."⁸²

The selling price was calculated on a cost plus basis. For the Jersey contract and first Socony-Vacuum contract this was the cost of production and delivery plus a fixed money profit per ton. For the second Socony-Vacuum contract it was the cost of production plus one-third of the gross profits per ton. Such pricing terms would require knowledge of each item of cost. There were independent auditors specially retained for this task, and Anglo-Iranian were obliged to provide "any and all information" which Socony-Vacuum or Standard might "reasonably" request. The contracts also specified the target market. For Jersey, this was defined as the "reference area" - it included Europe, north and west Africa. The first Socony-Vacuum contract of September 1947 dealt with the "reference area" plus the countries and islands of the eastern Mediterranean, the second contract of March 1948 dealt with the United States.⁸³

The Anglo-Iranian contracts were originally an integral part of the plan for the formation of Middle East Pipelines Ltd. (MEPL). While owned by Anglo-Iranian, Jersey, and Socony-Vacuum, some capacity would be also allotted to Gulf and Shell

⁸¹BP 26936, Supply Agreement between Anglo-Iranian and Jersey, 25 September 1947; BP 62375, First Supply Agreement between Anglo-Iranian and Socony-Vacuum, 25 September 1947; BP 64736, Second Supply Agreement between Anglo-Iranian and Socony-Vacuum, 1 March 1948.

⁸²Congress, Senate, Staff Report of the Federal Trade Commission on the International Petroleum Cartel, Subcommittee on Small Business of the United States Senate, 22 August 1952, 198. [Hereinafter FTC, Report] 146.

⁸³BP 20366, Folder 12, Heads of Agreement between Anglo-Iranian, Socony-Vacuum Overseas Supply Company and Socony Vacuum, 1 May 1952, contains a discussion of the previous agreements in the late 1940s. Folder 3 contains a copy of the agreement between the Anglo-Persian Oil Company and Gulf Oil Company, 14 December 1933, which gave rise to the restrictive marketing clauses.

based on their share in financing Anglo-Iranian's majority share of 60.9%.⁸⁴ When the pipeline was not constructed, Supplemental Agreements were made so that at least ninety-five per cent of oil should be shipped to the agreed destinations. If more than five per cent went to eastern markets, Anglo-Iranian would penalise the offending company.⁸⁵ One very important point was the importance of Anglo-Iranian, the pivot of these contracts. At its own discretion it could supply from either Iran or Kuwait, but its oil was going to agreed markets, whether in the Gulf contract with Shell for supplies from the Kuwait Oil Company, or Jersey or Socony-Vacuum contracts. Underlining this is a comment made about Anglo-Iranian director, Sir William Fraser, during the 1948 negotiations with the Iraq Government over MEPL - "everyone in Iraq believed that it was he and he alone who had the final word with the [Iraq Petroleum Company] group."⁸⁶

Apart from these large-scale arrangements, there were many smaller agreements. In some instances, these were related to pre-war arrangements. For instance, the "cancellation of the reciprocal supply arrangement at present operating between the two companies automatically reinstates the Benzine Agreement of the 24th May 1935, since its suspension was specifically related to the reciprocal supply arrangements by the memorandum signed...on the 1st October 1942."⁸⁷ However, in the changed circumstances new agreements needed to be established and a new Benzine Agreement was reached followed by a Mutual Supply Arrangement.⁸⁸ Across a range of issues

⁸⁴BP 59377, Memorandum of Articles and Association of Middle East Pipeline Ltd, BP 64734, Socony-Vacuum, Middle East Pipelines Ltd, and Jersey Middle East Pipeline Agreement, 23 March 1948. BP 64735, Interim Supply Agreement with Socony, 24 March 1948.

⁸⁵BP 54006, Supplemental Agreement between Anglo-Iranian and Jersey, 5 April 1949; BP 54006, Supplemental Agreement between Anglo-Iranian and Socony I, 5 April 1949; BP 64736, Supplemental Agreement between Anglo-Iranian and Socony II, 5 April 1949; BP 59376, Supplemental Pipeline Agreement, 5 April 1949.

⁸⁶FTC, Report, 158.

⁸⁷BP 93975, J.P. Berkin to H.E. Snow, 27 February 1948.

⁸⁸BP 64661. Memorandum, "Summary of Supply Arrangements with Shell, 1933 - 1949," 19 January 1949. Supplies were regulated by the Benzine Agreement of 1935 between January 1933

William Fraser of Anglo-Iranian and George Legh-Jones of Shell held talks between April 1948 and December 1949.⁸⁹ Then, there were agreements covering benzine, aviation fuel, lubricants, and bunker fuels as well as the long term supply agreement between Anglo-Iranian and Shell.⁹⁰ At the same time, Anglo-Iranian entered into long-term contracts in the western hemisphere.

These corporate manoeuvres also furthered United States domestic policy objectives as Middle East oil enjoyed a competitive advantage in price over domestic and Latin American production. Compared to their average cost of \$1.28 per barrel, Middle East oil only cost about 90c. per barrel. The combination of American companies could, therefore, help develop an American overseas concession but also when necessary regulate production in favour of fields in the Americas. Thus, the Justice, War and Interior Departments approved the merger of December 1946. Socal, Texaco, and Jersey each took a thirty per cent share, while Socony-Vacuum took a ten per cent share in the consortium.⁹¹

The Socal and Texas directors in the United States took this more global view than the field operatives in Saudi Arabia. A global pricing and market share war with Jersey and Socony-Vacuum relying on oil from their bases in the Americas would reduce everyone's profits, and given the lack of market outlets, it was not a foregone conclusion that Socal-Texas, the Caltex interests, would win. The raids they had engineered during the trade war had not proved decisive, which was discussed in chapter five. In this context, the negotiations around the Anglo-American Oil Agreements were a series of

to December 1941, by the Reciprocal Supply Arrangement of 1942 till April 1946 and thereafter by the Benzine Agreement of March 1946 and Mutual Supply Arrangement between May 1946 and February 1948.

⁸⁹BP 66845, Negotiations with Shell.

⁹⁰BP 95158, T.G. McLintock to A.R. Magwilliam, 3 February 1950. BP 93081, Agreement between Anglo-Iranian and Shell, 31 January 1950, BP 113811 contains the text of the Long Term Agreement of 31 January 1950, the Aviation Agreement, and the Bunker Memorandum.

⁹¹Aaron D. Miller, Search for Security, 159.

peace talks and the new corporate balance of power in the Middle East a new corporate order. Here was an opportunity to win market share, and thus secure a larger share of the profits in the European market at the cost of reducing their shareholding from fifty per cent to thirty per cent. All of these benefits depended on the transport of oil from Saudi Arabia to the eastern Mediterranean for supply to Western Europe. Jersey and Socony-Vacuum immediately agreed to finance almost half of Tapline's costs though the formal widening of Aramco did not take place till three years later.⁹² A Tapline Company was created to finance, build and run the pipeline.⁹³ Later, as the United States continued their support for the Zionist homeland the investment of the companies came under threat.⁹⁴

The easiest way to reassure the King was to re-route the pipeline away from Palestine. Thus, negotiations started with Lebanon and Syria. The company had not decided which terminal to prefer.⁹⁵ The Maronite Christian dominated state suggested making the terminus near Beirut, which was fast becoming the financial centre of the Middle East. Negotiations with Quwatly of Syria were far more protracted. It was hoped that Quwatly might be replaced in the July 1947 elections. To this end, Miles Copeland, the Central Intelligence Agency (CIA) station chief in Damascus during the late 1940s, later admitted to "promoting pro-American candidates" by a "discreet nudge here and there."⁹⁶ After Truman's recognition of Israel on 15 May 1948, it appeared even harder to get Syrian agreement. In January 1949 Aramco started spending money to get support in the parliament and press, while the CIA were considering a coup headed by Colonel

⁹²Henrietta Larson, Evelyn H. Knowlton, and Charles Pople, History of Standard Oil Company (New Jersey), vol.3, New Horizons, 1927-1950 (New York: Harper and Row, 1971), 738.

⁹³BP 13222, Convention Regulating the Transit of Mineral Oils by Trans-Arabian Pipeline Company through the territory of Saudi Arabia, 10 November 1947.

⁹⁴On King Abdul-Aziz and the threat to United States investment, see William Roger Louis, The British Empire in the Middle East, 193-199.

⁹⁵BP 79663, Folder 27, L.F.L. Pyman to N.A. Gass, 18 February 1948.

⁹⁶Miles Copeland, The Game of Nations: The Amorality of Power Politics (London: Weidenfeld and Nicolson, 1969), 45.

Husni Zaim, Syrian chief of staff. On 30 March, he seized control, imprisoned thousands of 'Communists', and started peace talks with Israel. He signed an agreement with the Tapline Company. The State Department promised the Tapline Company that even if Syrian radicals challenged the legality of Zaim's action, diplomatic support to the company would be provided. When Zaim was overthrown and executed in August, the State Department kept its promise.⁹⁷ Covert action in support of oil interests had become an established part of American strategy in the Middle East.

In March 1950, George McGhee, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs inspected the pipeline which had secured United States foreign policy goals, including halting the depletion of reserves in the Americas while providing cheap fuel for West European recovery, and revenues to pro-Western Arab states.⁹⁸ Weaving their separate agendas together, United States diplomats and oilmen had secured vital strategic interests. Shared interests rather than a hijacking of the state explain the close relationship between state and firms during this period. It challenges the view that, "The documentation shows how the petroleum industry has harnessed public law, Governmental machinery, and opinion to ends that directly challenge public rule...In the name of national interest it has received privileges beyond those accorded to other industries...In the name of freedom, the oil industry has received substantial immunity from public accountability."⁹⁹

However, it is important to realise just how wide-ranging and significant this cooperation was. "The outstanding characteristic of the world's petroleum industry is the

⁹⁷Douglas Little, "Pipeline Politics: America, TAPLINE, and the Arabs," Business History Review 64 (Summer 1990): 275-280.

⁹⁸George C. McGhee, Envoy to the Middle East: Adventures in Diplomacy (New York: Harper and Row, 1983), 199-201.

⁹⁹Robert Engler, The Brotherhood of Oil: Energy Policy and the Public Interest (Chicago: University of Chicago Press, 1977), 9.

dominant position of seven international companies.”¹⁰⁰ In 1949 they held sixty-five per cent of the world’s proven oil resources. If we exclude the nationalised industries of Mexico and the Soviet Union, and the relatively competitive market of the United States, the figure rises to ninety-two per cent. The majors also controlled seventy-seven per cent of the world crude refining and eighty-five per cent of the world cracking capacity, outside of the United States and Soviet Union. Their control over the cracking process involved the creation of higher-valued products, including high octane fuels and chemical bases for synthetic rubber and many plastics. Thus, their control over cracking affected a broader segment of the world economy than crude-refining capacity.¹⁰¹

The area of pipelines sheds light on a major feature of oil company behaviour, the “maze of joint ownership.”¹⁰² Jersey, Texas, Casoc, and Socony-Vacuum owned Tapline. In the areas of production and marketing Texas and Socal owned the Bahrain Petroleum Company, and the Iraq Petroleum Company comprised Jersey, Socony-Vacuum, Shell and Anglo-Iranian, with minority interests for the French national oil company – the Compagnie Francaise des Petroles - and Calouste Gulbenkian. Whereas the majors were pleased to ignore the Red Line agreement, the French company and Gulbenkian were less pleased and needed to be placated.¹⁰³ The Kuwait Oil Company comprised Anglo-Iranian and Gulf, while Socal and Texas made up the Caltex group which controlled the Bahrain Petroleum Company and Aramco, until Aramco ownership was widened to include Jersey and Socony-Vacuum as well. These global dynamics of alliance-building helped rebuild the corporate balance of power. Yet they also fed into Cold War strategic concerns regarding Saudi Arabia. For another example of Government intervention in the Aramco concession independently supporting the dynamics of corporate behaviour took place in 1950.

¹⁰⁰FTC, Report, 22.

¹⁰¹FTC, Report, 23.

¹⁰²FTC, Report, 29.

Ibn Saud was demanding greater revenues and amid the tensions of the Korean War, in November 1950, George McGhee met with representatives of Aramco's parents. Recalling the Mexican expropriations of 1938 McGhee feared that a tougher negotiating stance would only encourage the nationalists. Furthermore, expropriation in these circumstances might further consolidate pro-communist forces in the region. The Middle East had become even more important in 1950 than it had been at the time of the Azerbaijan crisis of 1946. It is interesting to look closely at the Aramco agreement of 1950 for many reasons. First, it established the fifty-fifty profit split between the host Government and companies in the Middle East, but it also demonstrates the role of the United States Government on the one hand and the activism of local political forces in the Kingdom of Saudi Arabia on the other. For it established "a concession agreement - or an economic development contract as it might well be called."¹⁰⁴ The 'economic development contract' was also a form of contractual joint venture, a partnership between the Government and industry, and it led to an increase in revenue as the fifty-fifty share of net profits gave a three to four-fold increase.¹⁰⁵

In his book, *The Control of Oil*, Blair argued that the United States Government used the foreign tax credit provision in the tax law which allowed Aramco to offset its increased liability to the Kingdom of Saudi Arabia against its net liability to United States corporate taxes, as a means of subsidising the Kingdom.¹⁰⁶ However, Irvine H. Anderson, who is a major authority on the early history of Aramco, reveals that there is no documentary evidence for the exchange between the National Security Council and

¹⁰³Daniel Yergin, *The Prize*, 413-419.

¹⁰⁴Henry Catten, *The Evolution of Oil Concessions in the Middle East and North Africa*, Parker School of Foreign and Comparative Law (New York: Oceana Publications, 1967. vii, Foreword, Fred Davies, former chairman of Aramco.

¹⁰⁵*Ibid.*, 10.

¹⁰⁶John M. Blair, *The Control of Oil* (London: Macmillan, 1976), 196-199.

Treasury with the former leaning on the latter.¹⁰⁷ Examining the Saudi side of the episode also supports such an interpretation. While there is no access to Aramco archives I was able to interview a leading expert, Dr Al-Saleh. His testimony was revealing insofar as he attributed the origins of the Aramco profit-split to the arrival of new American companies in the Kingdom. (Incidentally, this also demonstrates the usefulness of taking a longer timeframe for analysis as it brings out continuities that may be overlooked in studies of discrete events). He recalled that:

The arrival of the Independents in the Middle East transformed the negotiating strength of the host states. The deal with Getty in the Neutral Zone in 1948-49 provided a royalty of 55c. per barrel, whereas the old concessions in Iran and Iraq only provided for royalties of 16 ½ c.¹⁰⁸

Across the desert it was difficult to establish definite boundaries and by the Ojair agreement of 1924 a neutral zone was established in which tribes retained grazing and watering rights and along which no forts would be built. In June 1948 Sheikh Ahmad of Kuwait granted concession to Aminoil (a consortium of small American companies) and February 1949 J. Paul Getty's Pacific Western Company successfully bid for one from Saudi Arabia.¹⁰⁹ The growing awareness of the potential negotiating power of the host states coincided with a growing demand for finance. He continues, "Just as a financial shortage had been the catalyst for the original concession so also the fifty-fifty deal was born out of the decline in royalties during 1949." He notes that, "We took a very proactive approach to increasing the rent from the concession. We did not wish to hurt the

¹⁰⁷Irvine H. Anderson, Aramco, the United States and Saudi Arabia: A Study of the Dynamics of Foreign Oil Policy, 1933-1950 (Princeton: Princeton University Press, 1981). He continued research in this area and his conclusions differ in more recent writing. Irvine H. Anderson, "The American Oil Industry and the Fifty-Fifty Agreement," in Musaddiq, Iranian Nationalism and Oil, ed. James A Bill and William Roger Louis (London: I.B.Tauris, 1988), 156.

¹⁰⁸Dr Muhammed Al-Saleh, interview by author, 20 July 1998. BP 65668. Copy of an agreement dated 1 October 1948 between the Government of Saudi Arabia and Aramco in respect of offshore rights and the relinquishment by Aramco of their rights in the Kuwait Saudi-Arab Neutral Zone.

¹⁰⁹Christopher Tudendhat and Adrian Hamilton, Oil: The Biggest Business (London: Eyre and Spottiswoode, 1968), 133.

company through increasing the royalty payments. By retaining a tax consultant in the United States, it was discovered that a device existed called the foreign tax credit. Through imposing taxes on Aramco we would increase our rent from the concession. At the same time, this would not affect the company as they could deduct the tax paid in Saudi Arabia from their taxes to the United States Government.”¹¹⁰ If royalties had been increased, this would affect the companies but through the tax credit, Saudi Arabia could increase her revenues without depriving the companies of any income. American taxpayers were effectively subsidising the increase in Saudi Arabian revenues.

Dr Al-Saleh was both compelling and insistent when discussing the origins of the agreement. It appears that the Government had been informed of earlier use of the formula and pressed for it independently. This suggests that the fifty-fifty profit split agreement did not work itself downward from the United States Government to the Aramco consortium to the Saudi Government. Such a movement would confirm classical realist arguments about the primacy of state over firm (United States over Aramco), but also great power over small power (United States over Saudi Arabia). Quite the opposite. The local power took the initiative against a company, which was then accepted by its parent Government. While state enjoyed primacy over firm, the smaller power had its policy confirmed by the greater.

Plans to bring antitrust cases against the majors foundered as the State Department developed a mutuality of interests with them. Earlier the British Government had reacted strongly against the extra-territorial assertion of American antitrust legislation.¹¹¹ They advised the Anglo-Iranian not to pass over any documents which did not relate to the United States or which might prejudice interests of the Her Majesty’s

¹¹⁰Dr Muhammed Al-Saleh, interview by author, 20 July 1998.

¹¹¹BP 35501, “The Business World: Comity and the Oil Companies,” The Economist, November 22, 1952, 536.

Government.¹¹² Now, however, the State Department rather than the Justice Department was considered more important in American policy. "Truman and Eisenhower believed it was necessary to rely on the major firms and understandably so considering that these firms were the only ones in the 1950s with established facilities for refining and distributing Mideast oil."¹¹³ Domestic production, and imports from the Caribbean and South America met United States demand, but western European oil was supplied from Middle East which also supplied Africa and, together with the Netherlands East Indies, also supplied Asia.¹¹⁴ Solberg claims that by 1950, "cooperation between Government and big oil had grown so close that the industry operated in every sense as an insider."¹¹⁵ Oil was crucial to post-war United States strategy. Maintaining access to economically vital overseas areas provided the basis for a strategic force with overseas strike capability.¹¹⁶ For instance, the Middle East was the most defensible location for a strategic air offensive.¹¹⁷

7.6 CONCLUSION

The main historical point of this chapter has been to draw attention to the role of British Government and capital in creating the destabilising influences in the Persian Gulf which provoked the local states to seek United States assistance which was freely given as part of the containment strategy against Soviet communism. The key theoretical insight is the role of standard operating procedures, which frustrates attempts to portray Government policy as deliberate and 'rational.' The relationship between history and

¹¹²BP 71283, Geoffrey Lloyd to Anglo-Iranian, 2 October 1952.

¹¹³B.I. Kaufman, The Oil Cartel Case: A Documentary Study of Antitrust Activity in the Cold War Era (Westport, CT: Greenwood Press, 1978), 12.

¹¹⁴BP 35983, Elmer Patman, Report on Third World Petroleum Congress.

¹¹⁵Carl E. Solberg, Oil Power: The Rise and Imminent Fall of an American Empire (New York, 1976), 116.

¹¹⁶Ian O. Lesser, Oil, the Persian Gulf, and Grand Strategy: Contemporary Issues in Historical Perspective (Santa Monica, CA, 1991).

theory is that the local agents of the British Government in Iran were accustomed to dominating the local political and economic system of Iran. When the British companies responded in 'balance of power' manoeuvres to the uncertainties of the Anglo-American oil negotiations the local British agents followed standard operating procedures to support them. However, this only weakened the position of the British Government and companies, in the longer term. This chapter thus stands aside from the other chapters insofar as on this occasion support of the companies did not lead to greater resources in the oil issue area.

Examination of corporate agendas and dynamics highlight the rivalry and cooperation of companies as well as states contriving a balance of power in Middle East oil. The corporate balance of power has two components, one internal based on increasing resources, and the other external based on alliance building to compensate for internal weaknesses and generate new strengths. After the failure of the companies to increase their individual strength through new concessions in northern Iran, the main mechanism for alliance building was the joint venture. Long-term sales of oil agreements constituted contractual joint ventures in marketing and sales, while joint ownership of pipelines and concessions tied companies together in equity joint ventures. Two features of this balance stand out - its careful and deliberate construction, and arising from this, its inclusive quality weaving together the majors into one web, rather than opposed camps.

Another part of the originality lies in setting the Anglo-American oil negotiations and the Iranian crisis and Aramco settlement side-by-side. This exposes interplay and continuity between the events. British fear about the course of the oil talks of 1944 led them to prematurely support Shell in seeking a concession in Azerbaijan. This triggered

¹¹⁷Peter L. Hahn, The United States, Great Britain, and Egypt, 1945-1956: Strategy and Diplomacy in the Early Cold War (Chapel Hill, CA: University of California Press, 1991).

the concession race, which precipitated the political crisis of 1946. It was British capital rather than Soviet expansionism or American capital, which lay behind the Azerbaijan crisis. Contemporaneously, the success of the oil talks opened the way for a new balance of power in Middle East oil. As American companies began to expand Middle East production the United States Government supported them diplomatically. In Azerbaijan this active support soon came into conflict with United States aims to support Iranian sovereignty. In Saudi Arabia the two interests dovetailed.

The local state was significant. Both Iran and Saudi Arabia welcomed the United States Government and business as a way of reducing British influence, which supports the idea that the United States was frequently invited by local powers.¹¹⁸ However, while United States anti-colonial rhetoric and financial assistance helped to partially displace British paramountcy in Iran and Saudi Arabia, experiences in Syria over the transit rights of the Tapline Company demonstrated clearly that the end of British Empire did not mean independence for the local powers. As the Cold War came to the Middle East the pro-western, indeed pro-American, alignment of the local state became an important objective.

¹¹⁸Bruce Kuniholm, The Origins of the Cold War in the Near East; Geir Lundestad, "Empire by Invitation? The United States and Western Europe, 1945-1952," Journal of Peace Research 23 (August 1986): 263-276; John Lewis Gaddis, "The Emerging Post-Revisionist Synthesis on the Origins of the Cold War," Diplomatic History 7.3 (Summer 1983): 171-190.

CHAPTER EIGHT: THE NATIONALISATION OF THE ANGLO- IRANIAN OIL COMPANY

8.1 INTRODUCTION

In 1951 the web woven by the oil majors was torn by the nationalisation of Anglo-Iranian. Although supplies from the refinery at Abadan ceased, the companies organised increased loadings from Kuwait. This shielded Anglo-Iranian from any financial loss and encouraged them in maintaining a consistently negative stance towards concessions to Iran. In Iran, the boycott of nationalised oil led to an acute financial shortage which increased social discontent and political instability. If a boycott had not been managed by a great power condominium of the majors the economic situation would have been very different. It would have been harder for the British Government to interfere in the political process, and the United States would have been less concerned about a communist takeover. Thus, the impact of the boycott should not be underestimated.

The role of the majors is comparable to that Bull advocated for great powers. They respected each other's spheres of influence, most clearly in the Red Line agreement, but also in the market share agreements of As Is. The reverse side was that they unilaterally exploited their local preponderance based on established marketing positions to keep out smaller players, or to integrate them into local cartel arrangements not at variance with the general rules. Also, they managed their relations to preserve a general balance of power by allowing greater American participation in Middle East oil. Furthermore, they tried to avoid crises in their relations, for instance, through establishing diplomatic contacts and legal provisions to generate consensus around expectations. Moreover, if wars occurred they were limited by the desire to limit or contain them as demonstrated in chapter five. In

this chapter I focus on the formation of a great power condominium where joint action is taken.¹ There was a link between the joint action of the companies and the psychological dimensions of foreign policy during crisis. The corporate joint action secured Anglo-Iranian's market position and made them reluctant to offer concessions. At the same time, from the perspective of American policymakers the effects of the boycott seemed to presage a communist takeover and the British would use this bogey to involve the Americans in a coup. The boycott also affected Musaddiq's responses.

In his mind the boycott was organised by the same imperialist power which penetrated the political system. To allow the company back would be to invite political slavery. Hence the return of the company was non-negotiable and the only issue to be decided was the compensation package. Even when the western states finally agreed to the exclusion of the company, he began to insist on a negotiated compensation package rather than international arbitration, since he feared that he would be removed by the British and the Iranian cause would not be properly represented. His failure to agree eventually alienated the Americans and they together with the British jointly executed a coup to remove him from office. Taking account of the dangers of hindsight and self-justification, I have referred to his Memoirs throughout this chapter as his psychological inflexibility was a major factor in the crisis.² The chapter divides into five sections, the first setting out the introduction and the second looking at the crucial economic background to the crisis. The third examines the political intrigues sponsored by the British and the fourth the international negotiations in which the Americans played an important part. Section five concludes this final empirical chapter.

¹Hedley Bull, The Anarchical Society: A Study of Order in World Politics (New York: Columbia University Press, 1977), 207.

²Dr Muhammad Musaddiq, Musaddiq's Memoirs: The End of the British Empire in Iran, trans. Homa Katouzian (London: Jebhe, 1988). ['Musaddiq' is sometimes transliterated 'Mossadegh'.] Jim Bamberg also suggests that Musaddiq's inflexibility was the main factor in the failure of the

8.2 ECONOMICS

Musaddiq's opponents tried to stimulate or mobilize resentments caused by economic difficulties arising out of the boycott. Among them was Senator Nikpur, the pro-Qavam chairman of the Chamber of Commerce.³ He arranged for the expression of the top merchants' dissatisfaction with the Government in the form of a critical and gloomy report which was read to the Shah on 22 April by the influential merchant Muhammed Reza Kharrazi on behalf of the Chamber of Commerce. In April 1953 Makki told a member of the United States Embassy that Musaddiq could not stay in office for more than two months as he needed to sell between five and eight million tons of oil to meet his "financial commitments".⁴

However, exports had been increased, bringing much-needed foreign exchange, and in January 1953 the Government had felt able to repeal the provision of 18 June 1948 which had barred foreign merchants from importing foreign goods to Iran; it also began issuing foreign trading licenses to encourage exports.⁵ In spite of the problems the United States Embassy continued to believe as late as August 1953 that the Government could "avert an acute financial crisis for an indeterminate period".⁶ Musaddiq himself argued that the fundamental problem was that Anglo-Iranian had earned five billion pounds from the concession, but given the Iranians only one hundred and ten million pounds. However, "without any oil revenues or foreign aid, the Government managed to run the country."⁷

negotiations. Jim Bamberg, The History of the British Petroleum Company, vol. 2, The Anglo-Iranian Years, 1928-1954, (Cambridge: Cambridge University Press, 1994), 489.

³PRO FO371 98599, Middleton to Eden, 28 April 1952.

⁴PRO FO371 104565, US Embassy Telegram, 10 April 1953.

⁵BP 58238, Law on the Encouragement of Exports and the Issuance of Permits for Engaging in Foreign Trade, 4 December 1952, and subsidiary legislation.

⁶PRO FO371 104569, US Embassy Report, 14 August 1953.

There is considerable disagreement whether the Iranians were able to cope with the sudden loss of forty per cent of Government revenue and two-thirds of foreign exchange earnings.⁸ Clawson and Sassanpour have argued that the currency devaluation, import quotas, and imposition of tariffs reduced imports and increased non-oil exports reducing the trade deficit to more manageable proportions. They argue that "by 1952/53, the economy was in a sustainable balance of payments and fiscal position without oil income. The quick adjustment was largely due to active economic policies of the Mossadegh Government."⁹ This interpretation has also been supported by Homa Katouzian and Mustafa Elm.¹⁰ The contrary view holds that the country fell into recession.¹¹ Moreover, an analysis of the economic data used to support the claim that the economy flourished shows that much of it is unreliable.¹² Both Majd and Dadkhah point to the link between the continuing economic crisis and political events. "While economic factors may not have caused the movement's failure, the disastrous economic conditions prevailing in the spring and summer of 1953 clearly set the stage for Mossadegh's overthrow."¹³ The loss of oil revenues was the fundamental economic factor.

⁷Musaddiq, Memoirs, 317-318.

⁸M.G. Majd, "The 1951-53 Oil Nationalization Dispute and the Iranian Economy: A Rejoinder," Middle Eastern Studies 31.3 (July 1995): 457.

⁹ Patrick Clawson and Cyrus Sassanpour, "Adjustment to foreign exchange shock: Iran, 1951-1953," International Journal of Middle Eastern Studies, 19.1 (February 1987): 2.

¹⁰ Homa Katouzian, "Oil Boycott and the Political Economy: Musaddiq and the Strategy of Non-oil Economics," in Musaddiq, Iranian Nationalism and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988): 203-227; Mustafa Elm, Oil, Power and Principle: Iran's Oil Nationalization and Its Aftermath (Syracuse: Syracuse University Press, 1992), 267-275; M. Hashem Pesaran, "The Iranian Exchange Rate Policy and the Black Market for Dollars," International Journal of Middle East Studies, 24.1 (February 1992): 106.

¹¹ Kamran Dadkhah, "The Oil Nationalization Movement, the British Oil Boycott and the Iranian Economy 1951-1953," in Essays on the Economic History of the Middle East ed. Elie Kedourie and Sylvia G. Haim (London: Frank Cass, 1988), 104-131.

¹²M.G. Majd, "The 1951-53 Oil Nationalization Dispute and the Iranian Economy: A Rejoinder," Middle Eastern Studies 31.3 (July 1995): 456.

¹³Kamran Dadkhah, "The Oil Nationalization Movement, the British Oil Boycott and the Iranian Economy 1951-53," in Essays on the Economic History of the Middle East ed. Elie Kedourie and

During the dispute the National Iranian Oil Company, with sales of only 132,000 tons of oil, generated less revenue than a single day's royalties from the Anglo-Iranian before nationalisation.¹⁴ Cassidy observes that, "In the two years that followed the nationalization, Iranian revenues were less than a single day's royalties under the old system."¹⁵ The majors did not merely passively refuse to handle the nationalised oil; they threatened all potential customers, whether private buyers or states with legal action for handling stolen goods.¹⁶ The companies also persuaded the Governments to support the boycott.¹⁷ The United States Government requested the American independents not to buy Iranian crude. "The companies had effectively defeated the nationalization itself with an effective boycott of Iranian crude oil."¹⁸ The boycott caused economic chaos in Iran which contributed to widespread discontent which the British tried to channel into political action. The appeal to the Senate by ninety guild representatives was regarded as a success.¹⁹ Dadkhah states that the oil boycott:

overwhelmed the Iranian economy, and Mossadegh's short-run policies proved inadequate. The country suffered from many economic ills: lack of foreign exchange, low level of income, recession, inflation and shortages...While economic factors may not have caused the movement's failure, the disastrous economic conditions prevailing in the spring and summer of 1953 clearly set the stage for Mossadegh's overthrow.²⁰

Sylvia G. Haim, 125; M.G. Majd, "The 1951-53 Oil Nationalization Dispute and the Iranian Economy: A Rejoinder," Middle Eastern Studies 31.3 (July 1995): 457.

¹⁴Christopher Tugendhat and Adrian Hamilton, Oil: The Biggest Business (London: Eyre Methuen, 1968), 141.

¹⁵Ralph Cassidy, Jr., Price Making and Price Behaviour in the Petroleum Industry, Petroleum Management Series (New Haven: Yale University Press, 1954), 176-177.

¹⁶Peter R. Odell and Luis Vallenillon, The Pressures of Oil: A Strategy For Economic Revival (London: Harper and Row, 1978), 27.

¹⁷BP 46596, London to Tehran, 12 August 1952.

¹⁸Mira Wilkins, "The Oil Companies in Perspective," in The Oil Crisis ed. Raymond Vernon (New York: W.W. Norton, 1976), 164.

¹⁹PRO FO371 98599, Middleton to Eden, 28 April 1952.

²⁰Kamran Dadkhah, "The Oil Nationalization Movement, the British Oil Boycott and the Iranian Economy 1951-53," in Essays on the Economic History of the Middle East ed. Elie Kedourie and Sylvia G. Haim (London: Frank Cass, 1988), 125.

Majd explains the reason for the crisis. "With a sudden loss of two-thirds of foreign exchange earnings and 40 per cent of Government revenue, Iran was faced with a grave economic crisis which required speedy solution. As the crisis dragged on and the months turned into years, the economic and political situation deteriorated. With no solution in sight, Musaddiq was abandoned by his erstwhile supporters."²¹ While this view suffers from economic determinism and minimises the role of British intrigues in the political crisis, if oil revenues had not been cut off a stronger economy would have provided more social and political stability.²² In the two years of the effective nationalisation, "sales amounted to 132,000 tons yielding less revenue than a single day's royalties under the old company."²³

Following the failure of the Stokes mission, examined in section 8.4 below, Anglo-Iranian issued a statement that it would protect its legal rights.²⁴ The embargo stayed firm and the company initiated legal proceedings in Aden, Italy, and Japan.²⁵ There was action in the Tokyo Court of Appeal to prevent disposal of oil shipped from Iran.²⁶ Hungary and Poland had wanted to purchase half a million tons of cut price oil, but the control of

²¹M.G.Majd, "The 1951-53 Oil Nationalization Dispute and the Iranian Economy: A Rejoinder", Middle Eastern Studies, 457.

²²Indeed, some writers do believe that Musaddiq's counter-measures had effectively stabilised the economy, in spite of the loss of oil revenues. For them the coup is explained in purely political terms, rather than as a combination of political and economic factors. They include Patrick Clawson and Cyrus Sassanpour, "Adjustment to Foreign Exchange Shock: Iran, 1951-1953," International Journal of Middle East Studies 19.1 (February 1987): 1-23; Homa Katouzian, "Oil Boycott and the Political Economy: Musaddiq and the Strategy of Non-oil Economics" in Musaddiq, Iranian Nationalism, and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988), 203-27; Mustafa Elm, Oil, Power and Principle, 267-275.

²³Christopher Tugendhat and Adrian Hamilton, Oil: The Biggest Business (London: Eyre Methuen, 1968), 141.

²⁴BP 100652, London to Athens, 5 September 1951.

²⁵BP 71837, 1951 Dispute. The Chairman's Statement to Stockholders in the Annual Reports of 1948, 1949, 1950, 1951, 1952 regarding the Company's interests in Iran; with a chronology of main events from 1948 to May 1953, 9 May 1953, p.23; Homa Katouzian, "Oil boycott and the political economy" in Musaddiq, Iranian Nationalism and Oil ed. James A Bill and William Roger Louis, (London: I.B. Tauris, 1988), 208.

²⁶BP 66260, Green copy, 22 September 1953.

tankers proved decisive.²⁷ The company made precautionary investigations into legal action in the United States.²⁸ However, the attitude of the United States Government to the embargo was sympathetic. "Truman and Eisenhower believed it was necessary to rely on the major firms and understandably so considering that these firms were the only ones in the 1950s with established facilities for refining and distributing Mideast oil."²⁹ This belief led the United States Government to continually lessen the charges in the cartel case brought by the Justice Department in 1953 till by 1968 the case was finally closed without any serious action having been taken. "The history of the cartel case makes clear just how successful the large integrated firms were in controlling the flow of oil from the Mideast. In this respect it underlines the mutuality of interests between Government and oil in the 1950s and 1960s and oil's ability to harness public concerns for private ends...prosecution of the Mideast multinational giants was made subordinate to a perceived Soviet threat in the Third World...In this way the Cold War was able to intrude into the domestic affairs of the United States."³⁰

However, the significance of the majors working together was not only in the bankrupting of the Iranian state; it was also in the prevention of disruption to global markets and distress to the Anglo-Iranian. "The key element in upsetting the nationalization attempt of the Iranians was the ability of the larger oil companies to mobilise production elsewhere in the world."³¹ The terms of the long-term contracts analysed in the previous chapter were varied so as to accommodate increased production from Kuwait, Iraq, and Qatar in place of Iran, purchasing from other sources, and hiring

²⁷BP 18486, New York Times, January 31 1952.

²⁸BP 69514, Possibility of legal action in the United States challenging title to oil based upon nationalization of company's properties in Iran, March 1953.

²⁹B. I. Kaufman, The Oil Cartel Case: A Documentary Study of Antitrust Activity in the Cold War Era (Westport, CT: Greenwood Press, 1978), 14.

³⁰Ibid., 12.

³¹Ralph Cassidy Jr., Price Making and Price Behaviour, 177.

refineries. For this the company was well placed. Not only was Fraser very influential in the Iraq Petroleum Company, but he also had great influence in the Kuwaiti industry, "From the beginning of drilling in the 1930s right up until 1970 there was no control over the operating practises of the oil companies."³² While Anglo-Iranian was deprived of fifteen millions tons of Iranian crude, sales in 1950 were only down by two millions tons from thirty-eight and a half million tons.³³ The disruption to business was minimised. For example, a crude oil exchange was discussed with Caltex involving crude from Sumatra in the Netherlands East Indies, which might result in large freight savings for joint benefit.³⁴ At the same time, there was discussion of the use of force majeure clauses and the availability of crude from Kuwait.³⁵ A legal opinion from 1951 had observed that unless there was a permanent deprivation from Iran, there was no issue of frustration of the contracts.³⁶ However, in spite of the general difficulty of the full load of production falling on Kuwait, force majeure clauses signalled the willingness of the companies to work around the changes.³⁷ Other subsidiaries also played a full role, in collaboration with the other companies. The Commonwealth Oil Refineries in Australia was a subsidiary of Anglo-Iranian and Burmah-Shell group helped distribution in India and Pakistan.³⁸

³²Youssif S. Fadel Al-Sabah, The Oil Economy of Kuwait (London: Kegan Paul, 1980). Due to this control Fraser could refer to the Kuwait Oil Company as the Sheikh's private property. BP 67013, Kuwait Oil Company January 1941-December 1944, Fraser to H.H. Shaikh, 10 November 1944 "your oil company." For more information on Anglo-Iranian's position in the Persian Gulf and Fraser's importance within the Iraq Petroleum Company, see section 7.5 in chapter 7.

³³BP Search Room, Anglo-Iranian Oil Company, Limited: Annual Report and Accounts, 31 December 1951, 29.

³⁴BP 66259, H.E. Snow to W.D. Brown, 11 August 1952.

³⁵BP 66259, H.E. Snow to C.H.W. Smith, Jersey/ Socony-Vacuum contracts, 11 August 1952.

³⁶BP 113393, Linklaters and Paines, "Joint Opinion," 9 August 1951.

³⁷H.E. Snow memorandum, Jersey and Socony-Vacuum main crude oil contracts, 11 September 1951, BP 113393. The Jersey and Socony-Vacuum contracts had set out a specific procedure for calculating the amount of oil which would be delivered to the buyers if there was a problem due to force majeure.

³⁸BP 30852, E.L. Lomax, "Anglo-Iranian Oil Company Ltd. Expands Activities to Compensate for Iran Losses," reprinted for World Petroleum, December 1951.

The companies had an important economic role to play in the rebuilding of the European and Japanese economies, but oil was also a strategic commodity. In 1950, the Korean war broke out and aviation fuel became very important. Abadan produced forty per cent of the total produced in friendly foreign states. The Petroleum Emergency Committee was the first voluntary agreement operating worldwide under the auspices of the Defense Production Act. The chairman of operations was Stewart P. Coleman, vice president and director of Jersey, and the vice chairman was A.V. Long of Texas.³⁹ During the Korean War greater amounts of petroleum products were consumed in the Far East. The companies were asked to arrange the logistics of supply. They agreed to do so jointly, thereby requiring the Government to ignore the antitrust laws. By developing a common strategy in negotiations they were able to get the National Security Council to decide in August 1953 that the enforcement of antitrust laws was secondary to national security. The cases lodged under these laws were modified from criminal to civil cases and then abandoned altogether.⁴⁰

“The permeability of oil has extended throughout the peacetime machinery of the federal bureaucracy...The number of public officials with oil backgrounds or relations could begin with former Secretary of State John Foster Dulles. Until 1949 he was the senior member of Sullivan and Cromwell, the major law firm for the Jersey Standard empire...Herbert Hoover, Jr., a petroleum engineer and director of Union Oil whose major associations have been with oil, was the State Department’s representative in the secret Iranian negotiations. He later became Undersecretary of State and was involved in questions of Middle Eastern policy and represented his Department in many of the top-

³⁹Shoshana Klebanoff, Middle East Oil and U.S. Foreign Policy (London: Praeger Press, 1974), 86-90.

⁴⁰Mira Wilkins, “The Oil Companies in Perspective,” in The Oil Crisis ed. Raymond Vernon (New York: W.W. Norton, 1976), 164-165.

level Suez arrangements.”⁴¹ Kermit Roosevelt who played a significant role in the coup which removed Musaddiq discussed below, left the Central Intelligence Agency (CIA) and joined Gulf, one of the members of the consortium which replaced Anglo-Iranian’s concession, as Government relations director and in 1960 became a vice-president.⁴²

The expansion of the interests of the United States majors in the late 1940s and 1950s supported and was supported by greater United States strategic interest in the Persian Gulf. The action in Iran in 1946 and 1953 was part of a wider picture including the Aramco settlements, the Onassis affair and the Egyptian military advisors in Saudi Arabia, the Buraimi Oasis dispute, and responses to attempted arms sales by the Eastern Bloc.⁴³ The continuing tension between Anglo-American oil interests and Soviet interests, particularly in Azerbaijan was a factor in the creation of CENTO in 1955.⁴⁴ Oil was a factor in containing the Soviet Union by justifying military force to exclude it from the Middle East, while preventing Western European dependency on energy supplies from the Soviet Union. It limited conflict among the capitalist core as the oil-dependency of Japan and Germany provided the United States with leverage, it reduced class conflict through boosting recovery, and managed the incorporation of the periphery into the core through the oil majors backed, when needed, by parent Governments in spite of the end of formal European colonisation.⁴⁵

⁴¹Robert Engler, The Politics of Oil. A Study of Private Power and Democratic Directions (Chicago: University of Chicago Press, 1961), 310.

⁴²Richard O’Connor, The Oil Barons: Men of Greed and Grandeur. (Hart-Davis MacGibbon: London, 1972), 381.

⁴³Dissertation Abstracts, Moira de Moraes Ruehsen, The Advent of American Hegemony in the Persian Gulf, 1953-1956, Ph.D. diss., John Hopkins University, 1992.

⁴⁴ Peter R. Odell, Oil and World Power (Middlesex: Penguin Books, 1986), 203.

8.3 BRITAIN'S PARLIAMENTARY CAMPAIGN

Pressure for a review of the 1933 Anglo-Iranian concession grew after the Azerbaijan crisis. Just as the rejection of a Soviet concession was associated with the territorial integrity of the country, so it was hoped that the removal of Anglo-Iranian would eliminate British political interference in support of the company. "Their most fundamental grievance was that the company had not only turned an important part of the country into almost an autonomous colony, but that it indirectly ran the country as well."⁴⁶ It was hoped that revenues might increase as between 1915 and 1950 the company enjoyed profits of six hundred and thirteen million dollars, paying the British Government three hundred and sixteen million dollars in tax.⁴⁷ In 1948, out of profits of sixty-one million pounds, Iran had received nine million while the British Government received twenty-eight millions. Musaddiq and other nationalists made much of this.⁴⁸

After the Iranians secured access to Anglo-Iranian records in Tehran there were many claims about 'revelations' concerning bribes paid to deputies and other corruptions but these papers were never revealed to public scrutiny. The British Ambassador Shepherd noted how there was a note in a company safe, written by a company manager to the London Office stating it had been possible to "manage[d] to remove to safety or destroy some of the papers." Shepherd himself claimed that, "As you are no doubt aware, most of the important and compromising documents are now lodged in my archives."⁴⁹ The allegations against the company in the pre-1951 years are certainly not proven. Nevertheless, as the British Governmental interest in Iran was seen to focus on the

⁴⁵Simon Bromley, American Hegemony and World Oil (Oxford: Polity, 1991).

⁴⁶Homa Katouzian, Musaddiq and the Struggle For Power in Iran (London: I.B. Tauris, 1990), 64.

⁴⁷Fred Halliday, Iran: Dictatorship and Development (Harmondsworth,; Penguin, 1979), 141.

⁴⁸Musaddiq, Memoirs, 312.

concession the company was held responsible for the British penetration of the political system for the exclusion of the company would also remove British political involvement. For Musaddiq the issue was political, not economic. His aim was "getting rid of the domination of a great world power and recovering our freedom and independence."⁵⁰

Mustafa Fateh was the most important Iranian employed by the company. He had worked in distribution, administration, and was the Adviser and Consultant on Employee Relations in 1950.⁵¹ His views are interesting insofar as they differ in tone and substance from those of the British employees of the company. There was a nationalist dimension to the crisis, even for a company man like Fateh. He argued that the real struggle was with the Tudeh rather than Musaddiq. In any event a rightist Government would not be accepted and so "it is in the interests of all parties including Britain and the Anglo-Iranian to see that Mossadegh does not fail."⁵² He noted that Musaddiq believed that "the British dislike him intensely and will do their utmost to oppose him."⁵³ He claimed that if negotiations failed Musaddiq would undercut prices and offer supplies to the Soviet Union, India, and Japan. Britain must overcome anti-British feeling by abandoning reactionary elements in the opposition and support the Shah in constitutional roles only. Traditional pro-British politicians such as Sayyid Zia should be avoided, as he was "too much of a man wrapped up in the Union Jack."⁵⁴

The British actually acted in the opposite manner, in part because of their low view of the Iranians. "The great majority of Persian staff are deficient in ability and lacking in initiative compared with the average British employee. These disqualifications,

⁴⁹BP 112232, Shepherd to Foreign Office, 2 July 1951.

⁵⁰Musaddiq, Memoirs, 316-317.

⁵¹Jim Bamberg, History of the British Petroleum Company, 598.

⁵²BP 9249, Fateh to Gass, 13 May 1951.

⁵³BP 9249, Fateh to Gass, 12 May 1951.

combined with the fact that they are serving in a foreign concern entirely governed by foreign methods, customs and language, creates an inferiority complex.”⁵⁵ At this time there was a suggestion for “encouraging by promotion staff who show an aptitude for cooperating with Iranians and for encouraging British staff to learn Persian.”⁵⁶ A company director, Edward Elkington, whose responsibilities in Iran involved management had little trust in the Iranians. He regarded them as “the most tricky and machiavellian people on earth.”⁵⁷

The British credited neither the nationalist feeling of the Iranian people nor their ability to manage operations, which perhaps explains why it took two years before the company agreed to be excluded from Iran, the sole issue to be the level of compensation. British policy was influenced by the Americans but also by the company. As Louis puts it, “can British policy be aligned with that of the United States and, just as important, the policy of the Anglo-Iranian Oil Company?”⁵⁸ The other companies managed world production to limit the loss to Anglo-Iranian, which made them less flexible. But both firm and state shared in “the distorted perceptions that dominated the thinking of each side.” The British regarded the Iranians as backward and self-destructive, while the Iranians regarded the British as “satanically clever and shrewd manipulators.”⁵⁹ Musaddiq shared this perception and regarded the British as responsible, in particular, for the weaknesses of the Iranian political system.

⁵⁴BP 9249, Fateh to Gass, 27 March 1951.

⁵⁵BP 71069, Memorandum by Mr L.C. Rice on a discussion held in London on 26 October 1943.

⁵⁶BP 71069, J.M.Pattinson to Sir William Fraser, 28 February 1944.

⁵⁷BP 43859, Edward H.O. Elkington to Fraser, 19 August 1951.

⁵⁸William Roger Louis, “Musaddiq and the Dilemmas of British Imperialism,” in Musaddiq, Iranian Nationalism, and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988), 232.

The political structure of Iran was a major factor during the crisis. The pattern of weak executive authorities at the mercy of the Majlis resulted in many short-term ministries between 1946 and 1951. The Majlis was the lower house and together with the Senate comprised the legislative power. The Shah was required to approve legislation and appoint the Prime Minister. However, the Majlis was intended to be an advisory body to the Shah, rather than an executive authority. Thus, the procedures of the Majlis were easily manipulated to prevent stable governance, for instance, by breaking the quorum. The weak ministries from 1941 to 1953 reflected the lack of parties or other forms of organised groups in the Majlis. Hence, no stable parties had developed in Iranian politics which was factional, based on competing leaders with no fixed ideology. This reflected and contributed to the failure to develop any ideological consensus about how to fit into the modern world.⁶⁰ The structural weakness of the Majlis and Senate enabled the Royal Court and the British Embassy to maintain an important role in manipulating the Majlis to control the executive.

The Labour Government's policy limiting dividend payments was a response to Britain's fiscal crisis, but it caused distress insofar as the Iranian Government received a sum equal to twenty per cent of the dividends paid by the Anglo-Iranian Oil Company to its ordinary shareholders over the amount of £671,250.⁶¹ Dividend limitation acted as a catalyst for re-negotiations of the 1933 concession agreement. From June 1948 there were a series of discussions culminating in the Supplemental Agreement of 17 July 1949. Musaddiq, the leader of an ideologically diverse, nationalist mass movement called the National Front, filibustered discussion of the Agreement in the Majlis. There was a delay

⁵⁹James A. Bill, "America, Iran and the Politics of Intervention, 1951-1953" in Musaddiq, Iranian Nationalism, and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988), 263.

⁶⁰Fakhreddin Azimi, Iran: The Crisis of Democracy, 1941-1953 (London, I.B. Tauris, 1989), 341-344.

till after the next election and then it was decided to refer the matter to a parliamentary commission. Its report of December 1950 opposed the bill and the Supplemental Agreement was withdrawn from the Majlis.⁶²

Until December 1950 the terms of the concession agreements and the receipts from the companies in Iran and Saudi Arabia compared favourably to the Iranians.⁶³ But as the 50-50 agreement between Aramco and the Saudi Government had become public knowledge, it became clear that the terms of the Supplemental Agreement would no longer suffice. While Anglo-Iranian had previously offered 50:50 profit sharing terms these had not been made public by the Iranian Government. Even if they were revealed and offered again, it would seem like a belated response by the company to the Saudi Arabian agreement. Moreover, the reaction of the British Government was to try and change the administration in Iran. Court involvement in a backstairs intrigue was expected to result in the pro-British Sayyid Zia becoming Prime Minister. However, Musaadiq was offered the premiership because of the wide support for the National Front. He was expected to refuse and a variety of elder statesmen with close links with the British including Hussein Ala and Sayyid Zia were discussing the premiership with the Shah when Mussadiq accepted office.⁶⁴

Musaddiq's sole purpose in assuming the premiership was to ensure the passage of the nationalisation bill.⁶⁵ This bill comprised the recommendation of the oil committee which Musaddiq had presided over. In spite of British threats the Majlis passed the bill on

⁶¹ Benjamin Shwadran, 3d rev. ed., The Middle East, Oil and the Great Powers (New York: John Wiley, 1973), 56.

⁶² BP 97944, A brief review of events leading upto the present situation of the AIOC in Iran, 10 May 1951, 2-4.

⁶³ BP 55190, A brief review of events leading upto the present situation of the AIOC in Iran, 7.

⁶⁴ PRO FO 371 91456, Shepherd to Foreign Office, 28 April 1951; Musaddiq, Memoirs, 1988, 264-5.

28 April 1951. Meanwhile strikes hit Abadan, which was the site of the largest oil refinery in the world, but which also constituted Britain's greatest single overseas investment.⁶⁶ On the 1 May 1951, the Oil Nationalisation Law comprising nine articles was passed.⁶⁷ Musaddiq found a method to deal with the opposition in the Majlis by holding confidence motions to flush out the opposition and confirm the mandate for the nationalisation. Thus, on 20 June 1951 the Shah and Sayyid Zia managed to break the quorum. However, by the afternoon the Majlis had unanimously cast a vote of confidence for Mussadiq and, by proxy, for his oil policy.⁶⁸ The vocal parliamentary opposition to Mussadiq constituted only a fragment of the opposition whose main activity was advising the British Embassy to offer the Shah decisive advice and to press him to act.⁶⁹ Advisers included Dr Hasan Imami (Imam Jum'ih) and Hikmat, the Speaker of the Majlis, who suggested appointing a few hundred assassins in order to overthrow Mussadiq.⁷⁰ A crucial link between the opposition and the Embassy was provided by Robin Zaehner, the Press Attache in Tehran from 1943 to 1947, and from 1952, Spalding Professor of Eastern Religions and Ethics at the University of Oxford. During the Azerbaijan crisis he had followed the technique of mobilising "public opinion from the bazaars upwards about the dangers of Russian penetration."⁷¹

The British believed that such tactics could succeed because they believed that the nationalism was artificial. Shepherd claimed that to conceive of Iranian nationalism as a

⁶⁵Mussadiq, Memoirs, 265.

⁶⁶BP 68908, Diary of Events, General Strike, Abadan, April 1951; Jim Bamberg, History of the British Petroleum Company, 513.

⁶⁷BP 66232, Persian Constitutional Background Affecting Oil Negotiations, Appendix D, Oil Nationalisation Law, 1 May 1951.

⁶⁸Fakhreddin Azimi, Iran: The Crisis of Democracy, 261.

⁶⁹PRO FO371 91462, Minute by Pyman, 29 August 1951; *ibid.*, Minute by Pyman, 5 September 1951; *ibid.*, Minute by Pyman, 30 August 1951; *ibid.*, Minute by Pyman, 19 December 1951.

⁷⁰PRO FO371 91462, Minute by Pyman, 8 September 1951; *ibid.*, Minute by Jackson, 13 December 1951.

⁷¹PRO FO371 91548, Minute by Berthoud, 15 June 1951.

“coherent and positive movement of national regeneration” was a false premise for policy formulation.⁷² This view was not shared by the Americans or the Shah who both treated the nationalist mood as real, rather than feigned. The Shah refused to oppose Musaddiq and support the British protege, Sayyid Zia. He would not tell the people that he had appointed him Prime Minister “because London wanted it.”⁷³ However, the Foreign Office wrote to Attlee: “It has been our objective for some time to get Sayyid Zia appointed Prime Minister. We now have a chance of securing this objective and it should not be lost.”⁷⁴ Attlee approved the suggested action.⁷⁵ While Shepherd contacted the Shah to recommend Sayyid Zia, the United States regarded Sayyid Zia’s chances as being “virtually nil.”⁷⁶

The Shah refused to support Sayyid Zia which gave impetus to Qavam’s efforts. Qavam’s effort against the Soviet oil concession made the British suspicious so the Embassy asked to see his programme, and he provided a signed letter containing the details of his policies, which included a promise to solve the oil issue on the basis of a 25:75 arrangement.⁷⁷

However, opposition to Musaddiq ceased in the Majlis and in the Senate, Sa’id Taqizadieh, the president of the Senate, opposed both Sayyid Zia and Qavam and thus in

⁷²PRO FO371 91463, Shepherd to Foreign Office, 4 September 1951. See further PRO FO371 91464, Shepherd memorandum, “A comparison between Persian and Asian nationalism,” 11 October 1951.

⁷³PRO FO248 1514, Minute by Pyman, 22 September 1951.

⁷⁴PRO FO371 91463, Bowker to Attlee, 2 September 1951.

⁷⁵PRO FO371 91463, Prime Minister to Strang, 3 September 1951.

⁷⁶PRO FO371 91462, Frank in Washington to Foreign Office, 4 September 1951.

⁷⁷PRO FO371 91465, Middleton to Foreign Office, 16 November 1951. According to Middleton the figure 25:75 was submitted for bargaining purposes and what Qavam actually had in mind was a 50:50 arrangement.

effect supported Musaddiq.⁷⁸ He had signed the 1933 agreement against his will, a claim he made in 1948 and repeated in 1952. He was well educated and at one time worked as a lecturer in the School of Oriental Studies in London.⁷⁹ In 1933 there had been a new agreement between the company and the state, since negotiations for a mutual revision of the terms of the original concession of 1901, which started in 1928, were abruptly ended by the unilateral cancellation of the concession in 1932 by the then Shah, Reza Khan.⁸⁰ An angry series of letters were exchanged between Taqizadih and Fraser. It was reported that Sir William Fraser had said that, “if he Taqi-adih [sic] did not sign the Concession by his free will why then he accepted a commission with the permission of the Shah.”⁸¹ [underlined in original.] In contrast to many prominent members of the elite, Taqizadih favoured continued British negotiations with Musaddiq and had the moral courage and integrity to reject the legitimacy of the British Embassy's anti-Musaddiq interventions. In the face of efforts by Shepherd to enlist his cooperation in anti-Musaddiq efforts, he stated: “No Persian Ambassador at the Court of St. James would recommend the King to change his Government.”⁸²

The seventeenth Majlis convened on 27 April 1952. Musaddiq suspected foul play and sought to exclude new members with no “local standing”. This oblique reference was particularly aimed at Imam Jum’ih, who had with royal support been ‘elected’ from Mahabad, where he had ‘never set foot [in] his life’.⁸³ However, the majority of deputies were working for his election as Speaker of the Majlis, and the British Embassy and

⁷⁸PRO FO248 1514, Minute by Pyman, 20 September 1951; *ibid.*, Minute by Pyman, 25 September 1951; *ibid.*, Minute by Pyman, 21 October 1951.

⁷⁹Homa Katouzian, Musaddiq and the Struggle for Power in Iran, 46.

⁸⁰Jim Bamberg, History of the British Petroleum Company, 33-34, 41-47.

⁸¹BP 79663, Folder 30, Iran, S.H. Taqizadih to Fraser, 10 August 1949, handwritten letter.

⁸²PRO FO248 1514, Minute by Shepherd, 22 September 1951.

⁸³PRO FO371 98599, Middleton to Eden, 5 May 1952.

Sayyid Zia supported Imam Jum'ih's speakership.⁸⁴ Moreover, far from yielding to Musaddiq's pressure to ask Imam Jum'ih to withdraw his candidature, the Shah actually encouraged him to remain a candidate.⁸⁵

Imam Jum'ih was a supporter of Qavam but Zaehner, having eventually realized the extent of British unpopularity, stated that "I think it would be a tactical mistake to do any overt campaign on behalf of Qavam; we did this with Sayyid Zia and this did him no good."⁸⁶ At the same time Musaddiq was considering the removal of Imam Jum'ih from the chair of the Majlis.⁸⁷ Realizing that such deadlock would make his failure inevitable he introduced a bill for plenary powers. The bill was unacceptable to the Shah.⁸⁸ In turn, Musaddiq offered his resignation which was accepted. Immediately after Musaddiq's resignation had been publicized, in a hastily convened and inquorate Majlis, forty out of forty-two deputies cast their 'vote of inclination' for Qavam, who was then formally appointed Prime Minister by the Shah, but since the Majlis contained a considerable number of deputies loyal to Musaddiq, Qavam could not hope to achieve anything with the Majlis in session. But the Shah refused to dissolve the Majlis. British charge d'affaires Middleton and the new American ambassador Loy Henderson persuaded Qavam to concentrate on specific measures to consolidate his position.⁸⁹

The replacement of Henry Grady with Henderson marked a shift in policy in Iran. He reduced all events to the zero sum conflict of the Cold War. "Henderson always viewed events in the Middle East in terms of their impact on the ideological and political

⁸⁴PRO FO248 1531, Minute by Zaehner, 15 May 1952. Sayyid Zia wrote a speech for Mihdi Mir-Ashrafi, the staunchly anti-Musaddiq deputy, for the purpose of attacking the credentials of the National Front deputies.

⁸⁵PRO FO248 1531, Minute by Middleton, 9 June 1952; *ibid.*, Minute by Falle, 20 June 1952.

⁸⁶PRO FO248 1531, Minute by Zaehner, 11 June 1952.

⁸⁷PRO FO248 1531, Minute by Middleton, 10 July 1952.

⁸⁸PRO FO371 98600, Middleton to Foreign Office, 17 July 1952.

balance of power between the United States and the Soviet Union".⁹⁰ He was director of the office of Near Eastern and African Affairs from 1945 and insisted that containment be applied in the Middle East, beginning with the Azerbaijan crisis of 1946. His biographer has argued that a despatch, 'The Present Situation in the Near East - A Danger to World Peace', "was to American policy for the Middle East what George Kennan's more celebrated 'long telegram' of two months later would be to American relations with the Soviet Union".⁹¹ Ignoring the possible exaggeration, it is clear that Henderson's appointment to Iran resulted in the crisis being seen through anti-communist lens which made covert actions more likely. Musaddiq assessed Henderson as "a highly effective instrument of British policy in Iran." He explained how Henderson was involved in a plot on his life.⁹² Such a perspective made it more difficult to trust an American-brokered proposal. But his reluctance to come to terms was to backfire as the Americans began assessing him as untrustworthy.

Qavam secretly ordered the arrest of Ayatollah Kashani, an important ally of Musaddiq, who had been stirring popular feelings against Qavam and had refused a choice of six ministries in his Cabinet. However, news of the arrest was broadcast by the BBC on 19 July, well before the planned day of implementation. The report did considerable damage since it was taken "as an expression of what HMG" would have "liked Qavam to do", thus making it more difficult for Qavam to take any action against Kashani.⁹³ On 21 July 1952 masses of ordinary people came out and returned Musaddiq. Henderson was sure that these events were organized by the Tudeh and that there was a

⁸⁹PRO FO371 98600, Middleton to Foreign Office, 17 July 1952.

⁹⁰H.W. Brands, Inside the Cold War: Loy Henderson and the Rise of the American Empire, 1918-1961 (New York: Oxford University Press, 1991), 122

⁹¹ H.W. Brands, Inside the Cold War, 141.

⁹² Musaddiq, Memoirs, 272, 273-4.

⁹³PRO FO371 98601, Middleton to Ross, 21 July 1952.

“formal understanding” between the National Front and the Tudeh Party.⁹⁴ On 22 July the International Court of Justice decided that they had no jurisdiction in the case. The same day Musaddiq got permission to enact legislation without Majlis approval for six months.⁹⁵ The British now decided that their best tactic would be to convince the Americans that if Musaddiq remained in office there would eventually be a communist take-over, and behaved as if they genuinely believed in their frequently reiterated prognosis.⁹⁶

While Musaddiq's popular support waxed, the unity of the National Front diminished. Zaehner claimed credit for the disunity in the ranks of the National Front which “was due to other factors, and these factors were created and directed by Brothers Rashidian.”⁹⁷ The three Rashidian brothers were pro-British political activists. The most serious breach was with Ayatollah Kashani. Kashani regarded his role in the July uprising as crucial, and expected increased powers. When these were not forthcoming he began to oppose Musaddiq.

After the resignation of Imam Jum'ih, Musaddiq's opponents rallied behind Kashani to secure his election as Speaker and since Musaddiq's followers could not openly contest his candidature, Kashani was elected by 47 votes out of 62.⁹⁸ Musaddiq had initially cooperated with Kashani in order to counterbalance his opponents' exploitation of religious forces, and in the early stages of the nationalist movement this had proved rewarding. Now, however, Kashani and his followers invoked religiously loaded issues in

⁹⁴PRO FO248 1531, Minute by Middleton, 22 July 1952.

⁹⁵BP 58238, No.10726 Royal Command for extension of grant of Special Powers, 16 August 1952. Musaddiq, *Memoirs*, 331-6.

⁹⁶PRO FO248 1531, Minute by Falle, 4 August 1952.

⁹⁷PRO FO248 1531, Minute by Zaehner, 15 May 1952.

⁹⁸PRO FO371 98603, Middleton to Eden, 11 August 1952.

order to extract concessions from and to put pressure on the Government itself.⁹⁹ The violent extremist Fida'iyan-i-Islam continued to threaten Musaddiq, who was virtually a prisoner in his own home, and Kashani, who could no longer restrain them.¹⁰⁰ Kashani had become so opposed to Musaddiq that the British and the Americans did not discount the possibility that he might become premier.¹⁰¹

Kashani argued that the Majlis would give the Shah its overwhelming support if Musaddiq attacked him, and mentioned General Zahidi as a successor.¹⁰² Faced with pro-Shah demonstrations Musaddiq was forced to leave the palace and his own home on 28 February 1953. The Association of Retired Officers played a role haranguing the crowds that Musaddiq had forced the Shah to leave, wanting to remove him from the throne.¹⁰³ The Americans and the British did not deny that the demonstrations were staged.¹⁰⁴ Musaddiq's pressure on the Shah had provided Kashani with a "heaven-sent opportunity" to recover lost ground.¹⁰⁵ Musaddiq regarded the meeting as a set-up between the Shah and Henderson aimed at his assassination.¹⁰⁶

The royalist demonstrations of 28 February were a proto-coup. The younger Zahidi had informed the American Embassy that his father, General Zahidi, might soon

⁹⁹H. Katouzian, Musaddiq and the Struggle, chap. 12. Also, Shahrough Akhavi, "The role of the clergy in Iranian Politics, 1949-1954" in Musaddiq, Iranian Nationalism, and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988), 91-117.

¹⁰⁰PRO FO248 1531, Minute by Zaehner, 16 February 1952.

¹⁰¹PRO FO371 104565, One Foreign Office official, however, stated that "Neither we nor the Americans see any hope in Kashani as a successor to Musaddiq, nor, a priori, do we see any sense in assisting him to power." Minute by Rothnie, 11 May 1953.

¹⁰²PRO FO371 104563, US Embassy Telegram, 22 February 1953.

¹⁰³PRO FO371 104563, Minute by Rothnie, 3 March 1953.

¹⁰⁴Ibid., Minute by Rothnie, 2 March 1953.

¹⁰⁵PRO FO371 104563, Minute by Rothnie, 2 March 1953.

¹⁰⁶ Musaddiq, Memoirs, 273-4; 343-8.

become Prime Minister and “had already allocated portfolios in his Cabinet”.¹⁰⁷ Zahidi “had agreed to present his undated resignation to the Shah in advance so that, should the Shah be displeased with him, he could dismiss him at any time”. His information was that Zahidi was backed by Kashani, “influential political leaders not connected with the movement” and also by “many mullahs”. He recommended that support for him be demonstrated quickly.¹⁰⁸

Faced with a Majlis which was being used to prevent governance, rather than shape it, Musaddiq was compelled to seek a referendum to dissolve it. Altogether, over 2,400,000 votes were cast in favour of the dissolution of the Majlis, with only a negligible number against.¹⁰⁹ While it constituted an overwhelming vote of confidence for Musaddiq it also represented a tremendous opportunity for those who wanted a coup, for the referendum had been widely lambasted as unconstitutional. The Shah could pose as defender of the constitution against tyranny. Furthermore, having been guaranteed an exit from the country by the western powers should the coup fail, the Shah agreed to sign two decrees. The first was for the dismissal of Musaddiq, while the other was for the appointment of Zahidi. Musaddiq was aware that action was being taken but given the degree of penetration of the intrigues he was unable to suppress the coup.¹¹⁰ Musaddiq, in particular, continued to see these intrigues as essentially British. The Americans, by definition, were an anti-colonial power. Thus, Henderson was explained away as an aberration. Musaddiq claimed that, “for reasons which are not clear, America who herself had suffered our fate two centuries earlier, traded the freedom of a nation such as this for a

¹⁰⁷PRO FO371 104562, Minute by Rothnie, 24 February 1953.

¹⁰⁸Ibid., Top Secret Memorandum, 7 April 1953. According to this report, “Ala said that Kashani supported Zahidi...but he hesitated to go all out. While giving lip-service, both appear to maintain a position which would allow them to plead non-involvement should the attempt to overthrow Musaddiq by peaceful or other means fail.”

¹⁰⁹PRO FO371 104569, Foreign Office Minute, 15 August 1953. Musaddiq, Memoirs, 291-292.

¹¹⁰PRO FO371 104570, Minute by Bowker, 19 August 1953.

40 per cent share in the consortium.”¹¹¹ The consortium he is referring to is the one which replaced the one held exclusively by Anglo-Iranian during the first half of the century. Musaddiq’s misperceptions complicated the international negotiations.

8.4 INTERNATIONAL NEGOTIATIONS

Since the Azerbaijan crisis the United States had taken an increasing interest in Iran. As the crisis loomed the British began to talk to the United States. The British held their first meeting with the State Department on 9 April 1951. They indicated that they had two objectives: to maintain the period of the concession and keep control of the asset, whatever the final form of the agreement with regard to profits or administration. Apart from the need to maintain sanctity of contracts, oil was vital to common defence, balance of payments and, therefore, British rearmament. George McGhee, Assistant Secretary for Near Eastern, South Asian and African Affairs, replied that the Americans were primarily concerned to prevent the loss of Iran to the Soviets and felt that there was more depth to Iranian nationalism than the British accepted. It might be necessary to “make a bow” or pay “lip service” to nationalisation.¹¹²

The Americans regarded Iranian nationalism as a real force whereas the British did not. The Americans proposed an Iranian company which would maintain a contract with the company. This would allow the company to control production, share half of the profits, and have costs and capital outlays reimbursed. They were concerned that the British did not go beyond the benchmark of the 50:50 profit share. They wanted to present

¹¹¹Musaddiq, Memoirs, 350.

¹¹²BP 100557, Anglo-U.S. talks On Persia in Washington, 10 April 1951, 1- 3.

a joint proposal which they could support but they would not do anything to hinder or embarrass the British if the latter went ahead with a scheme of their own.¹¹³

Musaddiq was aware of the international dimensions. He had calculated that if the 1933 concession were cancelled, the concession agreement contained clauses which would lead to international arbitration which Iran might well lose. However, nationalisation was an act of sovereign immunity recognised in public international law. He, therefore, proposed nationalisation with compensation.¹¹⁴ The passage of the Nationalisation Law by the Majlis, Senate and Shah set up mechanisms for the implementation of nationalisation. The British Government responded by instituting proceedings before the International Court of Justice (ICJ) at the Hague.

On 29 May Musaddiq met British Ambassador Shepherd and the American Ambassador Grady. He wished them to understand that the nationalisation could not be legally challenged as it was the act of a sovereign nation. This essentially political point was central. What his guests saw was his apparent economic delusion. He seemed to think that it would be possible to sell oil directly to countries, without any marketing organisation; that specialist British technicians could be easily replaced by Iranians; and that financial losses caused by the shutting down of production could be borne by Iran.¹¹⁵ But Iran was making attempts to attract new technicians and markets. For instance, 2,500 American technicians working for Lee Factors, Inc. were interested in going to Iran, but nothing came of the plan.¹¹⁶

¹¹³BP 100557, Anglo-U.S. talks On Persia in Washington, 10 April 1951, 3–5.

¹¹⁴BP 101116, Tehran/London Inward Cable 8386, E.G.D. Northcroft to L.C.Rice, 21 February 1951.

¹¹⁵Jim Bamberg, *History of British Petroleum*, 422.

¹¹⁶BP 112232, Sir Oliver Franks to Foreign Office, 12 July 1951.

It was later agreed that the British Government would conduct the negotiations with Iran guided by a Working Party. "In London, Government officials and Company representatives joined in the Working Party."¹¹⁷ Even in Washington the company had some influence. Burrows, the Counsellor in Washington had formerly been the Head of Middle East Section in the Eastern Department of the Foreign Office. Gass commented, "naturally we have seen a lot of him in that capacity. He has worked very hard to help us to solve some of our difficult problems in that part of the world."¹¹⁸

A mission led by Basil Jackson was sent to Iran. He indicated that the nationalisation would be acceptable provided that the company would continue to manage the operations. At this point his views coincided with those of the Foreign Office and State Department.¹¹⁹ His American connections may have been useful as in mid-May representatives of the American majors informed the State Department of their depth of opposition to the Iranian nationalisation and 'concession-jumping'. "Following their representations, on 18 May the State Department issued an official statement opposing the unilateral cancellation of contractual relationships."¹²⁰ On the 5 July, the ICJ upheld the British request for interim measures.¹²¹

The Iranians rejected the Jackson mission as it did not accept nationalisation. The Americans still thought that negotiation was possible and offered the 'Harriman formula'. Through this the British would accept the nationalisation as defined in the law of 20 March 1951 – "all operations for exploration, extraction and exploitation shall be in the hands of

¹¹⁷Jim Bamberg, History of British Petroleum, 417.

¹¹⁸BP 8658, Gass to Heath Eves, 2 January 1950.

¹¹⁹BP 100557, Foreign Office to Tehran, 16 June 1951.

¹²⁰Bamberg, History of British Petroleum, 420.

¹²¹BP 116916 for detailed records of the application.

the Government.”¹²² United States special envoy, Averall Harriman, landed in Tehran on 15 July and was met by anti-western crowds. He realised that Musaddiq blamed the British and had little interest in discussion.¹²³ Harriman's journey paved the way for the mission led by Richard Stokes, the British Lord Privy Seal, which arrived in Iran in early August 1951. The proposals appeared to accept the principle of nationalisation since it involved the transfer of assets from the Anglo-Iranian to the National Iranian Oil Company NIOC. However, the NIOC would be operating through a purchasing organisation and the terms between the two would be arranged so that there was a 50:50 division of the profits.¹²⁴

Before Stokes was sent there was a meeting in which an Anglo-Iranian director, Neville Gass, effectively repeated the terms of the Jackson Mission.¹²⁵ The Iranians were expecting to discuss three issues: payment of compensation, arrangements for continued employment of British technicians, and discussion of the terms under which oil was supplied to Britain. The Stokes proposals were presented on the 13 August.¹²⁶ This became the formula and was even endorsed by Harriman, though it clearly did not accept the nationalisation law.¹²⁷ “The Americans and British were in complete agreement that the proposals submitted by the British were in accordance with the Harriman formula and the Nationalisation Law...Harriman timed a definite right and left which has certainly caused a bad cut in the opponents eye...[by] what to all intents and purposes amounts to an

¹²²BP 66232, Persian Constitutional Background Affecting Oil Negotiations, Oil Nationalisation Law of 20 March 1951, Appendix C.

¹²³BP 112232, Shepherd to Foreign Office, 16 July 1951; BP 112232, Shepherd to Foreign Office, 17 July 1951.

¹²⁴ BP 100387, Stokes to London, telegram 1077, 11 August 1951; PRO FO 371 91575, Memorandum by Ramsbotham, 30 July 1951; Bamberg, History of British Petroleum, 412.

¹²⁵PRO FO 371 91575, Gass to Bowker, 31 July 1951 with enclosure, Agenda for a working basis of co-operation between the Iranian Government and Anglo-Iranian.

¹²⁶ BP 100387, Tehran to London, 15 August 1951; BP 100387, Stokes to London, 13 August 1951.

¹²⁷BP 100387, Stokes telegram, 19 August 1951.

ultimatum.”¹²⁸ Musaddiq rejected the offer and on 21 August Stokes withdrew his offer returning home.¹²⁹

However, Musaddiq was not regarded as the only major personality impeding a solution; a variety of individuals including the permanent secretary at the Ministry of Fuel and Power and President Truman’s special envoy to Iran, Averell Harriman, wanted the removal of Fraser.¹³⁰ Hostility to Fraser continued through the year. Referring to the view held by sections of both the United Kingdom and United States Governments that either Musaddiq or Fraser would have to be replaced for a settlement to be reached, Bamberg informs us that, “for a time it was by no means a foregone conclusion that Fraser would not be the first to go.”¹³¹

Herbert Morrison, the Foreign Secretary, met with Hugh Gaitskell and they decided that there should not be any compromise on three issues – the purchasing company should be British, it should be owned by Anglo-Iranian and controlled from London, and Iran should not receive more than fifty per cent of the profits.¹³² The proposals were designed so that control of Iranian production would remain in the hands of Anglo-Iranian.¹³³ Stokes was adamant that the purchasing company would be an one hundred per cent owned subsidiary, “unless the Persians force us to contemplate a *consortium* [emphasis by Stokes]”.¹³⁴ While in Iran, Stokes advised the Shah that the “only solution” was “a strong Government under martial law and the bad boys in prison

¹²⁸BP 43859, Elkington to Fraser, 19 August 1951.

¹²⁹BP 43859, Northcroft diary, 22 August 1951.

¹³⁰Jim Bamberg, History of the British Petroleum Company, 451-452.

¹³¹Ibid., 460.

¹³²BP 100387, Foreign Office to Tehran, 13 August 1951.

¹³³BP 100387, Stokes to London, telegram 1085, 12 August 1951.

¹³⁴BP 100387, Stokes to London, telegram 1082, 12 August 1951.

for two years or so.”¹³⁵ Yet Stokes observed that “all he [Musaddiq] asked” was that he be permitted to introduce the same nationalising reforms “which the Labour Government had introduced in the United Kingdom.”¹³⁶

Stokes conceded that the British might have no option but to gradually offer more and negotiate with Mussadiq.¹³⁷ Musaddiq reiterated that he was prepared to re-open negotiations on the three issues of compensation to the company, terms of sale of oil to Britain, and the working conditions of the British technicians.¹³⁸ The Foreign Office felt that Musaddiq’s recent speech in the Senate had shown that negotiations were impossible with the “Present [capital in original] Persian Government” and thus negotiations were “no longer in suspense but broken off.”¹³⁹ Meanwhile, the British Government informed the Shah that unless Musaddiq was replaced economic measures to hurt Iran would be implemented.¹⁴⁰ The State Department did not object to Britain taking such measures.¹⁴¹ On 10 September the British introduced measures which blocked sterling balances held by Iranians and the export to Iran of scarce commodities.¹⁴² The United States decided to refuse a loan from the Export Import Bank on the basis that the Iranians could not service the loan, and Musaddiq accused the Americans of applying sanctions.¹⁴³

¹³⁵PRO FO 371 91591, Stokes to Morrison, 6 September 1951.

¹³⁶BP 100387, Tehran to Foreign Office, 5 August 1951.

¹³⁷PRO FO 371 91591, Stokes to Younger, 24 September 1951; PRO FO371 91590, Stokes to Morrison, 8 October 1951.

¹³⁸BP 100387, Tehran to London, 15 August 1951.

¹³⁹BP 100652, London to Tehran, 6 September 1951.

¹⁴⁰BP 100387, Foreign Office to Shepherd, 30 August 1951.

¹⁴¹BP 100652, Morrison to Foreign Office, 11 September 1951.

¹⁴²BP 100652, London to Rangoon, 10 September 1951.

¹⁴³BP 100652, Washington to London, 12 September 1951.

On September 19, Hussein Ala provided what appeared to be a fresh proposal.¹⁴⁴ The British Government rejected it, but the Americans were concerned that the Shah would not dismiss Musaddiq and felt that it might be possible to develop some agreement with him.¹⁴⁵ Musaddiq announced that the British staff must leave Iran by October 4.¹⁴⁶ The staff left the office.¹⁴⁷ The British decided that this order involved a breach of the interim ruling of the International Court of Justice and brought the matter before the Security Council. The Council agreed to take up the issue immediately but the Iranian Ambassador to the UN achieved a ten day delay during which time Musaddiq could come to the United States to defend the Iranian action himself.¹⁴⁸ While in the United States, George McGhee, Assistant Secretary of State for Near Eastern, South Asian and African affairs had eighty hours of talks with Musaddiq.¹⁴⁹ They agreed that Anglo-Iranian would acquire oil under a long-term contract on a cost-plus basis and the Iranians could not sell the oil where it might prejudice Anglo-Iranian sales. The terms were similar to many of the contractual joint ventures examined in the previous chapter. In the Working Party meeting on 6 November, Gass again slowed down the pace of American-inspired concessions to Musaddiq. His basic objection was put plainly:

Other Mossadeqs would arise and what would be left of the fabric of the oil industry to which the Americans professed to attach so much importance if the Mossadeqs were to be allowed to get their way and kick their Concessionaire Companies out...¹⁵⁰

¹⁴⁴BP 100652, Shepherd to Foreign Office, 20 September 1951.

¹⁴⁵BP 100652, Franks to Foreign Office, 21 September 1951, BP 100652; Foreign Office to Shepherd, 22 September 1951.

¹⁴⁶BP 100652, Shepherd to Foreign Office, 25 September 1951; BP 43859, Northcroft diary, 26 September 1951.

¹⁴⁷BP 101108, Inward Telegram, Green to Jessop, 2 October 1951.

¹⁴⁸Benjamin Shwadrán, The Middle East, Oil and the Great Powers, 104.

¹⁴⁹ George C. McGhee, "Recollections of Dr Muhammed Musaddiq" in Musaddiq, Iranian Nationalism and Oil ed. James A. Bill and William Roger Louis (London: I.B. Tauris, 1988), 296.

¹⁵⁰Jim Bamberg, History of British Petroleum, 464.

The British refusal to accept the United States brokered deal demonstrates how the United States could not impose its will on the 'weaker' British power. In October 1951 the World Bank offered themselves as mediators, and Anglo-Iranian decided to wait for the outcome of this effort to the exclusion of others.¹⁵¹ Between November 1951 and March 1952 there were two proposals from the World Bank. These were intended to resume production in Iran without prejudicing the outcome of the nationalisation.¹⁵² The Bank was advised by Rieber, formerly President of Texaco. He was adamant that the company could not return to Iran and should agree to long-term sale of oil contracts.¹⁵³ Another former oilman for Caltex companies who was also an important figure in the crisis was Max Thornburg. He had designed a Seven Year Development Plan for Iran which, in part, had caused the demand for greater revenues, which started the process culminating in the Supplemental Agreement.¹⁵⁴ The Anglo-Iranian had been aware of the importance of Thornburg's Seven Year Development Plan.¹⁵⁵ The Plan Organisation was terminated at the beginning of 1951, "the ostensible reason is conservation of dollars."¹⁵⁶ In fact, Thornburg had become very disruptive. He told the press that, "I believe because AIOC has not paid Iranian Government its indisputable rights on account of royalties the company is responsible for most of the economic misfortunes of Iran."¹⁵⁷ Though these anti- Anglo-Iranian attitudes may have originated in the early 1940s in the context of the rivalry examined in chapter five, at a time when both Rieber and Thornburg were senior

¹⁵¹BP 9249, Fraser to Bernadotte, 16 October 1951; BP 9249, Fraser to Bernadotte, 11 January 1952. More details of the Bonnier Scheme may be found in folder 33, BP 9249.

¹⁵²BP 100571, Statement by the International Bank on its negotiations with the Persian Government, 4 April 1952.

¹⁵³BP 101047, Gass to Jackson, 22 January 1952.

¹⁵⁴Benjamin Shwadran, Oil, the Middle East and the Great Powers (New York: Praeger, 1955), 168-177.

¹⁵⁵BP 64684, "Report on Seven Year Development Plan for the Plan Organisation of the Imperial Government of Iran" produced by Overseas Consultants, Inc.

¹⁵⁶BP 101116, Tehran/London Inward Cable 8360, K.L. Page to L.C.Rice, 8 January 1951.

¹⁵⁷BP 101116, Tehran/London Inward Cable 8362, K.L. Page to L.C.Rice, 9 January 1951.

managers, the attitudes appeared to colour perceptions and, therefore, influence policy statements almost a decade later.

In spite of Rieber's view towards the role of Anglo-Iranian in any final settlement, the Bank adopted a strictly neutral position. It would not engage in the oil industry permanently or as a business venture.¹⁵⁸ This was intended to be a temporary arrangement and not to prejudice the legal rights of the Iranian Government, British Government or Anglo-Iranian.¹⁵⁹ Under the arrangements a management company would be set up from non-nationals to the dispute. They would be responsible to the Bank and sell oil to the company and other parties putting some proceeds in an escrow pending the final decision by the International Court of Justice. The first plan failed in part because Musaddiq insisted that the management would act as the agent of the Iranian Government.¹⁶⁰ Musaddiq argued that the Anglo-Iranian did not have any property which the World Bank could manage on their behalf. After two years, Anglo-Iranian would repeat their claim to assets in Iran and it would be unlikely that circumstances would again allow nationalisation.¹⁶¹ One sees Musaddiq's determination to seize the political moment, but this intensity blinded him to any shades of grey – the World Bank had offered to act as a neutral party.

The same issue remained a stumbling block in the second proposal, with Musaddiq in addition insisting that British technicians would not be employed.¹⁶² Musaddiq was adamant that the return of British technicians would renew Soviet influence in the country as they would counteract what he was sure they would perceive as the

¹⁵⁸BP 101074, Garner to Musaddiq, December 28, 1951.

¹⁵⁹BP 71836, First Principles, 24 December 1951.

¹⁶⁰BP 101074, Musaddiq to Garner, 3 January 1952.

¹⁶¹ Musaddiq, *Memoirs*, 367.

recovery of British influence.¹⁶³ The British embassy did not think that the Tudeh could take over, but they did not think that Musaddiq could survive long if the World Bank initiative failed. The economy would continue to deteriorate and he would be forced to seek aid from the United States. This would be refused and he might resign from office.¹⁶⁴ The World Bank and State Department now concluded that it would be impossible to make an agreement with Musaddiq. They waited for economic and political pressures to bring about a change of Government.¹⁶⁵

The International Court did not help the British or the company. In fact, the procedural objections of Iran were upheld by the separate decisions of July and August 1952, which did not however examine the merits of the case. The judges tended to the opinion that there was not any privity of contract between the British and Iranian Governments. In other words, the 1933 concession did not have a double character - an agreement between two states resulting from a particular agreement between a state and a company.¹⁶⁶ Moreover, the Iranians had consistently denied the jurisdiction of the court, and the court ruled that it did not have jurisdiction.¹⁶⁷ The judges ruled that the court was not competent to decide whether the 1933 agreement was more than an agreement between a sovereign state and a company.¹⁶⁸

¹⁶²BP 100571, Statement by the International Bank on its negotiations with the Persian Government, 4 April 1952.

¹⁶³BP 101912, Record of a meeting with representatives of the International Bank for Reconstruction and Development, 21 February 1951.

¹⁶⁴BP 100571, Tehran to London, 19 February 1952.

¹⁶⁵ Petroleum Division Note of discussion on Anglo-Persian relations held at the Ministry of Fuel and Power on 17 March 1952; Middleton to Ross, 17 March 1952; Franks to Foreign Office, 31 March 1952; Ramsbotham minute, 9 April 1952. All are found in PRO FO 371 98687. Logan note on Persia, United States State Department's views, 16 April 1952, PRO FO 371 98688.

¹⁶⁶BP 28379, Anglo-Iranian Oil Company Case Jurisdiction, Judgment of July 22, 1952: ICJ reports 1952, 112.

¹⁶⁷ Ibid., 114.

¹⁶⁸ Ibid., 149.

After Qavam's failure in July 1952, the Americans felt that Musaddiq remained the only alternative to communism. In August, they suggested that Anglo-American joint proposals should be made and their terms were conciliatory. "It was an indication of the lengths to which the Americans were prepared to go to reach agreement with Musaddiq that these proposals were, to all intents and purposes, the same as Musaddiq had put to Middleton on 25 July."¹⁶⁹ Churchill pushed for altered terms and a text was agreed on 26 August. In these joint Truman-Churchill proposals, the Iranians would have control over their industry and would enjoy a long term sale of oil contract with Anglo-Iranian. Compensation would be settled by international arbitration. Musaddiq responded to the proposals by insisting that compensation would only be paid for the value of the company's physical assets, and the arbitral tribunal would also examine counter-claims from British prevention of sales of Iranian oil.¹⁷⁰

The Americans now proposed to advance one hundred million dollars rather than the ten millions in the Truman-Churchill proposals, and in December Musaddiq agreed that compensation could be settled on the basis of any English law of nationalisation. The British accepted that the sale of oil contract would be with a consortium, not just Anglo-Iranian.¹⁷¹ Musaddiq preferred an American company with the possibility of some British participation. He "would not grant the tremendous power to AIOC over the economic life of Iran which would be possessed by the company if it had long-term contractual rights to buy the bulk of Iran's oil production."¹⁷²

¹⁶⁹Jim Bamberg, History of British Petroleum, 474.

¹⁷⁰BP 46596, Tehran to London, 17 September 1952.

¹⁷¹BP 100570, Henderson to State Department, 6 January 1953; London to Washington, 14 January 1953.

¹⁷²BP 100570, Henderson to State Department reporting a conversation with Musaddiq on 2 January 1953.

The UK Coal Nationalisation Act was discussed in connection with the issue of compensation. For the Anglo-Iranian wanted compensation to include loss of future profits. Therefore, they insisted on a claim for "property, rights and interests." Mr Acheson tried to alter the wording to "losses sustained" as this might make it easier to put across in Tehran, but the ambiguity might cause the Tribunal setting compensation some difficulty and, therefore, the wording was not changed.¹⁷³ The proposed arbitration by the International Court of Justice would be based upon any English law nationalising any industry in the United Kingdom specified by the company.¹⁷⁴ Anglo-Iranian were unwilling not to have an international settlement, because an Iranian agreement could in future be repudiated as a dictatorial imposition.¹⁷⁵ However, Musaddiq refused to countenance unlimited compensation and the State Department were sympathetic. A formula was agreed with the British under which the International Court of Justice would set the amount which Iran would pay, but the maximum cash payments were a quarter of the proceeds from oil sales for twenty years, after which any remaining balance would be paid in free oil.¹⁷⁶ These proposals were put to Musaddiq on 20 February but he remained sceptical of the International Court. His reasoning was that the I.C.J. had already denied the British claim for compulsory jurisdiction, so why should he accept the jurisdiction of the court voluntarily? Iran had been successful in the Hague since its case had been properly defended. Once it had voluntarily accepted jurisdiction, the British "could use its facilities to overthrow the government [sic] and replace it with another which would not genuinely defend Iran's case."¹⁷⁷

¹⁷³BP 101911, Minutes of Persia Official Committee meeting on 13 January 1953.

¹⁷⁴BP 59256, Persian Oil: Outline of Settlement with Musaddiq, 9 January 1953.

¹⁷⁵BP 101911, Minutes of Persia Official Committee meeting on 30 January 1953.

¹⁷⁶BP 100570, London to Washington, 18 February 1953.

¹⁷⁷Musaddiq, Memoirs, 368, 322-5.

In the study of President Eisenhower's foreign policy there was an assumption that Secretary of State John Foster Dulles was the prime mover, but this view became untenable after the presidential papers were made available for public inspection. In particular, it became clear that Eisenhower asserted his leadership during foreign policy crises. However, even this revisionist view has given way to what may be termed 'Eisenhower postrevisionism'.¹⁷⁸ Given his military background it is perhaps not surprising that such management often involved the threat or use of military power. For instance, during the first few months of 1953 he thought aloud about the use of atomic weapons against the North Koreans and the Chinese. "These twelfth hour schemes seem to be evidence of an almost subconscious desire by Eisenhower for one final try for an easy solution to the Korean deadlock."¹⁷⁹

In both the case of the Korean War and the tension with China, Eisenhower has been credited with making peace. The same assessment holds for the Suez crisis of 1956 when Eisenhower rather than Dulles controlled the policy and opposed the British, French, and Israeli invasion of Egypt. But his objective was containment of the Soviet Union rather than satisfaction of Egyptian aspirations. Eisenhower consistently confused Third World nationalism with communism. Failing to distinguish between them he backed authoritarian regimes suppressing desire for change.¹⁸⁰ Eisenhower was the driving force for the coup which overturned democratically elected Jacobo Arbenz Guzman of Guatemala in 1954. Covert actions became used more routinely.¹⁸¹ The CIA coup against Musaddiq was no

¹⁷⁸Stephen G. Rabe, "Eisenhower Revisionism: A Decade of Scholarship," 17.1 Diplomatic History (Winter 1993): 114.

¹⁷⁹Edward C. Keefer, "President Dwight D. Eisenhower and the End of the Korean War," Diplomatic History 10 (Summer 1986): 277.

¹⁸⁰McMahon, "Eisenhower and Third World Nationalism: A Critique of the Revisionists," Political Science Quarterly 15 (Summer 1985): 457.

¹⁸¹B. Rubin, Paved With Good Intentions: The American Experience and Iran (Oxford: Oxford University Press, 1980), 55-56. Stephen G. Rabe, "Eisenhower and the Overthrow of Rafael Trujillo," Conflict Quarterly 6 (Winter 1986): 33-44.

aberration of United States foreign policy in the Eisenhower administration. Musaddiq did not understand the nature of this anti-communism. He continued to argue that, "if the British government [sic] had not enjoyed the assistance of the internal opposition there would not have been a coup d'etat, and, for fear of a Soviet oil deal with Iran, western governments [sic] would eventually have had to buy Iranian oil."¹⁸²

The British were originally unsure about Dulles as "he is still very new to subjects of this kind, but at the senior levels of the State Department" there was urgency "to determine decisively in the next round of negotiations whether or not an agreement is possible." In the event of Musaddiq's rejection of terms, "I do not suppose they know what they would do... [but] I think they would at last be convinced in their own minds that Persia was in the wrong and this I believe would be a considerable gain from our point of view."¹⁸³ While Charles Bohlen, a prominent member of the State Department, was "greatly upset by the attitude of high-up people in London" who would "rather see Persia go communist than make an unsatisfactory oil agreement" and "very worried" to learn that the British "were still thinking about the possibility of a military coup",¹⁸⁴ Henderson, however, had a different attitude. He did not entirely share British optimism about Zahidi, but agreed with Middleton that the only way to topple Musaddiq was by a coup, to be launched in the Shah's name but without his knowledge.¹⁸⁵

Operation Boot was promoted by Colonel Monty Woodhouse to the CIA Together they organised the coup against Mussadiq.¹⁸⁶ Colonel Woodhouse argued that the coup

¹⁸²Musaddiq, Memoirs, 291.

¹⁸³BP 100570, Washington to London, 30 January 1953.

¹⁸⁴PRO FO371 98603, Burrows to Bowker, 30 July 1952.

¹⁸⁵PRO FO371 98603, Foreign Office Secret and Whitehall Secret Distribution August 1952.

¹⁸⁶M. Gasiriowski, "The 1953 Coup d'Etat in Iran," International Journal of Middle East Studies 19 (August 1987): 261-286; C.M. Woodhouse, Something Ventured (London, Grenada, 1982); Kermit Roosevelt, Countercoup: The Struggle for Control of Iran (New York: McGraw-Hill,

was necessary to prevent a communist takeover. He recalls that: "When we knew what the prejudices of our collaborators were, we played all the more on these prejudices."¹⁸⁷ Commenting on the role of the CIA, Allen Dulles argued that Musaddiq originally concealed "creating a Communist state." But after his true intention became clearer "support from outside was given to loyal anti-Communist elements...to the Shah's supporters."¹⁸⁸ Something should here be said about allegations of the direct role of Anglo-Iranian in the coup. In the original edition of Counter Coup, Kermit Roosevelt had stated that Anglo-Iranian were involved, yet after this edition was withdrawn following protests from British Petroleum, the second edition did not repeat the account. While Bamberg concedes that individual employees of the company might have been involved, "possibly marginally", this does not reflect on the company.¹⁸⁹

8.5 CONCLUSION

The interplay of economic and political forces is interesting. The boycott led to economic discontent which facilitated British Governmental intrigues on the one hand, and propaganda that the state was about to be overtaken by communists on the other. At the same time, the corporate great powers who managed the boycott also managed international trade in oil so that the Anglo-Iranian suffered very little financially. This enabled it to slow down the pace of concessions to the Iranians, even though its reluctance

1979); Richard Crockatt, The Fifty Years War: The United States and the Soviet Union in World Politics, 1941-1991 (London: Routledge, 1995), 176-178.

¹⁸⁷Robert Fisk, "With Sten guns and sovereigns Britain and US saved Iran's throne for the Shah," The Times, Saturday 15 March 1997.

¹⁸⁸Allen Dulles, "The Role of Intelligence in the Cold War" in The Invisible Government ed. David Wise and Thomas B. Ross, 110-113.

¹⁸⁹BP 112228, Jim Bamberg to Mustafa Elm, 20 August 1992. Elm had referred to Geoffrey Keating who was Anglo-Iranian's public relations manager. M. Elm, Oil, Power, and Principle: Iran's Oil Nationalization and Its Aftermath (Syracuse, NY: Syracuse University Press, 1992), 171-172. Keating's efforts had also been noted by the United States embassy. L.W. Qaimmaqami, "The Catalyst of Nationalization: Max Thornburg and the Failure of Private Sector Developmentalism in Iran, 1947-1951," Diplomatic History 19.1 (Winter 1995): footnote 79.

strained Anglo-American relations on occasion. Rather than behaving like cutthroats, AIOC's competitors stood back to back, supporting the company like a Roman phalanx putting down the barbarians.

In turn, the concession was supported by British penetration of the political system. Musaddiq's Memoirs demonstrate that by taking Musaddiq's statements about his beliefs seriously we can better understand his psychological closure as regarded negotiation with the British. This eventually alienated all third parties including the World Bank and the United States. For him there was little reason to distinguish between the British company and the British state. The dispute presaged the North-South dialogue of the 1960s and 1970s concerning the link between permanent sovereignty of natural resources and decolonisation, rather than looking back to the concessionary readjustments of the pre-war period. The struggle for control over national resources was linked to the struggle for constitutional Government. This struggle failed as the dynamics of competitive cooperation which had tied British and American Governmental and corporate interests together in the middle decades of the century provided another readjustment.

PART FOUR

The empirical material examined in part three clarified the different institutions of the society of majors. It also pointed to the importance of examining the nexus between state and firm to see how corporate influences were translated into British foreign oil relations. In this chapter, I theorise the material about this nexus contained in the empirical material.

CHAPTER NINE: FOREIGN POLICY ANALYSIS AND BRITISH OIL RELATIONS, 1939-1954

9.1 INTRODUCTION

This dissertation examines the way in which transnational corporations are of relevance to foreign policy analysis. Though states may remain the central referent for foreign policy behaviour these other actors become significant, not only to the extent that their behaviour affects or influences Governments, but also in their own right. The traditional method of analysing foreign policy in commodity issue areas using Government records permits us to understand one dimension of international relations. Adding company archives facilitates examination of state-firm and firm-firm relations as well. Use of three dimensions rather than one provides a richer and more subtle account. Each historical case will differ, but during this project it became clear that Anglo-Iranian and Shell were important actors in British foreign oil relations between 1939 and 1954 and that 'British foreign oil policy' was not unambiguously determined by the state, but by the interplay of public and corporate interests. Companies contributed to the development of official policy and also represented 'British' policy on behalf of the state. Even when the companies acted independently, other actors, especially Governments, regarded their actions as having at least the sanction of the British Government. Thus, rather than assuming a permanent state identity as a national political actor, 'British' foreign oil relations need to be interrogated and opened up.

To concede the importance of examining relations between states and firms alongside those between one state and another, is to depart from a strictly realist account of international history which would be based solely on Government records. When clarifying the relationship between the private international society of majors and the society of states it became apparent that the majors had great influence on British foreign

policy behaviour. Material from the corporate archives supplemented Government records. The two factors which were seen to affect the impact of the firms were the degree of transnational organisation and the pattern of state-firm relations. The social organisation of the oil industry accounts for the degree and nature of the influence of the firms. The analogy between international society and firm-firm relations was developed in chapters three through eight. The second factor was the relationship between firm and state. Britain and the United States had very different patterns of behaviour with regard to the corporate society. This chapter examines the mechanisms which translated the corporate influences into 'British' oil relations.

It might be interesting at this point to return to the image of the web, which was introduced in part two. The intercompany web was distorted by pressure from the state system throughout the period between 1939 and 1954, but it did not break. Even when a part of it was broken in the Iranian nationalisation, it did not totally unravel. Throughout this period the United States Government tried to penetrate, if not unravel, the web as with a needle, but this had no impact upon it. The effect of the British state, on the other hand, was more akin to that of a soft ball, able to distort the web without tearing it. In particular, the British Government distorted the web to increase their resources vis-à-vis the United States. In this chapter, I wish to theorise how this 'soft ball' distortion occurred.

This chapter is divided into six sections, the first introducing the theme and structure of the chapter and section two clarifying the nature of realist assumptions regarding foreign policy which are central to the thrust of the entire realist school of international relations theory with its hard 'billiard ball' imagery. I examine how distinguishing between inter-state and inter-national relations becomes essential to understanding the role of companies in foreign policy. Section three looks at administrative politics within the foreign policy process; more specifically, at two models - organisational

process and bureaucratic politics. It was found that the former was more applicable to the British foreign policy system, the latter to the United States. Psychological approaches to foreign policy analysis can usefully be applied in relation to the Iranian nationalisation crisis, especially recent work on the difficulties of moving away from negative stereotypes, which illuminate Mohammed Musaddiq's failure to respond to the various policy initiatives. The fifth section looks at foreign relations from the perspective of implementation. The insights of this approach are absolutely vital if we seek to move beyond a theory of foreign policy decision making to foreign relations. It clarifies the importance of the role of Anglo-Iranian and Shell as implementers of British foreign oil policy. Section six reviews the usefulness of corporate history in enriching the sub-discipline of foreign policy analysis and liberating the concept of the state from its traditional realist assumptions.

9.2 FOREIGN POLICY ANALYSIS

“Foreign policy is that area of politics which bridges the all-important boundary between the nation-state and its international environment.”¹ It is, therefore, possible to examine foreign policy either from a political science or an international relations point of view. While a political science perspective highlights domestic determinants like Governmental politics, pressure group activity and public opinion, the different lens of an international relations perspective brings into focus different elements of the international environment – states, firms, or a mixture of the two - as the major determinant of foreign policy. This thesis adopts both elements. I have combined both methods to draw out the importance of international cooperation among firms as well as the ‘domestic’ dimension of relations between state and firm to enrich a more traditional account of inter-state pressures. The conventional assumptions which underpin traditional foreign policy

analysis have been summarised by Joseph Nye. The state, rather than any other international actor, is regarded as the foreign policy-making unit. More importantly, the state, or rather the Government acting on behalf of the state, is treated for analytical purposes as a unitary, monolithic actor; in other words, as a collectivity whose behaviour is broadly analogous to that of a rational, purposeful individual.²

These two assumptions - the state as principal actor, and the state as rational actor - are usually attached to a realist analysis of international relations. The realist school comprehends many different types of analysis, but the core assumptions are that the state is the major actor in the international system, that states are unitary rational actors, each representing a national interest, and that the key factor for the state is the search for power either as an end in itself or as part of the search for security.³ States are thought of as analogous to 'billiard balls' - hard, impenetrable, striking one another. State behaviour is determined, either in part (classical realism) or in the main (neorealism) by external rather than internal factors. Allison has labelled such analyses as the 'rational actor model' or model 1 of his typology of foreign policy analyses.⁴

According to realist theory, all states are driven by the self-help imperative of the international political anarchy. Thus, predicting their behaviour is possible by reference to their position in the international power hierarchy and by assessing their national interest. In practice, a strictly realist account would have predicted that the United States would

¹William Wallace, Foreign Policy and the Political Process (London: Macmillan, 1971), 7.

²Nye, Joseph S. in New Dimensions in World Politics ed. Goodwin, G.L. and Andrew Linklater (London: Croom Helm, 1975), 36.

³Robert O. Keohane ed. Neorealism and Its Critics (New York: Columbia University Press, 1986), 164-165. Barry Buzan, Charles Jones, and Richard Little, The Logic of Anarchy: Neorealism to Structural Realism New Directions in World Politics ed. Helen Milner and John G. Ruggie (New York: Columbia University Press, 1993), 9-10.

⁴Graham Allison, Essence of Decision: Explaining the Cuban Missile Crisis, (Boston: Little, Brown, 1971), 10-38.

have achieved all of its objectives during this period. But it would be as accurate to say that the United States Government consistently failed to achieve its objectives as to say that it secured them. The main reason for this was the role of the companies. Predicting state policy is extremely difficult, increasingly so as one moves from tidy generalisations to specific foreign policy behaviour. This is why realist analyses must be supplanted or, at least, supplemented.⁵

In the thesis we find three types of international transaction: intergovernmental, transgovernmental and transnational. Realist theorists tend to dismiss the importance of the transgovernmental and transnational interactions maintaining that states and state power determine policies and outcomes in world politics. By contrast, non-realist theorists tend to argue that these latter two categories re-shape the nature of the state and of state power. Intergovernmental interactions consist of direct dealings between Governments. They are the subject of traditional diplomacy. However, as Edward Morse has cogently argued, the attempt to maintain economic growth through establishing a world market has greatly increased the range of issues that are the subject of direct Government-to-Government relations.⁶ The increasing dependence of national economic growth on world economic growth means that states have to provide for diplomacy on economic as well as strategic matters. Since these are issues relating to a world market such diplomacy is not usually bilateral, but multilateral. The Anglo-American Oil Agreements, for instance, resulted from bilateral talks but the aim was to include other states as well. It may be recalled that one of the points of Anglo-American contention was the timing of such extension.

⁵However, as we saw in the contrast between Keohane's empirical work and his realist theoretical propositions, any serious empirical work would not sustain a strictly realist approach. However, a large number of authors identified in chapter two could be termed implicit realists.

Another feature of the negotiations was the role of the transnational corporations. Since global corporations are the leading economic actors they play an important role in discussions about world economic growth. In fact, we saw how perhaps the most decisive meeting of the whole series of negotiations between 1944 and 1945 was the ninth meeting of the technical talks which preceded the ministerial talks and Agreement of 1944. It will be recalled that the agenda in this meeting consisted of a discussion of the conclusions of informal talks in small groups which had concluded that both private and public restrictions should be removed so that outstanding issues in the international industry could be resolved by the majors. Hence, while many issues are still the subject of bilateral dealings between Governments, the increasing importance of world economic growth has multilateralized economic issues and also involved transnational relations and actors, especially corporations. The third type of international activity is transgovernmental relations. International conferences offer opportunities for networking among officials working in similar departments in different states. The officials may use these contacts to minimise friction when they are required to coordinate policies. But they may also establish a coalition with their opposite numbers to promote their policies, even against other departments within their state.⁷ We saw this phenomenon in the Allied oil programming, with the twist that the 'officials' were oilmen and the international conferences were the As Is conferences of the inter-war years.

9.3 ADMINISTRATIVE POLITICS WITHIN THE FOREIGN POLICY SYSTEM

The most influential study of bureaucratic and organisational politics in foreign policy-making has been made by Graham Allison in the now classic text, Essence of

⁶Edward Morse, "The transformation of foreign policies: modernization, interdependence and externalization," World Politics 22.3 (1970): 371-392.

⁷Robert O. Keohane and Joseph S. Nye, "Transgovernmental Relations and International Organizations," World Politics 27.1 (1974): 39-62.

Decision in which he studied the Cuban missile crisis.⁸ One of the clearest indications that the Soviet Union was installing medium-range ballistic missiles [MRBMs] in Cuba was that surface-to-air missiles [SAMs] to protect the MRBM sites were installed and arranged in exactly the same trapezoid patterns as within the Soviet Union. The deployment of SAMs in this way could hardly mean anything other than the installation of MRBMs. An explanation based on rational actor assumptions would find that the discovery of these sites was intended by the Soviet Union. Allison suggests, however, that we know the transportation of the SAMs was the responsibility of Soviet military intelligence and the KGB, but that the construction of the SAM sites once they were on the island was a highly technical job performed by the Air Defence Command (ADC). And the simple fact may be that while military intelligence and the KGB always operated secretly, the ADC did not. So the crucial aspect of secrecy in this part of the Soviet action was probably not the result of a formal decision at all.

Another example of the importance of administrative routines is the concept of 'non-decisions'. This is very different from a decision not to act, for that is still the result of a choice. It is the study of the way in which routines may interpret inputs so that it appears that there is no choice. Routines arise from neat flows of activity. These may channel difficult inputs in a way which does not appear threatening. A 'problem' needs to be recognised. Unless something is identified as a problem it will not be treated as one.⁹ An example of this is the attitude of the British foreign policy establishment to the society of majors. They accepted that it existed, and worked with it. The non-decision becomes clearer set in contrast to the various decisions of United States policy. For the United States Government the society of majors was not a 'given' in the same way but a social construct that the state might - even ought - to try to shape in the public interest. Hence,

⁸Graham Allison, Essence of Decision, 110-113.

their various policy initiatives, including attempted ownership of concessions and pipelines by the Petroleum Reserves Corporation, the original plans for the International Petroleum Commission, and the ongoing antitrust proceedings of the Justice Department.

These sorts of observations have been integrated in the incrementalist perspective of Braybrooke and Lindblom.¹⁰ Organisations identify inputs and issues as different problems which are then passed onto specialists at different levels. In dealing with the problems these low-ranking officials make many small decisions. However, by the time that a political leader looks at the problem, these small decisions may have added up to a certain way of dealing with the problem which the political leader then adopts. In other words, incremental processes may lead to a formal political decision which is not the result of a political analysis of the national interest, but recognition of a choice made by lower level actors unaware of the final significance of their small choices. This model is incompatible with the assumption of rational decision-making at the political level which was Allison's model 1. Allison has developed two influential models based on these ideas, organisational process (model 2) and bureaucratic politics (model 3).

The organisational perspective builds on the premises of incrementalism by assuming that organisations are dominated by their 'standard operating procedures' which only occasionally will be waived or breached. It emphasises that organisations may act logically and clearly within their own standard operating procedures and responsibilities, but that there is no guarantee that their output will be consistent or compatible within the foreign policy process as a whole. The organisational process model assumes that for foreign policy purposes Government consists of a conglomerate of semi-feudal, loosely

⁹P. Bachrach and M. Baratz. "Decisions and Non-Decisions: An Analytic Framework," American Political Science Review 57. 3 (September 1963): 632-642.

¹⁰D. Braybrooke and Charles Edward Lindblom, A Strategy of Decision (New York: Free Press, 1970).

allied organisations, each with a substantial life of its own. Foreign policy from this perspective is understood to be the product of the outputs of large organisations functioning according to standard patterns of behaviour, rather than the deliberate choices of a unified Governmental actor.

My treatment of the British contribution to the Azerbaijan crisis fits comfortably into this. The Petroleum Department did what they always did; so did the local officials and the Foreign Office. These were not new developments, but the consistent application of 'tried-and-tested' means of handling specific inputs which can be traced, at least, to the 1920s with the Petroleum Department promoting firms in the Middle East, the local officials handling the southern tribes, and the Foreign Office recognising a Soviet sphere of influence in the north of Iran.

Bureaucratic politics is a variant of the organisational process model which emphasises the struggle between different civil servants to increase their own influence and the importance of their organisation. Officials, in this view, are not at all unaware of the significance of their actions. Viewing national interests through the eyes of their role in their departments, they use all resources at their disposal to have that view prevail over others. A foreign policy decision, therefore, may be the result not of any single view of the national interest, and it may not have much to do with the intrinsic merits of the problem - even in times of crisis - but may merely represent the only acceptable compromise between competing bureaucratic interests.

It certainly seems applicable to some issues in the United States. I exposed bureaucratic struggle between civilian and military authorities during the Second World War, between the Petroleum Reserves Corporation and the State Department over the control of foreign oil policy, and between the Justice Department and State Department

over the applicability of antitrust policy. However, as my treatment of the British role in the Azerbaijan crisis suggests, I think the organisation process model is more applicable to the United Kingdom. This supports the findings of Wallace who, after examining foreign policy-making in Britain, West Germany and France, concludes that “in no case can the observer safely ascribe the outcome to bureaucratic politics alone.”¹¹ The basic problem with the bureaucratic politics model is the strict correlation between bureaucratic position and policy preference. If this is relaxed, we weaken the explanatory power of the model. If it is not relaxed, then it may be more appropriate to consider the looser, organisational process model as ubiquitous and more applicable to Britain, and bureaucratic politics as a particular variant, mainly applicable to the United States.

9.4 PSYCHOLOGICAL APPROACHES

According to Boulding. “We must recognise that the people whose decisions determine the policies and actions of the nations do not respond to the ‘objective’ facts of the situation, whatever that may mean, but to their ‘image’ of the situation. It is what we think the world is like, not what it is really like, that determines our behaviour.”¹² The ‘facts’ of a situation never speak for themselves - they have to be selected, ordered and given meaning. Thus, all we ever have are images, or representations, never reality. Commentators “have to acknowledge and take into account, in one way or another, the point of view of the actor, both because it bears witness to an irreplaceable intimacy with the empirical phenomena to which the analysis refers, and, above all, because in the last

¹¹William Wallace and W. Paterson ed., Foreign Policy-Making in Western Europe (Farnborough, Hants.: Saxon House, 1978), 48.

¹²Kenneth E. Boulding, “National Images and International Systems”, in International Politics and Foreign Policy – A Reader in Research and Theory ed. James Nathan Rosenau (New York: The Free Press, 1969), 423.

resort it is an irreducible part of this same phenomenal reality.”¹³ The self-perception of the corporate leaders as a society or club was a major reason for preferring the analogy between the organisation of oil companies and international society, rather than oil companies and international regimes. Growing awareness of this dimension of behaviour has resulted in a body of literature which highlights the role of misperception in deterrence, the escalation of crises, and the onset of war. For instance, political psychologists such as White sought to explain East-West relations in terms of a pathological spiral of hostile and defensive misperception.¹⁴

A problem with the use of psychological approaches is that it appears to hearken to the sort of intentionalism associated with examining history as the story of great men. It cannot be applied to the masses or other vast social forces which historians today consider, whether classes, institutions, nations, genders, or ideologies. “The criticism raised here is not that these approaches are useless but that their use is restricted to particular structural situations in which individuals’ ...point of view might play a role...It would, for instance, be more likely that individuals played a bigger role in situations of crisis.”¹⁵ For this reason I have restricted the use of psychological analysis to Musaddiq during the nationalisation crisis.

Much of the psychologically oriented writing about foreign policy has dealt with the investigation of crisis behaviour and, according to Oppenheim, it is this area that has

¹³Michael Girard, “Theory and practice in foreign policy: epistemological problems and political realities” in Theory and Practice in Foreign Policy-Making: National Perspectives on Academics and Professionals in International Relations ed. Michael Girard, Wolf-Dieter Eberwein and Keith Webb (London: Pinter, 1994), 8.

¹⁴White, R.K., Fearful Warriors: A Psychological Profile of US - Soviet Relations (New York: Free Press, 1984).

¹⁵Henrik Larsen, Foreign Policy and Discourse Analysis: France, Britain and Europe (London: Routledge, 1997), 5.

exhibited "the biggest and most clearly established gains".¹⁶ A well-established, although not universally accepted, definition of crisis has been provided by Hermann. Decisional situations may be classified in terms of three dimensions representing the perceptions of participants - threat, time and surprise. A crisis is said to exist when there is a serious threat to high priority goals, when the amount of time allowed for decision is sharply limited, and where precipitating events have been unanticipated. A range of conditions have been observed in crises. They include a sudden rise in the volume of information that decision-makers are required to process (sometimes leading to overload); resort to informal channels of communication; and the location of responsibility for decision at the highest level of the Government hierarchy. When compounded by a sense of threat, an awareness of potentially devastating costs and risks, high levels of uncertainty and relentless time pressure - the result is to produce a psychological state of stress in the decision-maker.¹⁷

There are some typical reactions, including a tendency to aggression, diminished focus of attention and highly selective perceptions, a failure to distinguish between sense and nonsense, the loss of the ability to abstract, loss of complexity in terms of political cognition, and reduction in the tolerance of ambiguity.¹⁸ Images can become fixed with negative consequences for the policy-maker.¹⁹ Musaddiq's fixed image of the British as sophisticated manipulators and imperialists made him desire their total removal and adamant that this was the best chance to achieve this. For this reason he was unwilling to

¹⁶Oppenheim, Abraham Noftali., "Psychological Processes in World Society" in Conflict in World Society ed. Michael Banks (Brighton: Wheatsheaf, 1984), 112-127. In this article the author reviews the existing literature on crisis. For his evaluation of the general literature, see "Psychological Aspects" in International Relations: A Handbook of Current Theory ed. Margot Light and A.J.R. Groom. (London, Pinter, 1985), 201-213.

¹⁷Hermann, C.F. ed., International Crisis: Insights from Behavioural Research (New York: Free Press, 1972), 14.

¹⁸Holsti, O.R., Crisis, Escalation, War (Montreal: McGill-Queens University Press, 1972), chap. 1.

cooperate to allow them back in any way. Moreover, his view of the Americans as anti-colonialists did not square with the growing importance of anti-communism in American foreign relations.

9.5 IMPLEMENTATION APPROACHES

The perspectives considered earlier have focused on how decisions are made. This section looks at how they are implemented. When foreign relations are considered as a whole, rather than simply as an analysis of policy statements, we begin to look at how the policy machine acts in the international environment. From this perspective the role of Anglo-Iranian and Shell is just as significant as their role in decision-making. One major problem is that there is 'slippage' between the purposes of the decision-makers and the actual implementation of the policy. A good example is the gap between the intentions, actual processes, and short and long-term results of the Bretton Woods agreements.²⁰

The method of applying the implementation approach is to describe outputs and outcomes, and then trace backwards to those factors which seem to have influenced the output. Political involvement and leadership emerged as a direct but occasional determinant in the cases of the Anglo-American oil talks and nationalisation crisis. However, in general it was a constant but rather indirect low-key factor. The Government played as important a role in monitoring and responding to foreign policy outputs, as in directing them. Political influence acts on and responds to the ongoing routines developed by implementing agencies.²¹

¹⁹Shannon Lindsey Blanton, "Images in Conflict: The Case of Ronald Reagan and El Salvador," International Studies Quarterly 40 (1996): 23-44.

²⁰Leon Martel, Lend-Lease, Loans and the Coming of the Cold War: A Study of the Implementation of Foreign Policy (Boulder, CO: Westview, 1979).

The implementation approach looks at outcomes as well as output. If the policy during the Second World War was to optimise oil allocation, the output comprised relations between the British Government and companies, and relations between the British and American oil administration. The outcome was a greater share of oil for Britain than would have been possible if a more formal mechanism had been adopted. The success of the British 'soft ball' in distorting the web of the society of majors so as to resist the United States 'needle' is interesting. It tells us that the presence of Anglo-Iranian and Shell in implementing output ensured greater congruence with the 'web' and, therefore, greater success in distorting it to secure outcomes.

The role of the companies remained significant as they were able to deal with the problem of 'complexity of joint action'. As different actors are involved implementation becomes very complex as there needs to be coordination. Even without the problems of organisational politics, the complexity of coordinating different actors explains the many failures and partial successes of coordinated action in the international system. Most of these joint actions are shaped from the 'bottom up' by the flow of complicated implementation procedures.²² This is exactly where the role of Anglo-Iranian and Shell in implementation came into its own. All the problems of complexity were evident. It was necessary to coordinate with agencies which were foreign and operating under their different rules and norms, and where working an implementation coalition was central. Moreover, there was little point in attempting to exercise political control since there were few direct levers which policy-makers could use. Under such conditions our political agents have less impact than bureaucracies. In this context transnational groups may facilitate cooperation between states by allowing states to link into their private networks.

²¹Dunsire, Implementation in a Bureaucracy (Oxford: Martin Robertson, 1978).

²²Michael Clarke and Brian White ed. Understanding Foreign Policy: The Foreign Policy Systems Approach (Aldershot: Edward Elgar, 1989), 178-179.

Anglo-Iranian and Shell were able to shape British policy to make it amenable to the 'web' of the society of majors. The United States had a different foreign policy environment characterised mainly by bureaucratic politics between different Government agencies. Its policies were frequently perceived as anti-web and the majors and the British Government resisted them.

This pattern of implementation is much more subtle than the patterns of slippage referred to above for it is not clear whether decision-makers do make a difference or not to the flow of events.²³ There were few specific policy statements during this period, notable examples being the policy to be followed in the Anglo-American oil talks and the statements during the Iranian nationalisation crisis. On these occasions British policy was made by the organisational politics between different departments, But even in such cases what Britain 'wanted' was, in most cases, what officials thought they could achieve. For the most part, they believed that the only people who could tell them what they could achieve were the majors.

Another problem arises in those cases in which implementation is not simply the output of policy, but it is the policy. Officials working in highly specialised areas who have to make important decisions on a day-to-day basis may establish procedures and networks which produce a regular 'flow' of decision-making activity. "As the old saying in Whitehall goes; 'once is a cock-up, twice is a coincidence, three times and it's a policy'."²⁴ The close networks between Anglo-Iranian, Shell, and the Petroleum

²³Hood, C., The Limits of Administration (London: Wiley, 1976). See also Dunsire, Control in a Bureaucracy (Oxford: Martin Robertson, 1978).

Department fall into this category. But in these circumstances the 'policy' may only be a rationalisation of the flow of activity. In this way, policy is not chosen, it is formed in the flow of activity. This factor was particularly significant for oil relations during the Second World War.

The significance of the companies in the Anglo-American oil talks and their retarding influence on concessions during the nationalisation crisis has been discussed. Moreover, these were instances of activism by public decision-makers. In the absence of very active and decisive political involvement from the top, the 'policy' was even more the sum total of the routine. The implementers, through practice, were making policy, and these implementers were often private sector corporations with their own agendas.

Implementation rather than deliberate choice may be the major determinant of a state's behaviour, and it is behaviour that is observed by other states as a guide to their own actions. This is, perhaps, why both the United States and Iran regarded Anglo-Iranian as the instrument of the British Government in this period. While analysing policy decisions is important, without the implementation perspective we have theories of foreign policy decision-making which are only partial accounts of foreign relations.

9.6 CONCLUSION

This chapter forms a vital link in the thesis. Without it we lack theoretical discussion of the way the companies actually shaped British foreign oil relations. In part three we analysed the way in which firms and the society of majors shaped each other.

Here, I examine how these pressures were translated into state behaviour. The range of approaches I use do not amount to an elegant theory but they illuminate the translation of corporate agendas and resources into British foreign relations.

²⁴ Michael Clarke and Brian White eds. Understanding Foreign Policy: The Foreign Policy Systems Approach (Aldershot: Edward Elgar, 1989), 178

PART FIVE

I conclude by reviewing the major findings of the research. I recapitulate the central themes which were the importance of the society of majors and the domestic relationship between state and firm in British foreign oil relations. This demonstrates the significance of relations among firms and relations between state and firm in shaping relations among states. Foreign relations are constructed through the interplay of both Governmental and corporate agendas and resources.

CHAPTER TEN: CONCLUSION

This dissertation has examined the way in which numerous other actors operating above and below the level of the state are of relevance to foreign policy analysis. Though states may remain the central referent for foreign policy behaviour these other actors become significant, not only to the extent that their behaviour affects or influences Governments, but also in their own right. Appreciation of inter-state behaviour in economic issue areas may be enriched through analysing the impact of leading firms in that sector on foreign policy behaviour. The traditional method of analysing foreign economic policy using Government records permits us to understand state-state relations from one dimension. The additional use of company archives enables examination of state-firm and firm-firm relations, also. We have three dimensions rather than one. We can see what impact, if any, these extra two dimensions have on state-state relations. Each historical case will differ, but during this project it became clear that Anglo-Iranian and Shell were important actors in British foreign oil relations between 1939 and 1954.

Two heuristic tools have been used in this thesis, the first being the model of triangular diplomacy introduced by Susan Strange. This enables us to disentangle relations between firms, relations between states, and relations between firms and the state, before tying these relationships back together to see how each side of the triangle influences the other two. The second is the analogy with international society. This enabled us to distinguish different facets of relations between firms. It became clearer that the identity and interests of the firm were shaped by its participation within this society.

Since it was found that the companies played an important role in formulating and implementing 'British' foreign policy, the reification of the British state-as-actor was seen to have prevented important issues being researched. These included the significant role of the companies in foreign policy thereby challenging the neglect of corporate archives for the study of diplomatic history, but also the role of the society of majors in shaping the interests of the firms which might be translated into foreign policy processes and decisions. The porosity of the boundary between the economic and political, and the domestic and the international enabled a diverse range of actors and interests to shape 'British oil relations.' Indeed, British oil relations may be recognised as a space rather than a fact. This area has been termed the 'Frontier' by James Rosenau who refers to "replacing 'a boundary which isn't there' with 'a new and wide political space' - here called the Frontier, with a capital 'F' to stress its centrality."¹

10.1 HISTORICAL DEBATES

Material from the corporate archives supplemented Government records. The historical narrative thus generated differed from the conventional one in several ways. It challenged the assumption that the inter-war years saw the general breakdown of international cooperation. In fact, there had never been closer international collaboration. While there was intergovernmental rivalry between the United Kingdom and the United States, states are only one set of actors in the global arena. The thirties was witness to unprecedented collaboration between the international oil companies. Moreover, such collaboration affected intergovernmental relations as the development of private international institutions by the companies facilitated accommodation between the states. The degree of United Kingdom - United States Governmental agreement over international oil was higher than it had been at any point earlier in the twentieth century.

¹James Nathan Rosenau, Along the Domestic-Foreign Frontier: Exploring Governance in a Turbulent World, Cambridge Studies in International Relations, no. 4 (Cambridge: Cambridge

The reformed narrative account also contributes to the growing literature dissatisfied with the notion of an Anglo-American 'Special Relationship'. United States policy towards the United Kingdom during the Second World War was far from benevolent. However, damage to British interests in oil was partly offset by the close working relationship between Government and the companies combined with the transgovernmental coalition, which these companies developed with the United States companies. In the period of United States neutrality the companies had managed private negotiations in order to garner as much United States assistance as possible. This informal arrangement was developed even after the United States joined the war. Allied joint programming was largely managed by British and United States company personnel, then employed in public service. Since a system of formal public negotiation would highlight the discrepancy between the two states the United Kingdom opposed the various challenges to the informal mechanism mounted by the United States Government.

The corporate diplomats who managed global oil production and supply for the Allies were the same individuals who had performed these functions for the companies in the inter-war years. I discovered considerable continuity among the key individuals. It is hardly surprising therefore that I was able also to delineate the continuation of pre-war agreements during the Second World War in contrast to the prevailing view that all cartel arrangements ended in 1939. The war nevertheless caused disruption to these programmes, particularly through the enforcement of short haul that led to greater emphasis on drawings from the Americas and a decline of Anglo-Iranian production till 1942-3. Thereafter, the collapse of the Netherlands East Indies led to a renewal of Persian Gulf production, which was also encouraged as United States companies and Government departments took renewed interest in the Persian Gulf. The pre-war

agreements were now found wanting as they limited the expansion of Persian Gulf production and limited United States participation in the Persian Gulf.

The two separate Anglo-American Oil Agreements were largely an attempt to generate consensus on the mechanisms for the increase of Persian Gulf production. The United States Government took an increased interest in the Persian Gulf and through the Petroleum Reserves Corporation appeared to be seeking a direct interest in a concession or pipeline. The British companies were able to persuade their Government to approach the State Department for talks at the same time as the United States companies urged the State Department for talks. In these talks the United States plans for public regulation of the international industry were resisted by the British Government, which contributes to the literature rejecting the thesis of post-war American domination and control of British economic policy. The British also won concessions for the special use of sterling. The main departure was that it was agreed that the majors would resolve the removal of pre-war restrictions such as the Red Line agreement. The talks effectively removed the risk of direct American Governmental interest in the international oil industry, whether through acquisition of equity in the industry or through formal regulation. Instead, the talks furthered the development of private regulation of the industry. Nevertheless, local companies in the United States continued to fear any public agreement and prevented ratification. The non-ratification of the Agreements does not negate their importance. Hitherto, their importance has been obscured. The Agreements made possible the new accord in Persian Gulf oil between 1944 and 1951 which was the purpose of the companies who had originated the idea for the talks.

The Persian Gulf was transformed after 1944 as its share of world oil production dramatically increased. This increase spurred the post-war repairs to the web of the society of majors that had been torn in places during the trade war precipitated by the Second World War. The post-war agreements strengthened the interconnections of the

web. Shell entered into a twenty-year contract for oil produced by the Kuwait Oil Company, a joint venture between Anglo-Iranian and Gulf. Anglo-Iranian made long-term contracts with Socony-Vacuum and Jersey. Aramco in Saudi Arabia extended its membership to include Jersey and Socony-Vacuum in addition to Socal and Texaco. These developments were made possible by the abrogation of the Red Line agreement by the majors which was made possible during the Anglo-American oil talks of 1944-1945. Nevertheless, the success of the British in resisting United States plans during the oil talks could not have been predicted in advance. At the same time in 1944, the Foreign Office, therefore, supported the search for British oil concessions in the north of Iran. This worried the Soviet Union on its southern flank and it began to safeguard its interests through aggressive support of the left-leaning Tudeh party, and a demand for Soviet oil concessions. The Iranian Government turned to the United States as a counter-balancing power. The ensuing face-off in the northern territories in 1946 was one of the earliest Cold War confrontations. Thereafter, the United States also maintained greater interest in the Kingdom of Saudi Arabia and Kuwait. Traditional accounts of the Cold War focus on Soviet aggression while revisionist accounts reveal capitalist pressures from the United States economy. In addition, this evidence highlights the role of the United Kingdom outside the European theatre, and the role of British capital in shaping the role of the United Kingdom.

Through this crisis the Iranians learnt to equate the denial of oil concessions and their national integrity. Meanwhile, continuing fiscal difficulties in Britain led to the establishment of dividend limitations. As the Iranian budget was significantly dependent on revenues from Anglo-Iranian, and part of these accrued from dividend payments, the Iranians began a series of negotiations which culminated in legislation to remove the Anglo-Iranian Oil Company as a prerequisite for national rejuvenation. The nationalisation crisis lasted from 1951 to 1953. The United States continually encouraged the British Government to offer greater concessions to the Iranians. The slow

pace of concessions frustrated them. The British Government were influenced by the Anglo-Iranian who, in turn, was supported by the other majors in resisting these concessions. The majors also organised a boycott, which caused economic crisis for the Government of Musaddiq at the same time as the British Government maintained political intrigues against Musaddiq. The two factors fused in his mind, but as it became clear that the Iranians would not revoke their nationalisation, whatever the concessions, and in the context of fears of the spread of communism a joint CIA-MI6 coup toppled Musaddiq.

10.2 THEORETICAL IMPLICATIONS

One study of the arrangements among the firms has concluded that a conspiracy existed. Thus, Engler observes that, "a cluster of integrated corporations controls this basic resource. They operate as political institutions, and together they take on the full nature of a government... The global interests and jurisdictions of these corporations, in turn, are part of a system of arrangements and understandings that may be called the first world government."² I found that throughout the period companies competed with one another as well as cooperated, which qualifies the over-simplistic notions of a cartel, which was economically successful, seamless, and engaged in manipulation of both parent and host Governments.

In fact, the society of majors faced hardship during the Depression, suffered from British economic controls in the post-war period, and faced increasingly assertive Persian Gulf states. Relations between members were often frayed, but the concept of society requires a lesser degree of harmony and single-mindedness among its members than the notion of 'government'. Moreover, in its relations with host Governments the

²Robert Engler, The Politics of Oil: A Study of Private Power and Domestic Directions (Chicago: University of Chicago Press, 1961), 3-4.

outcome was often uncertain, and the companies relied on the support of parent Governments. In relations with parent Governments, its specific leverage in that moment, for instance, due to its expert opinion or ability to implement policy or build transgovernmental coalitions affected its importance. Other factors included the personality of the politicians, standing of the department and other features of organisational politics. The companies did not constitute a world government, but did contribute to global governance, by which I mean the overall effect of different sites and steering mechanisms in the global system.³

Corporate archives enriched the historical account in many ways in this thesis. However, while they supplement traditional accounts, they do not supplant them. Governments remain important actors and it is the specific interplay of non-state actors and various agents and agencies of Government, which determines the specific form of 'national' interest and 'power.' It could be argued that oil represents a special case because it is a strategic commodity and because the oil companies are among the largest industrial enterprises. However, the most important considerations appear to have been the close relationship between state and firm in Britain combined with the integration of the British and other firms in an international society of majors. One hypothesis is that whenever these two criteria are met the firms will have a substantial impact on British foreign policy behaviour, whichever commodity is involved, and whatever the size of the firms.

It is important to assess how far, and in what ways, these findings can be generalised. They challenge the realist methodology of studying foreign policy in economic issue areas in several ways. By highlighting the rich material to be gathered

³James Rosenau, "Governance, order and change in world politics", in Governance without Governments: Order and Change in World Politics ed. James N. Rosenau and Ernst-Otto Czempiel, Cambridge Studies in International Relations, no.20 (Cambridge: Cambridge University Press 1992).

from corporate archives, firm-firm and state-firm interactions are seen to deepen analyses of state-state relations. It is only by an examination of corporate archives that one could be satisfied that the firm had no leverage on foreign policy. If any leverage were detected then it becomes vital to make a more in-depth study to better understand the corporate dynamics.

For instance, in cases where the industry is not globalised or where global cooperation among the leading firms is absent there may not be a layer of institutionalised private governance in the international system. This will affect firm relations with the local state for they will be more dependent on it for achieving goals. In these circumstances intergovernmental relations would be more important in world politics. In such circumstances, firms and firm dynamics would be marginal, and the resources marshalled over issues would be state-centred. Nevertheless, the use of corporate records may be significant even when no system of private international governance is prevalent. For firms may still play an important part in foreign policy. The tools of foreign policy analysis made it possible to look at the complete foreign policy system rather than simply to note policy decisions. The scope is wider comprising decision making processes (inputs), decisions, implementation, and outcomes (feedback). This sets decisions in their proper context. It also sheds light on the non-public actors and processes in constituting foreign relations.

Theorising these state-firm relations points up the benefits of looking at foreign policy behaviour rather than foreign policy decisions. There were very few direct policy statements regarding British foreign policy in oil, and the first articulated policy, as opposed to disparate statements, emerged in 1944 just before the Anglo-American oil talks. By focusing on state-firm relations more comprehensively, including decision making processes (inputs), implementation, and outcomes as well as the decisions

themselves it is possible to establish the threads of continuity woven together in the narrative of part three.

The inter-war years witnessed the development of a policy encouraging international joint ventures between British and United States companies as a means of diffusing tensions over oil concessions. The policy was thus to be implemented by the firms developing trans-Atlantic business connections. During the Second World War the British Government was able to take advantage of their close relations with the companies to build a transgovernmental implementing coalition managed by the companies. The senior position of oilmen from these companies resulted in the implementers in practise acting as decision makers. Hence, the continuation of the private international agreements during the war.

The British companies also played an important role in the Anglo-American Oil Agreements. They promoted the talks and then assisted in the negotiating team for the technical discussions. The decisions of the most important session of these discussions in terms of describing what was to be included in the Agreement was session nine, which reported on the decision of informal groups to leave effective resolution of the issues to the global companies. The political input was effectively a struggle between the British and American Governments, the result of which was to create conditions in which the companies could be assured that their private global governance would not be challenged by American Governmental initiatives or regulation. The ministerial team, which followed later in 1944 basically ratified what had been decided. The Agreement of 1945 was only changed in further watering down the powers of the proposed international petroleum commission. The chapter sheds interesting light on decision making during international negotiations in economic issues. The companies were regarded as the relevant experts and the arbiters of the Agreements. The British took this position voluntarily, the United States more hesitantly.

The crisis in the northern territories of Iran demonstrates how foreign policy making bodies may become caught in routine procedures, which may be inapplicable to changing circumstances. Different British political actors in Iran continued their traditional means of maintaining influence in Iran – by dividing Majlis and monarchy, and provinces and centre, by supporting oil concessions as a means of extending their influence, and accepting a Soviet sphere of influence in the north, seemingly oblivious to new factors: Soviet expansionism and United States capitalist expansionism. This coalescing of forces resulted in an early Cold War crisis. The organisational politics between petroleum interests and political interests in Iran was resolved in favour of supporting Shell's concession seeking in the northern territories. Shell's drive for a concession originated in and triggered balance of power manoeuvres from the other majors. After the Soviets intervened to retain their sphere of influence, American pressure was welcomed by the Iranians to secure their territorial integrity and independence. However, the United States intervened to maintain the anti-communist position of the Persian Gulf states, not to secure the independence of the local actors in Saudi Arabia, Kuwait, and Iran.

The role of the corporate great powers in boycotting nationalised Iranian production, thereby causing economic collapse, which heightened fears of communism in Iran, was significant. For the nationalisation crisis of 1951-3 demonstrates many of the psychological features of crisis. If the international industry had not maintained such a tight embargo on Iranian production, Musaddiq may have had the leeway to implement measures which would have considerably lessened the chance of communist takeover, which was the dominant image haunting United States foreign policy makers when they supported the British plans for covert action. However, Musaddiq himself regarded the British company and state as inseparable and thereby regarded the exclusion of Anglo-Iranian as crucial to political freedom. Given the confusion of Third World nationalism

with communism in American circles, Musaddiq could have been considered a target for covert action, even if the economic conditions had been more stable than they were.

As soon as we concede the importance of examining state-firm relations together with state-state relations we depart from a strictly realist account of international history. By a realist account I mean one based on states as the only foreign policy actors using national resources to pursue national interests. The examination of firms in foreign relations unpacks this formula in three ways. The first is implied, for if foreign policy is a record of specific political decisions, then by definition firms have no role to play. So, to examine the role of firms we must look at the system of foreign relations, which incorporates a study of decisions within a wider context including their origins and implementation. Second, it examines the role of non-public actors in the policy-making process bringing to light whose interest the 'national' interests actually serves. Finally, in circumstances where the state and firm are working closely, the resources of the firm may become an important aspect of 'national power'.

It becomes interesting to investigate the link between the role of the companies in British oil relations and the ability of the British to slow the transfer of hegemony in oil relations to the United States. For it is true that there is no necessary link between a state and extended capital from that state, as Murray argues. However, he sees the power of the state as the crucial variable; weak states have less in common with their firms.⁴ In fact, there was greater coincidence between the agendas of the British Government and both American and British firms. We saw that the crucial variable was the organisation of the market.⁵

⁴Robin Murray, "The Internationalization of Capital and the Nation State," *New Left Review* 67 (May-June 1971): 84-109. Reprinted in Robin Murray ed., *International Firms and Modern Imperialism* (Middlesex: Penguin, 1975), 133.

⁵In different arenas different factors will construct the relevant domain. For other applications of constructivist approaches, see Scott Bowden, "Explaining change in the international trade in armaments: A constructivist approach," *International Politics* 34.3 (September 1997): 233-263,

Hedley Bull's five institutions of international society neatly captured the normative basis of the multifaceted nature of international cooperation among the companies. What is interesting about the society of oil majors is how this web was supported by normative cohesiveness based on ideas about the limited role of public authorities and usefulness of private international cooperation shared by a core group of international managers. Such cooperation in turn reinforced a sense of society. The idea that norms and institutions can be combined is central to the 'new institutionalism' with its emphasis on communicative action, duties, social obligations, and norms of appropriate behaviour. Moreover, to incorporate norms and values and, therefore, informal understandings and rules into a concept emphasising 'structure' is only unusual if one has a rather mechanical understanding of structure. The society of majors structured the behaviour of the firms, without determining it.⁶

The literature on international society is state-centric. States are the main participants in international society. Other actors are regarded as part of transnational society. Therefore, the institutionalisation of the international oil market along the lines of an analogy with Hedley Bull's five institutions of international society does not imply that the firms should be regarded as members of international society, nor yet that the international industry, however institutionalised, is part of international society. What the analogy demonstrates is that a rich layer of private international cooperation exists in the world market economy, that it is normatively based, and that it is institutionally organised.

and Lawrence R. Robertson, "The constructed nature of ethnopolitics," International Politics 34.3 (September 1997): 265-283.

⁶Friedrich Kratochwil, Rules, Norms, and Decisions (Cambridge, Cambridge University Press, 1989); Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds. Structuring Politics, Historical Institutionalism in Comparative Analysis, (Cambridge, Cambridge University Press, 1992).

The evolution of a society of majors facilitated the Anglo-American entente over oil in the inter-war years. Similarly, the Allied transgovernmental implementing coalition depended on diplomat-type relations among a core group of international managers. The role of the implementers making policy shaped the trade war hastened by the catalyst of wartime disruption. The decision making processes of international economic negotiations in the Anglo-American oil negotiations reflect the primacy of transnational business practice in the creation and development of international business law.

On the other hand, concession-seeking by Shell in a balance of power manoeuvre aimed at the other majors created tensions on the Soviet Union's southern flank. When the British found themselves unable to resist the Soviets, American involvement became inevitable. The Cold War represented a schism in international society. Moreover, the Iranian nationalisation crisis reflected the tension between the principle of national sovereignty and private property in international society. Thus, the transnational society of oil majors was supportive of some elements within international society, but a divisive influence at other times.

In sum, though national Governments were extremely significant in international relations, transnational companies did crucially affect state interests, policies, and inter-state relations. The impact of transnational corporations was seen to depend on two factors - differences in domestic structures and degrees of international institutionalisation.⁷ The domestic structure was important since building winning

⁷This conclusion supports the findings of Thomas Risse-Kappen, with the significant departure that we have looked at the private international institutionalism of the society of majors, while he examined inter-governmental and transgovernmental institutionalism. Thomas Risse-Kappen, Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions, Cambridge Studies in International Relations, no.42 (Cambridge: Cambridge University Press, 1995).

coalitions within the national policy process depends on the ability to adjust to the structure of the target country. British companies found this easier than their American counterparts. The international institutionalisation of the society of majors shaped the companies' behaviour and thus indirectly the foreign policy process. It also directly constrained United States policy. The founding principle of the society of majors was private global governance. The United States wanted to bring this private governance under a system of public control. They were unable to achieve this because of the alliance between United Kingdom foreign policy and the oil companies. This alliance, in turn, was the product of the important role of Anglo-Iranian and Shell in British oil policy between 1939 and 1954.

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