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**The Gulf in the Early 20th. Century:  
foreign institutions and local responses**

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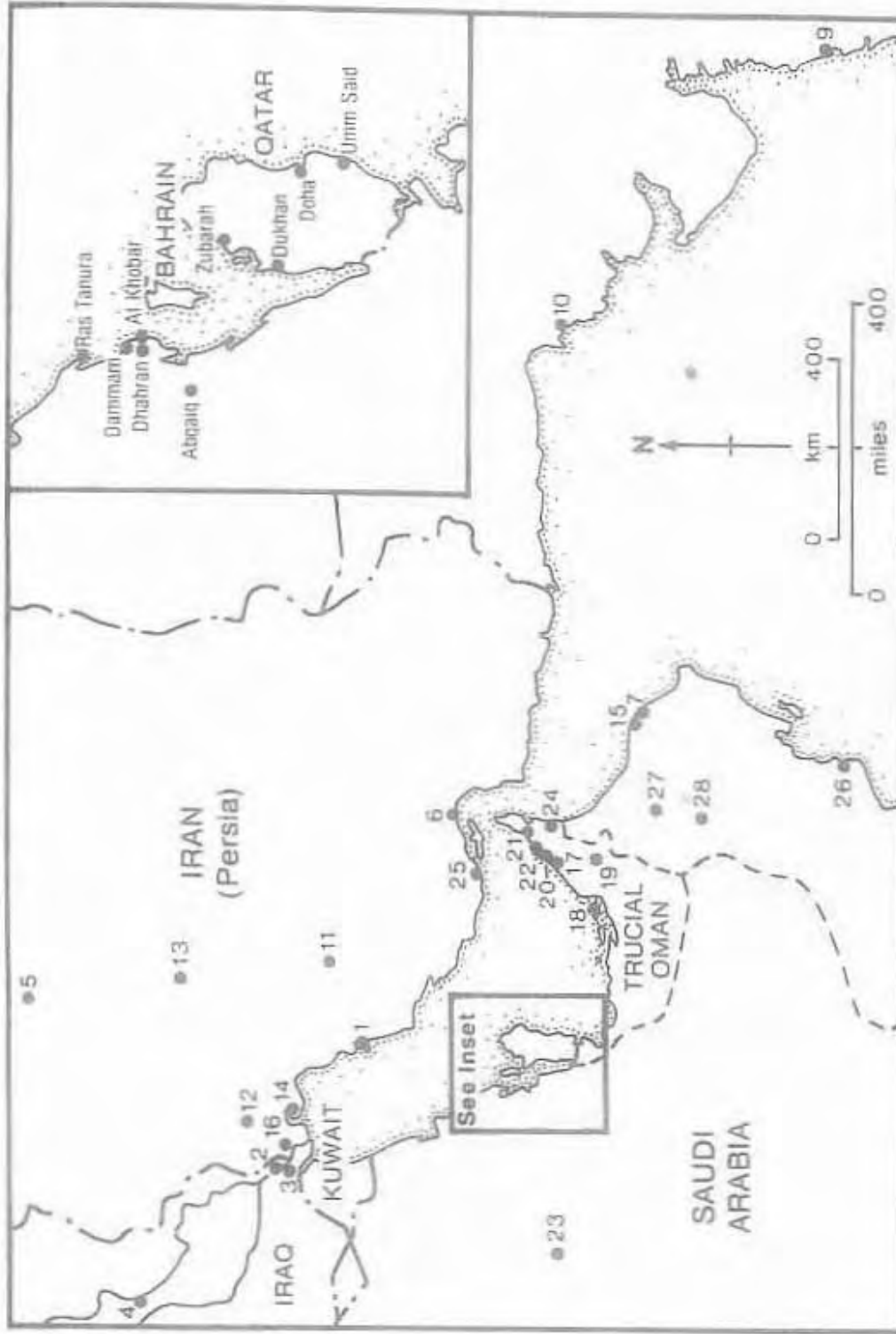
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Location Map : The Gulf region



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- 2 Khorramshahr (Mohammerah)
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- 4 Baghdad
- 5 Tehran
- 6 Bandar Abbas
- 7 Muscat
- 8 Dubai
- 9 Bombay
- 10 Karachi
- 11 Shiraz
- 12 Ahvaz
- 13 Estehar
- 14 Bander-e-Shahpur
- 15 Mutrah
- 16 Abedan
- 17 Sharjah
- 18 Abu Dhabi
- 19 Buraimi
- 20 Ajman
- 21 Raz al-Khaimah
- 22 Umm Al-Qarwain
- 23 Riyadh
- 24 Fujairah
- 25 Lingah
- 26 Duqm
- 27 Ibbi
- 28 Fahud

## INTRODUCTION

Few people today will need to be reminded that the Gulf region of the Middle East plays a crucial role in the world economy, and is a major focus of international rivalries and conflicts. For the ordinary newspaper reader, the rise of the Gulf to global importance has been an affair of the past three decades; before that, the region tended to be seen as something of a backwater, both by Westerners and by other Middle Easterners. What tends to get forgotten, however, is that the process has not been historically reciprocal. The Gulf may only have had a fundamental impact on the outside world since the 1950s and 'sixties, but the outside world has had a fundamental impact on the Gulf for over a hundred years. This collection of studies aims to illuminate this process, by examining the effect of foreign economic and political penetration on the life of the Gulf states during the first half of this century. Within its relatively short confines, some important aspects of the story have been left unexplained. The lack of a study of developments in Iraq was keenly felt by the organisers of the conference, held in Durham in May 1985, at which these papers were originally presented, since conditions in Iraq were likely to provide some interesting contrasts with those in the other Arab states of the Gulf, as well as those in Iran. On the other hand, it is hoped that the papers, which approach different parts of the region from a wide range of perspectives, will provide some useful insights for generalists in the field of modern Middle Eastern politics and economics, besides the growing band of Gulf specialists.

At first sight, and in today's conditions, the Gulf region may often be treated as though it were a homogeneous entity. On closer acquaintance, however, one is struck by its diversity. During the first half of this century the region contained, firstly, a string of small and traditionally-run Arab states which were effectively under British control. Besides them, in central and western Arabia, Abd al-Aziz ibn Saud was still engaged in constructing his kingdom in territories which had previously been a political no-man's land. It was not until 1932 that the Kingdom of Saudi Arabia was officially established. To

the north, what is now Iraq started off as an outlying province of the Ottoman empire. As such, it acquired some of the trappings of modern government, even if in a very weak and inefficient form. It passed through a period of indirect British rule, under the Mandate regime of 1920-32, followed by official independence, though still under substantial British influence. On the northern shores of the Gulf, Iran (before 1935, Persia) stood out as an ancient empire which, at the beginning of the century, appeared to be in a state of terminal decay. It was only during the reign of Reza Shah, in the 1920s and 'thirties, that its future as a single and independent political entity seemed to have been assured. To put the intra-regional contrasts in a nutshell, Iraq and Iran were countries in which the concepts of territorial statehood and regular bureaucratic government were at least familiar, if imperfectly applied,<sup>6</sup> whereas in most of the Arab states of the Gulf they were not. The Gulf shaikhdoms were also distinguished by their relatively tiny size, both in area and population. The impact of the Imperial powers of the day was likely to vary significantly in societies with such radically different backgrounds.

In the smaller Arab Gulf states, the penetration of Western commercial enterprises, in the form of banks, shipping lines and, above all, the oil industry, had the most fundamental effects on political as well as economic structures. As Patrick Bannerman succinctly puts it, these were "very simple, very traditional and very conservative" societies (p.88). The incoming firms were forced to take on functions which were well outside their normal commercial boundaries, simply because there were no indigenous institutions capable of performing the required tasks. An example is that of the British Bank of the Middle East which, as Geoffrey Jones explains, found itself contributing to the running of the first hospital, modern port and electric power station in Dubai, besides the customs administration. As the first modern bank in several states, it often acted as the government's central bank. In a parallel field, the British India Steam Navigation Company, whose activities Stephanie Jones relates, had to set up its own agencies in the Gulf ports from scratch, since there was no network of established firms in the region.

More importantly, the economic penetration of the West

presented Arab political and social institutions with profound problems of adaptation. The oil industry is sometimes singled out as an activity with minimal impact on the economies of the countries where it operated. It is held to have generated little extra employment; much of what was created had to be imported anyway, due to the lack of skilled workers in the states affected. Practically everything the industry consumed was imported, it is argued, and everything it produced was exported. Ian Seccombe and Richard Lawless produce evidence which sharply contradicts this view. As their paper shows, the oil companies were major generators of employment in the region, even in the early days - both directly, and indirectly, through local contracting firms. The growth of such firms also undermines the argument that Western capitalism obstructed, rather than aided, the development of indigenous modern commercial institutions. Similar effects were seen in the banking field, where national banks followed the trail blazed by their overseas competitors (in some cases, with help from other foreign banks).

The political impact of foreign economic penetration was no less striking. The traditional political institutions of Arabia were based on personal and tribal loyalties. Allegiances were extremely mobile; to quote Patrick Bannerman again, "the political unit was not a territorial concept, but was people-centred. Further the ruler - or tribal leader - had to earn allegiance and his poor performance was critically assessed" (p.78). Rosemarie Said Zahlan joins him in pointing out that the oil firms forced rulers to define their frontiers, and thus to think of political power in territorial terms, for the simple reason that they needed to know exactly what territories their concessions contained. At the same time, the oil revenues reduced the ruler's economic (and hence political) dependence on those whom he ruled, and generated the development of a state bureaucracy which could act as a blocking mechanism between him and his people. Tribalism is certainly not dead, even today, since it survives in a myriad of new structures and forms - for instance, in recruitment practices in trade and industry, or in the establishment of tribally-based neighbourhoods in modern conurbations. Nevertheless, the danger of political alienation is there, and seems to be realised by most Gulf leaders. The



need to avoid its most chronic effects, which were seen in the case of the Iranian revolution, is something which other Gulf rulers cannot afford to ignore.

The fate of the Iranian monarchy may seem ironical in this context. It was in Iran that the oil industry was first developed, but its political and economic impact seems to have been far more restricted than in the smaller Arab states, and took far longer to make itself felt. Physically, the industry was confined to a relatively small and remote corner of a huge country. Even today, most Iranians have probably never seen an oilfield, unless they are unlucky enough to have been sent to the battle front with Iraq. The important study by Patrick Clawson and Willem Floor makes the point that although oil revenues made a significant contribution to the financing of imports, Iran in the 1930s could hardly be described as an oil economy. Oil revenues during 1931/32-1940/41 amounted to only about 40 per cent of the value of other visible exports. Industrial development at the time was mainly paid for by consumption taxes and government deficit financing, not oil revenues. To put the case briefly, Iran - for all her backwardness - already had a substantial non-oil economy. Similarly, the ideas of territorial statehood and a regular bureaucracy did not have to be introduced into Iran, since they had already existed (in principle, at any rate) for centuries. What Reza Shah effectively achieved was the conversion of the ancient tradition of centralised monarchy from theory to practice.

To add to the contrasts between Iran and the Arab states of the Gulf, the Iranian ruling elite usually saw foreign, and especially British, influence as a threat to their political independence, rather than as a guarantee of it, as many Arab rulers in the Gulf did. As Paul Luft tells us, the pre-war Iranian parliament opposed the granting of railway concessions to foreign companies, since it was feared that this would strengthen the position of the foreign powers in Iran. Just as the British Bank of the Middle East was taking over the functions of a central bank in countries like Dubai and Oman, it was losing them in Iran, its original base of operations; (the two developments were not unconnected, since the problems it had encountered in Iran encouraged the Bank to go elsewhere in the Gulf to develop

new business). Once again, Iran's relative sophistication enabled her to take steps which other countries in the region could only follow at some distance in time. The eventual collapse of Reza Shah's political foundation in the revolution of 1978-79 may equally be ascribed to the greater complexity of Iran's social and economic structures, and the inability of the political system to cope with the problems which they threw up.

The story of the failure of early railway projects in Iran, which Paul Luft relates, introduces another and separate aspect of these studies. No one built a railway across Iran until the 1930s because, until that date, the Iranians themselves lacked the necessary resources, and because the British and Russians preferred to leave Iran cut off rather than run the risk that it might be taken over by the other power. In this way, the political strategies of the great powers had a fundamental influence on the economic development of the country (or rather, the lack of it). Similar considerations applied in other fields. To quote Rosemarie Said Zahlan, "the negotiations for the oil concessions...undertaken within the framework of the treaties which bound the rulers to the oil company of Britain's choice, were guided by British strategic - rather than economic - objectives" (p.66-67). Again, in the field of shipping, the Indian government's support for the British India company's services was seen as a way of bolstering Britain's political position in the Gulf against the Russian threat.

A new chapter in the story opened during the inter-war years. Russia was now consumed by her internal problems - the civil war, the industrialisation and collectivisation drives and the party purges - and tried to make a virtue of necessity by abandoning Imperialist ambitions in the region. Given a breathing space from the threat of foreign invasion, rulers like Reza Shah were able to turn their attention to internal reconstruction. The intermezzo did not last long, however. Britain and Russia invaded Iran in 1941, and Russia attempted to detach the north-western provinces in the immediate post-war years. The Gulf was reluctantly pushed into the Cold War, and has remained there ever since. Superficially, the parallel with the pre-World War I era is striking, with the role of Britain replaced by that of the United States. Nevertheless, it should

not be pushed too far. In particular, the oil-producing countries are now important powers in their own right, which they never were in the earlier epoch. The ramifications of the conflict are also far wider and more complex. At the beginning of this century, conflict in the Gulf was of major concern only to the peoples of the region and the chancelleries of Europe. Today, it could engulf the whole globe. History is interesting and instructive, but it seldom repeats itself exactly.

William Hale.

Geoffrey Jones

## 1. Introduction

This paper examines the development of the modern banking sector in the countries which now comprise the Gulf Co-operation Council, excluding Saudi Arabia, before 1960. It focuses on three themes - the reasons which led British overseas banks to open in these countries; the nature of their business; and the appearance of the first local banks. The approach is that of a broad brush, concerned to sketch some of the main developments in the region as a whole. Some very important differences between the various states have to be glossed over as a result.

Banking activities were, of course, far from unknown in the region before the arrival of the British banks. The role of traditional money-lenders has been discussed by Rodney Wilson amongst others<sup>2</sup>. Leading merchants in each community often acted as bankers, collecting deposits and financing trade, and lending to Rulers. In Bahrain, Yusuf Kanoo was prominent in these activities in the early twentieth century, and he had an office in Bombay to assist the pearl business<sup>3</sup>. In Dubai and, even more in Muscat, Indian merchants financed trade through the hundi system and through their accounts with Indian banks. In Muscat the firm of Khimji Ramdas was particularly prominent, and this also acted as banker for the Sultan and his government. However this paper focuses not on these indigenous bankers, which merit full-scale examination on their own account, but in the development of the first modern banks.

Table 1.1 lists the opening of modern banks in Kuwait, Bahrain, Qatar, the UAE and Oman before 1960. Today's British Bank of the Middle East, or BBME, passed through several name changes. It was the Imperial Bank of Iran in 1940, changed to the British Bank of Iran and the Middle East in 1949, and became BBME in 1952. For convenience' sake, it is referred to as BBME throughout this paper.

It can be seen that the first modern bank in the region, by a long way, was opened in Bahrain in 1920 by the Eastern Bank, a

TABLE 1.1: MODERN BANKING IN THE GULF BEFORE 1960

<u>COUNTRY</u>	<u>DATE</u>	<u>BANK</u>
Kuwait	1942	BBME
	1952	National Bank of Kuwait
Bahrain	1920	Eastern Bank
	1944	BBME
	1956	National Bank of Bahrain
Qatar	1950	Eastern Bank
	1954	BBME
UAE		
Dubai	1946	BBME
Sharjah	1953	BBME
Abu Dhabi	1959	BBME
Oman	1948	BBME

British bank formed by E.D. Sassoons in 1909 with operations in Mesopotamia and India. It was not until 1942 that another British bank, BBME, opened in the region, in Kuwait. This bank had been the state bank of Iran until the creation of the Bank Melli in 1928, and it possessed a wide branch network in Iran as well as branches in Baghdad and Basra. BBME negotiated a series of monopoly banking concessions with Rulers, receiving a fifteen-year concession from Kuwait in 1941, a 20-year one from Dubai in 1946 and a 20-year one from Oman in 1948.

## 2 Motives

Why did the British banks open in the Gulf when they did? As always, such a question can be answered on several levels. Our explanation will begin with overall political and economic factors before turning to the banks themselves.

### 2.1 The role of the British Government and its representatives

The British and British Indian authorities in the Gulf were a major influence on the appearance of modern banks. They influenced both the timing and numbers of banks which appeared. In Bahrain, for example, the Political Agent - supported by the Political Resident in Bushehr - strongly supported the Eastern Bank's application to the Ruler to open a branch during the First World War, on the grounds that Bahrain would benefit from possessing a modern bank. During the 1920s the Eastern Bank found it hard to make profits, but it functioned under the benevolent protection of the British political authorities. In 1929 the Political Agent, Geoffrey Prior, blocked an attempt by the Ottoman Bank to open a branch, arguing that there was insufficient business for two banks<sup>4</sup>. British Indian officials disliked the non-British connotations of the Ottoman Bank, which had French and Turkish shareholders as well as British, and employed non-British men in managerial positions, and the bank also had difficulties when it approached the Ruler of Kuwait about a banking concession in the mid-1930s.

Meanwhile Prior's most formative influence on Gulf banking came between 1939 and 1946, when he served as Political Resident Persian Gulf, except for a brief spell with the Middle East War Council in 1941-1942. In 1940, Prior was anxious that a bank

should open in Kuwait, primarily to facilitate the British Army's payments to Kuwait for dhows constructed for moving military stores by river to Baghdad. Prior spent a year in a vain attempt to persuade Eastern Bank to open a branch in Kuwait. When it became clear that Eastern Bank were not interested, he turned to an old friend in the BBME, the Manager of the Khorramshahr branch, F.H. Johnson. They had first met in Bushehr in the late 1920s.

There began an extraordinarily prolific partnership. Prior provided facilities for Johnson to visit Kuwait, and report on its prospects. After Johnson's very informed and favourable report had convinced BBME's Board of the merits of opening in Kuwait, Prior greatly assisted Johnson's negotiation of the historic Banking Agreement between the Bank and the Ruler of Kuwait which was signed on 17 December 1941. The Kuwait Agreement was only the beginning. Prior was to recall several years later:

I came to the conclusion on my return to the Gulf in 1942, that the Bank had no future in Persia, and as I had many friends in it, and as the Bank had helped my administration over Kuwait, I decided to do what I could to help them find other openings. By the end of 1945 I found that<sup>5</sup> Mr Johnson shared my view and I kept in close touch with him.

In 1943 Prior, convinced that Eastern Bank's monopoly in Bahrain was no longer desirable, and anxious to prevent the appearance in the area of Indian-based banks, consulted Johnson about opening in Bahrain. Subsequently, Prior travelled to Tehran to persuade BBME's Chief Manager of the case for opening on the island. The decision to open in Bahrain followed. In 1945 he recommended that the Bank should open in Dubai and Muscat and was instrumental in securing Government of India permission for such a course. Prior subsequently provided all possible support when Johnson was sent to Dubai to negotiate a banking agreement, which was signed on 5 January 1946.

Prior, therefore, was directly responsible for BBME's decision to open in three of its most important Gulf branches - Kuwait, Bahrain and Dubai. He both initiated the idea of

opening, and enormously eased the Bank's path. Prior's motivation must remain a matter of speculation. There seems no reason to dispute the argument that Prior sought to serve both the interests of the Gulf states and the political interests of Britain by his policies. More cynical observers have also suggested that Prior also had an eye on a directorship at BBME after his retirement, but there is no proof of this assertion. Prior was in fact appointed to BBME'S Board in 1949, as Resident Director in Tehran, where his thankless task was to alleviate the Bank's increasingly difficult political situation in Iran. He left the Bank in 1951, and the Bank left Iran in the following year.

It should also perhaps be noted in passing that other British officials in the Gulf had their own favourite banks. Prior's successor as Political Resident, Sir Rupert Hay, preferred the Eastern Bank, and he made a considerable effort in 1946 and 1947 to get that Bank to open in Muscat<sup>6</sup>. In Bahrain, Sir Charles Belgrave also favoured the Eastern Bank, and he was able to deny BBME any share of Bahrain government business.

"Official" British government policy had a less direct influence on Gulf banking than Geoffrey Prior. Nevertheless the British banks were seen as important means of maintaining British political and economic influence, and they were given support when necessary. Kuwait in particular was important in the context of the British government's sterling policies. By the early 1950s it had become a useful prop for sterling, whose role as a reserve currency was already under great pressure. Kuwait's large sterling reserves were a matter of vital concern to the British government, yet it had little direct power over the country. Consequently the Government regarded the BBME's position in Kuwait as being helpful for its policy goal of securing that the new oil wealth was not channelled to uses that would disrupt sterling. "The existence of British banks, to the exclusion of all others in the Persian Gulf" the Foreign Office reminded the Treasury in November 1951, "has ... made it possible to exercise a form of exchange control in an area where no statutory control is in force"<sup>7</sup>. BBME was particularly useful in keeping unwanted foreign banks, and especially in the early 1950s, French banks, away from the Gulf funds. BBME acted "as a



counterweight to the Banque de l'Indochine", a Foreign Office official minuted in 1951, "whose policies are often in conflict with HM interests"<sup>8</sup>. Hardly surprisingly, BBME had friendly relations with the Bank of England, and especially with Claude Loombe, the Bank of England's Middle East specialist, who later became Chairman of the BBME between 1967 and 1973.

Nevertheless, despite that fact that the British Government welcomed the arrival of British banks in the Gulf, they never suggested a particular place to open. Individual Ambassadors, Consuls and Political Agents were helpful to BBME and Eastern Bank, but there was never a coherent British Government policy to assist their growth.

## 2.2 Indian independence

Indian independence had an important impact on the British banks in the Gulf. The Gulf's trading and financial links with India were extremely close, and the Indian rupee was used throughout the region. India's independence, therefore, had substantial repercussions. In Muscat, for example, the Government of India Treasury Chest, which had held rupee currency and provided some banking services for Muscat, was closed at the end of 1947. Moreover, in November 1947 the Reserve Bank of India declared that letter of credit could only be opened through an authorised bank. In Oman this new development greatly reduced the opposition from the large merchants to the opening of a British bank. Elsewhere it boosted the custom of the newly-established British banks.

## 2.3. Oil

The growth of modern banking in the Gulf was closely related to the development of the oil industry, although Eastern Bank's first branch had opened in Bahrain twelve years before oil was discovered in 1932. In general, however, especially after the collapse of the pearling industry, they found little to attract them. In 1934 BBME's Khorramshahr Manager visited Kuwait. In his report - completed eleven days before Kuwait's first oil concession agreement was signed with an Anglo-American oil company - he predicted prosperity for Kuwait, and recommended that a branch should be opened<sup>9</sup>. The senior management were not interested, however. Between 1935 and 1938 BBME, Eastern Bank and Ottoman Bank all sent representatives to Kuwait to negotiate

an oil concession, but none of the banks had much enthusiasm and nothing materialized<sup>10</sup>.

During the Second World War the nascent oil industries of much of the Gulf had been closed down. After 1945 the scent of oil provided a powerful stimulus to the bankers to open branches. "Our Bank", BBME's General Manager, Harold Musker, observed in 1956, "is based on oil production"<sup>11</sup>. In 1946 Kuwait's first oil exports began, and the prosperity which soon came to that country indicated what could be expected lower down the Gulf once oil had been developed. In Qatar, the Eastern Bank's decision to open was directly linked to the desire to serve the needs of the Iraq Petroleum Company subsidiary in the country<sup>12</sup>.

BBME's policy was to try to avoid branches until oil seemed a practical possibility, and then to move quickly. "I think", Musker wrote in 1956, "we should remain on our toes to open up a Branch at any centre where oil is found"<sup>13</sup>. Sometimes the hopes were rather premature. In 1948 BBME was convinced, for example, that oil would be discovered in Oman, and the Bank sought to establish a branch there "in order" - as the British Political Agent observed - "to catch any possible oil development"<sup>14</sup>. As it turned out, it was not until 1967, a year before BBME's monopoly concession expired, that the first oil was produced in the Sultanate. Abu Dhabi also proved disappointing in the short term. BBME signed a Banking Agreement with the Ruler, Shaikh Shakhbut, in 1953 after rumours that oil had been found<sup>15</sup>. Oil had not been found, however, and BBME was in no hurry to open in the small hamlet. Nothing happened until 1958, when news that drilling for oil had started on Das Island caused the BBME to renew its interest, and even to offer the Ruler a 20 per cent share of the Bank's profits if it was allowed to open. Oil was in fact discovered in 1960, but Shakhbut's reluctance to use oil revenues for development and a deterioration in BBME's relations with him meant that the Bank's Abu Dhabi branch accumulated losses of nearly £150,000 between 1959 and 1966.

#### 2.4 The Banks

A final layer of explanation for the arrival of the British banks in the Gulf must focus on the banks themselves. Given that the political and economic context was favourable to an expansion of British banking, why was it that it was BBME and the Eastern

Bank rather than the other banks which took advantage of these new opportunities. Who in these banks masterminded the expansion?

The question is most interesting in the case of BBME, the most active of the two banks in the Gulf region after 1940. In the 1930s the Imperial Bank of Iran had been characterized by exceptionally conservative policies in its main sphere of operations, Iran. The bank had lost its status as State bank in 1928, and its right to issue banknotes in 1932. After 1930, its business had been nearly ruined by the exchange controls and trade restrictions introduced by Reza Shah. Half its branches had been closed down, and within a decade its position as Iran's leading bank had been completely lost. There had been serious discussion in London in 1938 about putting the bank into liquidation. How, within a few years, did this apparently doomed Iranian institution transform itself into a Gulf bank?

No single policy document or Board minute set this Bank on its new course. The initiatives certainly did not come from Board or senior management level. The Bank's Chief Manager, who lived in Tehran, agreed to or acquiesced in, the expansion outside Iran, but senior management did not originate the idea, and they retained an Iran-centred view of events. It now seems clear that the new initiatives originated lower down the Bank's hierarchy. The role of F.H. Johnson, the Khorramshahr Manager and friend of Geoffry Prior, was particularly important in the early 1940s. During the previous decade he had experienced at first hand the declining fortunes of the Bank in Iran, and he had had to close two of the Bank's branches. He became convinced that the Bank needed to expand outside Iran, and moreover as Manager of Khorramshahr branch after 1937 he heard from merchants about the towns on the other side of the Gulf. Johnson was therefore a receptive audience for Prior's schemes for BBME's expansion in the Gulf shaikhdoms. He played a key role in persuading his superiors in Tehran and London to open the new branches, and in the case of Kuwait and Dubai he negotiated banking agreements with the Rulers.

After 1945, enterprising managers like Johnson had a more receptive audience at the Bank's senior levels. During the 1930s the Bank's Board in London consisted of men with very long

service with the Bank, either on the staff or as directors, and an average age of well into the 70s. Their receptiveness to new ideas had not been great. In 1937, however, Lord Kennet, a man of wide financial, economic and political influence, joined the Board, and in 1945 he became Chairman. After the years of conservatism during the twenties and thirties, Kennet brought to the Bank a refreshing determination to reconsider and re-examine past traditions, and to start afresh. "We must not allow ourselves", he wrote in October 1950, "to be hypnotised by the past"<sup>16</sup>.

Although a great deal of Kennet's time was devoted to the Bank's difficulties in Iran, he was forcefully in favour of the Bank's expansion into the Arab world. The more the Bank expanded in the Gulf, he told the Bank's Chief Manager in 1948, "the less we suffer by any adversity in Iran"<sup>17</sup>. Kennet's visit to Kuwait and Bahrain in October and November 1948 convinced him of the potential of these countries. "The whole region", he wrote on his return to London, "is sitting ... on an economic powder magazine"<sup>18</sup>. Kennet's policy was to get in first, whenever and wherever oil and its related prosperity seemed likely to create the opportunities for profitable banking. In the process BBME's old caution was to be thrown to the winds. "We should not be afraid", he wrote in September 1952, "to make experiments in such matters as new branches, to be elastic about them, quick to go in, and quick to come out if an experiment is unsuccessful"<sup>19</sup>.

Kennet himself rarely suggested the opening of specific branches. His main contribution was to create an "atmosphere" of expansion, and to ensure that whenever branch managers or people outside the Bank suggested new areas of opportunity their suggestions were sympathetically received, and rapidly acted upon.

The decisions by BBME to open new branches look, in retrospect, highly unsystematic affairs. The concept of a detailed feasibility study was unknown. Men despatched to explore new areas were given only the vaguest instructions. However, as statistics on the Gulf shaikhdoms were conspicuous by their absence, there was little alternative to such an approach.

### 3. Policies

British overseas banks are often described as "exchange banks": that is, primarily concerned with the foreign exchange requirements and the financing of foreign trade of the countries in which they operated. It has been argued that this description fits the British banks in the Gulf in this period. "The two major banks represented in Dubai before 1960, the British Bank of the Middle East and Grindlays", Rodney Wilson has recently written, "essentially served the foreign community, especially the British residents, and to a lesser extent Asian immigrants who wanted to remit their earnings"<sup>20</sup>. In fact it is clear that such a view considerably understates the range of activities the British overseas banks undertook. These activities fall into two groups.

First, the overseas banks often undertook some of the functions of a central or state bank in territories where they found themselves holding a banking monopoly. In the case of BBME, the bank was particularly active in this respect in Dubai and Oman.

"Our monopoly position in Dubai", Musker reminded BBME's Board in 1959, "imposes obligations on us"<sup>21</sup>. The Bank made regular small donations to various local charities in the early 1950s, and contributed to the running of the Maktum Hospital, Dubai's first hospital, opened in 1950. The Bank's sense of responsibility, together with the danger that its privileged position in Dubai would be challenged if it took too narrow a view of its functions, led the Bank to participate in the various development schemes launched in Dubai during the 1950s, and especially after 1958 when Shaikh Rashid formally became Ruler after the death of his aged father. The Bank enjoyed cordial relations with the new Ruler. This was not only because of his strong commitment to liberal economic policies, but also because the Bank considered his development schemes to be sensible and trusted the Ruler to meet any obligations he made. Shaikh Rashid, Muker wrote in December 1960, "maintains his reputation of being a man who keeps his word"<sup>22</sup>. Consequently, the Bank was prepared to grant Shaikh Rashid more facilities than they did to many other governments of the period.

In the 1950s the dredging of the Creek was the most important issue facing Dubai. All the creeks in the region suffered from sandbars forming at their entrance owing to a strong current parallel to the coast. By the beginning of the decade it was clear that the Dubai creek was silting up, and that dredging was a necessity. In 1954 a British firm of consultants surveyed the Creek, and a dredging scheme was formulated, at an estimated cost of £388,000. Early in 1955 the Ruler and the Political Agent approached the BBME to see if they would finance the harbour scheme. The Bank would not agree to provide finance without a British Government guarantee, which was not forthcoming. It did, however, offer to take part in a scheme to reform the Customs administration in Dubai and thereby increase the Ruler's revenue position. The Bank was appointed to handle the collection of customs dues on imported goods whose documents passed through the Bank, an arrangement which suited the Bank as it brought in a lot of deposits<sup>23</sup>.

The Bank duly took over the Customs administration and a certain proportion of the Customs collected was paid into a Creek Fund. By October 1958 the Creek Fund amounted to over £200,000, and - with the help of some British officials in Kuwait - the Ruler of Kuwait granted Dubai a loan of £400,000, repayable over ten equal instalments. A condition of the Kuwait loan was that the Ruler of Dubai had to provide acceptable security. It was agreed that the BBME would guarantee the repayments of the loan to Kuwait. In return, the Bank was authorised to deduct the annual repayment instalments automatically from the Customs revenue and remit the amount to Kuwait<sup>24</sup>. Subsequently, the Bank's Dubai Manager joined the Dubai Port Committee, which included prominent merchants and the British Political Agent, and which came to serve as a general advisory committee to the Ruler<sup>25</sup>.

Over the next few years the Bank supported many of the development projects which were launched. "Our monopoly position and the desire of our Managers to foster trade", an internal Bank report observed in November 1959, "had inevitably laid a burden on them as advisors to all and sundry on commercial, industrial and even municipal matters"<sup>26</sup>. When the Ruler decided to form an electricity company for Dubai, it was the Bank's Manager and also

the Political Agent who got the scheme going, modelling the Articles of Association of the Dubai Electricity Company on those of the Baghdad Electricity Company. The BBME handled the share issue of the company. In the early 1960s the Bank financed the installation of additional capacity by the Company to meet the growing demand for electricity. Also in 1959, on the Ruler's initiative, the Bank agreed to implement a small loan scheme for the development of land and property in Dubai. In 1960 and 1961 the Bank granted facilities to the Ruler to finance an extension to the Customs Yard and a bridge over the Creek to link Deira and Dubai. In 1962 the Bank guaranteed a further £400,000 loan from the Kuwait Government to finance further harbour and road schemes.

It was a rather similar story in Oman where BBME, in addition to holding and servicing the Government accounts, took responsibility for currency and financial matters. In 1959 the Bank undertook the replacement of the Indian rupee by the special Gulf rupee, a time-consuming and exacting task. Rs. 8.9 million worth of old rupee notes were collected and despatched to Bombay, and Rs. 3.2 million worth of new notes were put into circulation. In 1967 and 1968, when the country was facing foreign exchange difficulties, the Bank acted as de facto exchange controller, acting to limit imports of luxury consumer goods.

BBME's most extensive task, however, was the introduction of a national currency in Oman. In February 1968, just when its monopoly concession expired, the Sultan asked BBME to undertake the issue of a new currency. The change-over was implemented in March 1970, by teams of bank staff supported by the Omani Army, and was no mean feat in a country which still had a largely illiterate population. Nor did BBME's role in Oman's currency cease in March 1970, or in the following July when the Sultan's son, Qaboos bin Said, took power. BBME administered the Muscat Currency Authority (which became the Oman Currency Board in 1972), and managed its funds.

The second function of the British overseas banks in the Gulf was to perform the functions of retail, commercial banks, and their activities were by no means confined to the expatriate communities. The first aspect of the banking operation was the collection of deposits. It was the conventional wisdom of

British banking that business in a country should be financed from local resources. The banks disliked transferring funds from Britain because of exchange and political risks. The Gulf fitted the BBME's preferences ideally, for it was an enormous source of deposits. Deposits held by the Kuwait branch increased from £7 million in 1952 to £37 million in 1959. In March 1959 deposits in Kuwait, plus Kuwaiti-owned deposits with BBME in London, represented 47 per cent of BBME's total public deposits. Moreover, many of these deposits were interest-free. Throughout the 1950s over 50 per cent of BBME's deposits in Kuwait carried no interest. A fair proportion of these were often deposits against credits.

How were these funds utilised? BBME's managers often kept at least 20 per cent of the resources in cash. The need to maintain liquidity was a reflection of the lack of any central bank - or any other bank - to assist a branch in the event of difficulties. If the money ran out a manager would have to send to Bombay for more.

When it came to lending, BBME was primarily concerned with self-liquidating commercial transactions. Its lending was almost entirely concerned with the import trade, given that the only export of significance from most of the Gulf countries was oil. From the beginning almost all of the Bank's customers were local merchants, rather than expatriate firms which were few in number. Finance was generally provided in the form of advances and import credits, rather than through bill-discounting which was common practice in Iran. Import finance ideally suited BBME's criterion of being able to turn its funds over quickly, maintain liquidity, and avoid long-term commitments. Much of this lending was - at least technically - unsecured. Gulf merchants customarily conducted business on the basis of trust, and to ask for security was tantamount to challenging a man's honour. Moreover, they could often only offer as security landed property or consumer goods, which the British banks either could not or did not wish to take as collateral. In the mid-1950s, as a result, around 35 per cent of BBME's lending in Kuwait was not covered by any form of collateral security. Nevertheless, bad debts were rarely a problem in the Gulf in this period.

During the late 1940s and early 1950s Kuwait branch's



Flourishing foreign exchange business came to rest on the gold trade. This developed because of the differential between the price of gold in India and the price at which it could be bought in Kuwait. BBME became involved in several capacities. Gold was imported into Kuwait in 125 kilo ingots. The gold was usually sent to customers in Kuwait via the Bank against payment. The Bank would arrange the collection of the gold at Kuwait's airport. BBME staff would go to the airport and collect the crates of gold. After the gold had been paid for and collected by its ultimate owner, it was smuggled into India by dhow. It should be emphasised that this trade was completely legal under the laws of Kuwait and the other Gulf states. It was estimated that a 35 per cent profit could be made on a successful trip to India, which took about four or five weeks. The dhows returned to Kuwait laden with Indian rupee notes, which had been taken on board their craft in exchange for the gold they handed over. When a dhow returned there would be a rush to pay these notes into the Bank. Once received by the Bank, notes surplus to requirements were parcelled up and sent by registered airmail to the Bank's correspondent or branch in India. When the value of such remittances became available in India, Kuwait branch would purchase sterling to be credited to its account with London office.

The gold trade rested on the so-called "Kuwait Gap". The British Exchange Control Act of 1947 prohibited all residents of the "Scheduled Territories" - in effect the Sterling Area - from acquiring "hard" currencies such as dollars without the specific approval of the Bank of England. Kuwait was formally subject to these regulations, but in practice Kuwaiti subjects were permitted to acquire United States dollars quite freely for their reasonable requirements. The benefits to Britain of the dollar revenues deriving from Kuwait oil, and the saved dollars because Kuwait oil was imported into the United Kingdom against payment of sterling, were among the influences behind the Bank of England's dispensation. Before the establishment of other banks in Kuwait, the British Bank in effect managed the buying of dollars allowed by the "Gap". Kuwait branch purchased dollars in New York for sterling debited to its account with London Office. These dollars were duly disposed of to Kuwaitis, who would use

them, amongst other things, to pay their gold suppliers who had little interest in payment in sterling. The Bank derived its profit from quoting a selling rate for dollars in Kuwait which took account, and more, of the cost of getting the rupee funds through sterling into dollars.

From about 1954 Dubai became the centre of the gold trading in the Gulf, and the BBME again became involved in financing merchants with a stake in the trade<sup>27</sup>.

Most of the Gulf branches in the 1950s, and outstandingly Kuwait, lacked sufficient lending opportunities to absorb all the bank's deposits. BBME, therefore, invested a large proportion of Kuwait's branch deposits abroad, chiefly in London, but also in India before Kuwait introduced its own currency in 1961. In 1955 30 per cent of BBME Kuwait branch's funds were placed abroad. By the mid-1960s this had risen to 50 per cent. It was a similar pattern in Bahrain and Dubai - which had 60 per cent of its deposits invested overseas in 1959. In Oman, where lending opportunities were even more limited, over 80 per cent of BBME's deposits were sometimes invested abroad in the 1960s.

A final word must be said about profits. Eastern Bank's profits are unknown. For BBME, Kuwait was the jewel in its crown. The large volume of interest-free deposits, a flourishing exchange business and risk-free lending in a boom economy, were a recipe for profitable banking. During the 1950s around 50 per cent of BBME's total profits - and by the end of the decade it was operating in about 20 Middle Eastern countries - came from Kuwait. Elsewhere the rewards were much less. Dubai's profits were modest, for example, for although the city was a flourishing entrepot, BBME's branch had heavy overheads, particularly because it needed a large staff to handle a large volume of small transactions. Oman's profits were even more meagre, and the Muscat branch only justified its existence when the interest on funds abroad was taken into account.

#### 4 Local Banks

During the 1950s the first local banks appeared in the five countries under review. The National Bank of Kuwait was launched in 1952, followed by the National Bank of Bahrain in 1956. In

1963 the National Bank of Dubai was founded.

The creation of these local banks was not opposed by the British overseas banks, even though there were legal grounds on which such opposition could be based. BBME's fifteen-year banking monopoly granted in 1941, for example, had been extended in 1946 by a further fifteen years. But in an oil-rich state such as Kuwait there was business for all and, perhaps more importantly, no practical alternative to obeying a Ruler's wishes. Moreover, the British banks were unenthusiastic about banking monopolies, which often obliged them to undertake unwelcome tasks. "We as monopolists have corralled the bulk of capital in Kuwait", one of BBME's directors observed in 1950, and that fact placed the bank "under an obligation"<sup>28</sup>. Monopolies also, as the same bank's Chairman wrote, "attract hostility and detraction - and excite suspicion in the minds of authorities and customers"<sup>29</sup>.

The moves to establish local Gulf banks did not, as a whole, rest on criticism of the policies of the British overseas banks. Merchants sometimes resented being asked for any 'security' other than their honour and good name, but there was no demand or requirement for banks to finance long-term industrial or agricultural development. The new Gulf banks followed the same principles of "conservative" banking as their British predecessors. They had low advances/deposits ratios - nineteen per cent for BBME and 22 per cent for the National Bank in Kuwait in 1960 - and invested surplus funds in London. The primary motive of the merchants who established the new Gulf banks was not to introduce new banking methods, but to get a share of an increasingly prosperous cake. In this aim they were very successful. By 1960, for example, the advances and deposits of the National Bank of Kuwait already exceeded that of BBME's branch. Undoubtedly some of the merchant families which established local banks had been involved in traditional moneylending activities, although there does not seem to have been the direct transition from moneylending to modern banking seen, for example, in the foundation of the National Commercial Bank in Saudi Arabia in 1938.

The success of the local banks in the Gulf rested on a number of factors. Primarily, the fact that leading merchants

were also shareholders in local banks usually meant that much of their business was transferred to those banks. Local Boards of Directors responded quickly and with flexibility to requests for large loans, while the branch managers of British banks often had to refer such requests to London. Moreover, the new banks were often established with the help of British banks, and usually initially run by experienced British staff. Thus the Midland Bank, one of the "Big Five" British clearing banks of the time, sent staff to help organize the National Bank of Kuwait (and later the Jordan National Bank in 1950), while the Ottoman Bank helped to establish the National Bank of Bahrain. Similarly, the chief executives of the new banks were almost always British overseas bankers. The National Bank of Kuwait recruited such a man from the National Bank of Egypt, while the National Bank of Dubai recruited from National and Grindlays.

During the 1960s the British overseas banks in the Gulf came to face competition not only from the new local banks, but also from the powerful United States banks which appeared in the region. Their initial response to this competition was far from adequate. But that is another story.

#### NOTES

- 1 This paper is based on research which the author is currently undertaking into the history of the British Bank of the Middle East. The history will be published by Cambridge University Press in 1986. I would like to thank members of the Durham Seminar held on 19 and 20 April 1985 for their helpful comments on my first draft. I would also like to thank the Hongkong Bank for permission to use material from the Archives of the British Bank of the Middle East.
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## 2

### THE MANAGEMENT OF BRITISH INDIA STEAMERS IN THE GULF 1862-1945 : GRAY MACKENZIE AND THE MESOPOTAMIA PERSIA CORPORATION

Stephanie Jones

#### 1. Introduction: the role of the Government of India

The economic and political significance of the Gulf has increased dramatically since the Second World War. Yet in the mid-nineteenth century, before the discovery of oil, the region was comparatively unknown and unexplored by Europeans, a backwater in the expanding network of world trade. Why then did Sir William Mackinnon, the founder of the British India Steam Navigation Company (BI), in 1862 extend his established service between Calcutta, Bombay and Karachi to Basra and intermediate ports? What impact did the BI steamers have on the development of the Gulf down to 1945? The representatives of the BI at the principal Gulf ports were originally Gray Paul and Company and Gray Mackenzie and Company, two merchant partnerships who, after an interlude of acting jointly with others as the Mesopotamia Persia Corporation Ltd in 1919 to 1936, formed Gray Mackenzie and Company Limited.

This paper is part of a larger study of the history of the Inchcape Group of Companies<sup>2</sup>, of which Gray Mackenzie is today one of the most prominent subsidiaries.

The BI's India service, originally established as the Calcutta and Burmah Steam Navigation Company in 1856 (it became the BI in 1861)<sup>3</sup>, owed much to Sir Henry Bartle Frere, a member of the Council of India and subsequently Governor of Bombay from 1862-1867. The BI received a subsidy, provided by the Government of India, which had been awarded at Frere's behest, and it thereby achieved a dominant position<sup>4</sup> in the coasting trade of India in the late 1850s and early 1860s.

In 1861 approval had been received from the India Office to subsidise a steamer service to the Gulf, by way of a mail contract. A subsidy was needed because the steamers of the early 1860s, with their low-pressure engines and large consumption of coal, not to mention their technical unreliability, were

frequently uneconomic to operate, even with full cargoes. In fact, full cargoes, particularly on this route, were a vision for the future.

In a broader context, Frere was also interested in the possibility of developing the Gulf to provide alternative overland and maritime routes between Britain and India. Before the opening of the Suez Canal in 1869, trade went via the Cape or overland across Suez and then by the Red Sea. Another concern of Frere's was the development of an 'Indian' mercantile marine which the Government of India could employ in an emergency.

In advancing the case for a formal, subsidised British presence in the Gulf, Frere was also responding to the fears expressed in England and India of the "dangerously ambitious projects of Russia". As early as 1839, a political pamphlet maintained that:

if Russia had never crossed the Caucasus, the inter-course of England with Persia would now have been purely commercial; it is the ambition of Russia that forces upon us the necessity of endeavouring to preserve that which is obviously necessary to our own protection...The integrity and independence of Persia is necessary to the security of India and of Europe; and any attempt to subvert the one is a blow struck at the other - an unequivocal act of hostility to England.

The BI mail contract was seen as a way of upholding British commercial interests, and reinforcing existing British political representation in the Gulf against the Russian threat.

One of three tenderers for the Gulf contract, the BI was in a particularly advantageous position for the award. Mackinnon had carefully cultivated his acquaintance with Frere, making it clear that his company was keen to expand its Indian coastal connections. In the report and assessment of the tenders, it was agreed that the BI offered "a decided superiority as respects the class of vessels", "a fixed rate of speed", and with "no interruption to the present efficient service to Karachi". The two local firms attempting to compete complained that the BI was gaining a monopoly in Indian waters, but the Bombay Government pointed to the poor performance of the local shipping services

and maintained that "the Government and the Public may expect a more efficient service from the Burmah Company (the BI) than from either of the other tenderers." By choosing the BI rather than a local company, the Government of Bombay were ensuring not only the provision of a reliable shipping line, but the representation of British commercial interests. The BI in the Gulf may be seen as an example of how the state assisted private enterprise in opening up new areas to British trade and to British political influence, in the same way that the P & O vessels may be seen as "flagships of imperialism".

Thus the establishment of the BI and Mackinnon's interest in expanding its subsidised network of services coincided with the Government of India's long-term plans to safeguard Indian coastal communications and ultimately its links with Europe via the P & O service. Two short-term factors which may have prompted the Indian Government, and Mackinnon, to take such an interest in the Gulf were, firstly the disruption in the supplies of cotton to Britain and India as a result of the American Civil War, which acted as a stimulus to the growing of cotton in Persia; and secondly, the recent construction of telegraph and cable lines through the area. It is unlikely however, that Mackinnon would have been prepared to inaugurate a costly steamer service in the interests of extending Indian coastal communications and to exploit a short-lived cotton boom: undoubtedly the subsidy, and the prospect of its frequent renewal and possible increase was the deciding factor. It has been suggested that Mackinnon gained the contract because he happened to be passing through Bombay at the time when the mail contracts were being put out to tender. Certainly he knew, from his Calcutta-Burmah experience, what an edge a mail contract gave the firm holding it over competing steamer concerns. Table 2 . 1 shows that Mackinnon's confidence was justified.

## 2. Shipping agents and Gulf services

The BI's coastal services were managed by Mackinnon's merchant partnership in Calcutta, Mackinnon Mackenzie & Company (MM & Co), which he had founded as his first trading venture in India in 1847. With the expansion of the activities of the BI,



TABLE 2.1: THE BRITISH INDIA SN CO. GULF SERVICE AND ITS COMPETITORS, 1862-1904

Date began	Company	Registry	Subsidy	Service	Home port
1862	B.I.	UK	Rs 80,000	8 voys p.a	Bombay
1866	B.I.	UK	Rs 1,60,000	Fortnightly	Bombay
1869	Persian	UK	-	irregular	Bombay
1870	B.I.	UK	Rs 7,566 per trip	Fortnightly	Bombay
1870	Bombay & Persian	UK	-	irregular	Bombay
1870	Oman & Ottoman	Ottm.	-	irregular	Istanbul
1870	Persian Gulf SN Co.	UK	-	monthly by 1879	London
1874*	B.I.	UK	Rs 7,25,000 (total incl. Gulf)	weekly	Bombay
1883	Messageries Maritimes	Fr.	'Heavy'***	irregular	Marseilles
1884	B.I.	UK	Rs 4,39,000*** (total incl. Gulf)	weekly	Bombay
1901	Russian, Gulf and Persian	R	14,000 per trip****	monthly	Odessa
1904	B.I.	UK	Rs 4,26,124 (incl. Rs 3,00,000 for fast line)	2 services fast & slow	Bombay

Sources: Lorimer, J.G. (1908, 1915) Gazetteer of the Persian Gulf, Oman and Central Arabia, Calcutta, 2467; Report on the Administration of the Persian Gulf and Muscat Political Agency (Calcutta, annual, 1873-1905)

\*By 1874 a 'home line' had been established direct from London to the Gulf by the BI a four-weekly service via Aden and Karachi. Blake, G. (1956) BI Centenary 1856-1956, London, Introduction

\*\*Curzon, G. (1892) Persia and the Persia Question, London, vol.2, 357

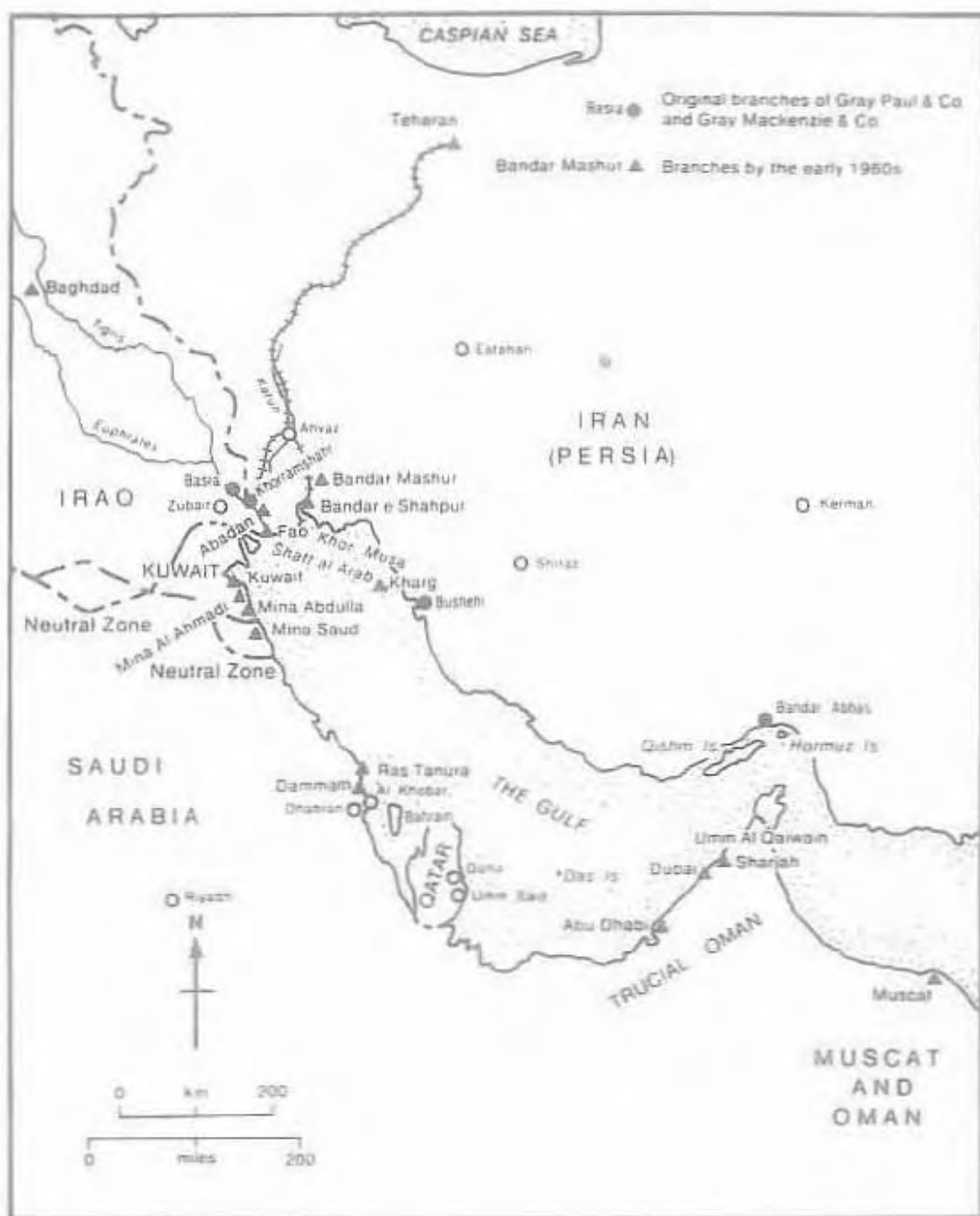
\*\*\* This was increased to Rs 5,05,500 overall total subsidy including the Gulf service in 1894

\*\*\*\* The Russian Government also refunded the Suez Canal dues this company paid

the operation of a large network of shipping lines was seen as possible only through the parallel provision of shipping agents at each strategic port. In this context, many of the merchant partnerships that were eventually to form the Inchcape Group of Companies played a vital role in the day-to-day running of the BI. In selecting his representatives, Mackinnon gave priority to trusted friends and relations. In 1865, he appointed Gray, Dawes & Company as his London Agents. Archibald Gray was one of his nephews, and Edwin Sandys Dawes had been a P & O officer who had made a particularly favourable impression on the BI Chairman. Gray and Dawes were responsible for the formation of the two partnerships which managed the greater part of the BI's Gulf interests. The creation of these partnerships was necessary as there were virtually no British mercantile houses already in the Gulf which might undertake the work. Consequently, by contrast with the situation in India, where established firms took up the agencies, MM & Co and the BI had to set up their own agency firms in the Gulf from scratch. Men formerly employed by the parent firms were obvious candidates. To join the new partnership and manage it at Bushehr (Bushire), Robert Paul was sent out from Calcutta, where he had worked as an assistant in MM & Co in charge of their piece goods sales, from about 1860. Gray, Paul & Company was officially founded in 1865. Recruited as an assistant to Paul in Bushehr in 1866 was George Mackenzie, who in 1869 helped to found the<sup>7</sup> associated partnership of Gray, Mackenzie & Company in Basra. Gray, Dawes & Company acted as their London agents. The two partnerships in effect acted as one company, keeping one set of accounts and maintaining a close correspondence.

In assessing the impact of the BI steamers on the life of the Gulf ports, it is important to consider the nature of the services they provided. These are comprehensively described in the BI handbooks<sup>8</sup>, which also reveal the vital role played in the service by its shipping agents. The earliest surviving handbook, that of 1866, shows that the BI's fortnightly service between Bombay and the Gulf, called at the ports of Bombay, Muscat, Bandar Abbas, Bushehr and Basra, with additional stops at Lingah and Bahrain (Fig. 21)<sup>9</sup>. Despite the navigational difficulties and dangers of the Gulf, an attempt was made from the beginning

Figure 21 Branches of Gray Paul & Co and Gray Mackenzie & Co in the Gulf region



of this liner, rather than tramp service, to keep sailings to specific dates. Thus a connection was made with the other mail services at Calcutta, and after 1869 the BI timetable was co-ordinated with the P & O Suez route. Also, the Gulf service in effect terminated at Baghdad, as it connected with the river steamers of the Euphrates and Tigris Steam Navigation Company. Managed by another British firm, Lynch Brothers - who were first established in Baghdad in 1841 - this service provided eight trips per year, receiving a mail subsidy of £2,400, compared with the BI's of approximately £6,000<sup>10</sup>.

In addition to the carriage of mails, the BI steamers provided a passenger and cargo service. Cabin passage cost approximately £20 per head for the complete journey from Bombay to Basra with a reduced fare to intermediate ports. This included food, but not wines, and the provision of bedding, linen and furniture by the company. Quarter deck passengers, travelling at just over half of the cabin fare, were allowed space for a bed on the poop and a trunk of five cubic feet. All native servants were classed as ordinary deck passengers, although European servants travelled at half the first-class fare, and European maid servants with a berth in their mistress' cabin were charged at two-thirds the cabin rate. All berths were booked through the BI's agents, who ensured that passengers gave up any weapons on embarkation and that freight on excess luggage was paid at double rates. No indication is given in the handbook of who the passengers were, or their reasons for travelling. The BI enjoyed a share of the Muslim pilgrim traffic to Jiddah from 1869, but it is not known if Gray Mackenzie or Gray Paul were involved. A notebook kept by Gray and Dawes in London, which refers to the Gulf service, recorded the rules under which pilgrims were conveyed in 1891, quoting a letter from Basra; so it is probable that the firms took part in this trade. Memoirs and reminiscences of employees - to be discussed later - suggest that European passengers were few and far between. Thus presumably the greater part of the trade would have been the carriage of local merchants and labour in search of work.

A Custom House pass was required for all packages shipped, the freight being prepaid at the port of shipment. The BI's agents had to supervise the landing of cargo at the ports of

delivery in their own or hired boats. They were responsible for the deposit of goods on wharves, or in receiving vessels, such as lighters, emphasising that they could not guarantee against delays. They had to check that the Bills of Lading accurately described the contents of packages carried, especially to enforce the ban on dangerous cargoes, such as gunpowder or sulphuric acid. The agents required that goods for shipment should be alongside at least twenty-four hours before departure: the handbook warned that "most of the mistakes arise through shippers sending their goods at the last moment". The agents were liable to be paid in a great variety of coinage, and thus had to provide their own banking service.

By the mid 1860s, the trade in<sup>o</sup> horses, ponies, bullocks, sheep and goats was increasing in importance. Shippers had to provide fodder for their animals, but the charge included the passage of a 'syce' or groom, in attendance on each horse. Horses were required to have their shoes removed, and coir matting was provided to prevent them slipping. Finally, Gray Mackenzie and Gray Paul were also responsible for organising the carriage of specie on BI steamers. Such were the dangers of loss or theft, however, they refused to undertake to land valuables; instead they were delivered only by the presentation of the appropriate Bills of Lading on board.

The BI handbook of 1866 clearly shows that this service to the Gulf ports was only one of eight BI services already in operation in that year: their role in this region must be considered in the context of their shipping services as a whole. This included four routes from Calcutta: monthly to Rangoon, Moulmein and the Straits, and fortnightly to Moulmein, Akyab and Bombay coasting. They also operated two monthly lines between Madras and Rangoon, and to China, and a fortnightly service between Bombay and Karachi.

### 3. Impact of BI Steamer services on the major Gulf ports

The operation of the Gulf service, and the further services shown in Table 21, which covers the period up to 1914, may be considered through an analysis of the impact of the BI presence at each of the major Gulf ports, in three respects. Firstly, did

the service lead to an increase in the entrances and clearances of shipping tonnage? Secondly, did the advent of the BI steamers result in an increase in the value of imports and exports at each port, particularly in regard to their trade with Britain via re-exports from India and through the on-carriage of cargoes by the P O? Finally, how important were Gray Mackenzie and Gray Paul in the merchant communities of the ports, and what were the problems of managing this service? This leads to the larger question of how British shipping in the Gulf sheds light upon the expansion of British commerce into hitherto remote and little-known corners of the world in the latter half of the nineteenth century, thereby staving off the rise of foreign competition for British industries.

### 3.1 Bushehr

Bushehr in the late-nineteenth and early twentieth centuries was the most prominent of the growing steamer ports in the Gulf, the gateway to the interior of Persia, and the home of the British Persian Gulf Residency<sup>11</sup>. An essential port of call of the service, Table 22 shows that the number and tonnage of BI steamers entering and clearing Bushehr increased by over 300 per cent in just over ten years<sup>12</sup>, from 1873 to 1885. The inauguration of the BI service, and the opening of the Suez canal, encouraged the entry of other steamer companies into the Gulf trade, as outlined in Table 21. This led to a reduction in the prominence of BI shipping at this port from over 70 per cent to 44 per cent. By 1885, the BI steamers were competing with the British-registered, but locally run, Bombay and Persian Steam Navigation Company with 21,360 tons of steam shipping entering Bushehr; the Persian Gulf Steam Navigation Company, similarly British-registered with 24,640 tons; the French steamers with 12,240 tons; and another 61,000 tons of miscellaneous steam tonnage. After 1885, the statistics available do not separate BI vessels from other British steamers which by 1904, represented 96.7 per cent of all steamers trading at Bushehr. It is thus clear that the arrival of the BI service at this port played a particularly significant part by inaugurating the sustained and dramatic growth in the use of the port by steamers. Although it faced increasing competition, by the turn of the century it was still by far the largest single company operating from the port

TABLE 2:2 B.I. STEAMERS ENTERING THE GULF PORTS, 1873-1885 AND  
BRITISH STEAMERS ENTERING THE GULF PORTS, 1886-1904

Year	BUSHEHR No. & tons BI (% total ss)	BAHRAIN No. & tons BI (% total ss)	BANDAR ABBAS No. & tons BI (% total ss)	LINGAH No. & tons BI (% total ss)
1873	26-26,000 (62%)	?	26-26,000 (84%)	26-26,000 (85%)
1874	36-36,000 (61%)	15-5,500 ?	37-34,611 (66%)	?
1875	53-37,100 (71%)	13-7,540 ?	?	53-37,100 (89%)
1876	47-37,600 (68%)	13-10,400 ?	47-37,600 (68%)	47-37,600 (70%)
1877	52-55,952 (49%)	?	?	?
1878	52-49,400 (56%)	16-20,368 (85%)	?	52-49,400 (82%)
1879	52-32,240 (42%)	45-46,260 (88%)	?	48-52,800 (64%)
1880	52-36,816 (44%)	?	52-36,816 (53%)	53-58,300 (58%)
1881	104-67,080 (47%)	34-23,460 (91%)	104-67,080 (67%)	104-67,080 (54%)
1882	100-67,000 (39%)	29-30,479 (87%)	?	105-115,500 (73%)
1883	105-83,710 (38%)	31-24,025 (85%)	105-83,710 (72%)	105-83,710 (80%)
1884	104-85,346 (42%)	37-50,727 (99%)	104-85,346 (69%)	104-85,346 (74%)
1885	104-95,000 (44%)	33-41,394 (97%)	104-95,000 (61%)	103-94,456 (65%)
1886	108-96,611 (93%)	49-39,139 (100%)	107-95,511 (95%)	78-62,799 (100%)
1887	94-87,817 (97%)	53-74,969 (100%)	94-87,817 (96%)	80-70,510 (99%)
1888	100-91,894 (100%)	48-46,608 (95%)	88-75,616 (98%)	79-99,600 (100%)
1889	112-113,172 (98%)	38-35,281 (100%)	77-100,896 (96%)	77-92,400 (100%)
1890	110-106,396 (100%)	38-35,568 (100%)	65-60,207 (93%)	81-162,000 (99%)
1891	142-145,801 (100%)	36-54,272 (100%)	75-82,500 (98%)	84-168,000 (98%)

TABLE 2.2

Year	BUSHEHR	BAHRAIN	BANDAR ABBAS	LINGAH	BASRA
	No. & tons Br. (% total ss)	No. & tons Br. (% total ss)	No. & tons Br. (% total ss)	No. & tons Br. (% total ss)	Tons Br. (% total ss)
1892	126-131,590 (99%)	56-61,327 (95%)	79-70,362 (97%)	80-160,000 (98%)	
1893	107-114,535 (96%)	43-41,514 (97%)	82-90,200 (99%)	75-142,500 (98%)	
1894	111-129,638 (92%)	77-78,112 (99%)	84-92,400 (98%)	75-82,500 (95%)	138,129 (86%)
1895	132-170,434 (96%)	84-82,440 (98%)	83-91,300 (94%)	77-84,700 (88%)	172-765 (82%)
1896	112-133,277 (86%)	88-89,195 (99%)	76-83,600 (86%)	77-84,700 (88%)	136-693 (80%)
1897	90-98,494 (97%)	59-56,230 (98%)	76-83,600 (100%)	73-80,300 (99%)	109,180 (83%)
1898	96-97,255 (97%)	107-115,069 (99%)	67-73,700 (99%)	83-91,300 (98%)	104,500 (83%)
1899	101-118,928 (94%)	53-89,963 (99%)	64-70,400 (100%)	78-85,800 (98%)	134,401 (81%)
1900	111-132,787 (98%)	29-28,713 (100%)	101-135,139 <sup>a</sup> (96%)	78-85,800 (98%)	172,938 (86%)
1901	109-125,760 (97%)	37-37,038 (100%)	159-143,100 (96%)	81-89,100 (98%)	142,243 (79%)
1902	133-148,229 (95%)	66-72,771 (100%)	193-156,330 (91%)	95-104,500 (98%)	164,341 (82%)
1903	154-188,352 (96%)	73-104,717 (99%)	171-215,000 (92%)	74-81,400 (96%)	167,479 (86%)
1904	154-174,655 (97%)	72-97,085 (98%)	144-216,000 (93%)	64-70,400 (97%)	

SOURCES: (Basra) Saldanha, J.A. (1906) Precis of Commerce and Communication in the Persian Gulf, 1801-1905, Calcutta, App. H. [Other ports] Report on the Administration of the Persian Gulf and Muscat Political Agency, Calcutta, annual, 1873-1905



and offered the most regular and frequent service<sup>13</sup>. Only in the years immediately preceding the First World War did other major British steamer lines make headway in the Gulf trade. Stricks, the Bucknall Steamship Lines and J E Guthe & Co (the West Hartlepool Steam Navigation Company) came to a joint agreement in this trade in 1903 from which Guthe withdrew on its expiry in 1909. The previous year, Bucknalls was purchased by Ellermans who continued to provide, with Stricks, a rival UK-to-Gulf service until the outbreak of war.

What influence did this increase in shipping tonnage have on the trade of Bushehr, and its importance as a transshipment centre? The value of its imports rose from under half a crore of rupees in 1873 to nearly one and a half crores in 1903, an increase of over 300 per cent. This reflects the development of Bushehr and especially its hinterland as a market for British goods as far as this may be deduced from the statistics available. Table 2.3 shows that whereas only sixteen per cent of the value of imports into Bushehr in 1873 was accounted for by goods from Britain, by 1897 the proportion had increased to 68 per cent. Indian imports had exceeded 51 per cent in 1873; by 1897, they represented only 18 per cent. Bushehr's exports by value increased from 39,20,729 rupees to 68,27,550 from 1873 to 1898; in 1873, eight per cent were shipped to the UK and 33 per cent to India. By 1898, the proportions were 27 per cent and seventeen per cent respectively. Other variables, besides the impact of the BI steamers, need to be taken into account in this shift in the direction of Bushehr's overseas commerce, such as changes in other trade routes, the harvest fluctuations in Persia and the fact that a plague epidemic at Bombay virtually closed it as a port in 1896-1899. However, the BI's role in the expansion of commercial links between Bushehr and Britain was vital.

Imports into Bushehr in 1873, which numbered over 150 separate items, included cattle, drugs, fruit and vegetables, glass, grains, hides, metals, oils, seeds, tobacco, timber and wool. By the late 1890s, the most important items (by value) imported into Bushehr were cotton piece goods, shirtings, copper, and guns, cartridges and other arms from Britain, with cotton goods, rice and sugar from India. A detailed insight into the exports carried by BI steamers from Bushehr in the period

TABLE 2.1. VALUE OF IMPORTS AND EXPORTS BETWEEN THE UNITED KINGDOM AND SELECTED GULF PORTS, 1873 and 1897-1899

Ports	Imports from UK to Gulf			
	1873 From (UK as %) UK (of total)	1897 From (UK as %) UK (of total)	1898 From (UK as %) UK (of total)	1899 From (UK as %) UK (of total)
Bushehr (lakhs of rupees)	7.57 (16%)	1,23.82 (68%)	64.26 (48%)	66.28 (40%)
Lingah (lakhs of rupees)	-	9.35 (0.1%)	6.56 (0.06%)	-
Bandar Abbas (lakhs of rupees)	52 (1%)	10.12 (17%)	12.33 (19%)	12.92 (16%)
Bahrain (lakhs of rupees)	-	3.73 (5%)	-	-
Mohammarah (L)	?	29.616 (24%)	51,859 (34%)	74,129 (37%)
Ports	Exports to UK from Gulf			
	1873 To (UK as %) UK (of total)	1897 To (UK as %) UK (of total)	1898 To (UK as %) UK (of total)	1899 To (UK as %) UK (of total)
Bushehr (lakhs of rupees)	3.18 (8%)	15.49 (25%)	18.47 (27%)	11.74 (15%)
Lingah (lakhs of rupees)	-	48 (0.6%)	46 (0.5%)	54 (0.7%)
Bandar Abbas (lakhs of rupees)	17 (1%)	23 (0.6%)	11 (0.4%)	20 (0.7%)
Bahrain (lakhs of rupees)	-	-	-	-
Mohammarah	?	19,443 (47%)	8,394 (25%)	11,073 (19%)

Sources: 1873, Saldanha, J.A. (1906) Precis of Commerce and Communication in the Persian Gulf, 1801-1905, Calcutta, App. F.  
1897-9, Report on the Administration of the Persian Gulf and Muscat Political Agency, Calcutta, annual, 1873-1905

September 1866 to September 1869 is provided by a return kept by Gray Paul: the commodities listed were specie, pearls, cotton, silk, almonds, grain, gallnuts, cumin seeds, opium, safflower, ghee, rosewater, horses, carpets, dried fruit and wool<sup>14</sup>. By the late 1890s Bushehr's export trade included guns (imported from Britain and re-exported to Muscat), almonds, gum, hides and specie to India, and tobacco to Egypt. The third of its exports which were despatched to the UK comprised wool, carpets, mother-of-pearl shells and opium. Evidence of a shift from primary to secondary production at Bushehr was slight.

Bushehr's imports practically always exceeded the value of exports from the port, where local manufacturing, besides crafts for immediate use, was limited to the production of a small number of copper coffee pots only. The BI and their agents thus became interested in the development of local trades to pay for the imports, especially because the balance of payments difficulties of the Gulf ports were exacerbated by the scarcity of coin: gold had practically disappeared, silver was rare and even copper hard to obtain. The opium trade in particular helped to solve this problem: the ready market for the drug for the opium dens in Hong Kong and Singapore initially encouraged its cultivation in Persia, and with the rise in poppy seed prices in Europe in the mid 1870s, it was also shipped to England and the USA. By 1879, the price of a case of opium (of 140lb each) had risen from 280 to 615 Maria Theresa dollars, this latter sum equivalent to nearly £70<sup>15</sup>. The BI then decided to enter the trade, employing three brand new steamers, the Culna, Ellora and Chindwara, all over 1,900 tons gross, which carried a total of 215 cases to Hong Kong<sup>16</sup>. As the production of Persian opium increased, from 1,560 chests in 1868-89 to over 5,000 chests per year in the 1880s and 1890s, the importance of the BI in this trade grew. By 1888, when steamers of the BI carried 886 and a half chests of opium to Hong Kong, their share of the trade reached 40 per cent, exceeded only by the Bombay and Persian Steam Navigation Company which shipped 1,175 chests. The Persian Gulf Steam Navigation Company carried 50 chests to London and a further 36 to Hong Kong. In 1894, the 1,493 chests (worth over £100,000) carried by the BI to Hong Kong represented 44 per cent of the total opium exports from Bushehr. In 1901, when the new

BI services which began in 1904 were first discussed, it was hoped that the employment of more vessels in the carriage of cargoes (in addition to the fast mail line) would lead to an even larger share of the opium trade.<sup>17</sup>

The imports of firearms into Bushehr from Britain were substantial, and although the bulk of the trade was carried by smugglers in local craft, it is likely that BI vessels played some part in it. Flourishing after the third Afghan War of the late 1870s, the British and Indian Governments succeeded in persuading the Persian authorities to prohibit arms sales by the 1880s and 1890s, and the firms which carried out the import and export of arms were warned to stop by the Political Resident. These firms usually enjoyed the benefits of British protection - for example a Persian-Armenian firm A & T S Malcolm, had enjoyed close links with Gray Paul at Bushehr since the latter's beginnings, despite their role in supplying British arms to the enemy. The illegal nature of this trade has necessarily precluded its contemporary documentation, but occasional seizures were reported, including one of 30,000 rifles landed at Bushehr in 1897, for which the local Governor was receiving a 10 per cent commission.<sup>18</sup>

According to a Gray Dawes & Co notebook already referred to, by the 1880s and 1890s, Gray Paul also became involved in the forward shipment of goods from Bushehr to Tehran. In reply to enquiries from French and German merchants, Gray Paul outlined their services, for which they charged five qrans(kerans) (34 qran equalling £1) per load forwarding commission. Donkeys (which could carry up to 240lbs) were employed to Shiraz, where camels could be hired which could carry two donkey loads. The carriage of 100 maunds (or 750lb) of cargo would cost about 200 qrans from Bushehr to Tehran, a journey of between two and three months' duration.

Gray Paul thus played a prominent role in the commercial life of Bushehr through their work as BI agents. When founded as the headquarters of the BI's Gulf service, the office was run by Robert Paul assisted by two Persian clerks, Simon Nahiapiet and John Anfet, with thirteen servants. Of the latter, six were also Persian, one was Indo-Portuguese and the remainder were British Indian.<sup>19</sup> British Indians enjoyed an important position among

merchants and traders in the Gulf, acting as shopkeepers, clerks and 'Dubashis' or foremen of local labour. Their prominence in the early Gulf economy explains the use of rupees as the 'official' currency used in statistical returns<sup>20</sup>. The community of Britons at Bushehr in the 1860s was small: led by Lieutenant Colonel Lewis Pelly, the Political Resident, it comprised his two assistants, four clerks, an apothecary and the postmaster. Ten other Britons worked in the telegraph department and four British military personnel were stationed there. By 1914, seven other European firms were established at Bushehr and the British residents now numbered 34. Gray Paul acquired substantial local property: they owned a large house and garden with outlying land including stables, another piece of land named Chahar Sabute, the company's office and adjoining land, together with a house and land at Bagh-i-Sheikh Ahol<sup>21</sup>. Meanwhile the local population of Bushehr, estimated at 15,000, were crowded into 1,400 densely populated houses.

Managing the BI service at Bushehr was fraught with problems, as is shown in an analysis of the arrivals of BI steamers at the port between October 1896 and December 1897 compiled by the Political Resident. The steamers then in the trade, the Kilwa, the Assyria, the Simla, the Purnlia, the Pacumba, the Pemba, the Khandalla, the Kapurthala, the Culina, the Chanda and the Patna, which made 64 calls at the port between them in this period, were on average at least two days behind their scheduled time of arrival on each voyage. By supplementing their mail subsidy with the carriage of cargo, the BI steamers caused considerable delays in the collection and delivery of mails. In the BI contract, it was stipulated that the Political Resident at a port was entitled to detain a steamer if necessary for the preparation of despatches, which further disrupted attempts to keep to the timetable. Gray Paul, in replying to the Political Resident's complaints, admitted that the delays were due to the time taken in unloading cargoes; the latter suggested that as the BI was benefiting from an increase in the cargoes carried, it should allow more time and provide more vessels to keep the Post Office contract punctually. The new service of 1904 in effect took up these suggestions, but this was only a partial solution, as the discharge of goods suffered principally

from the inadequate boat and lighterage arrangements rather than just an excess of cargo. An annual contract was given to a Persian official known as the Hamal Bashi, whose interest in personal gain far outweighed any concern for the efficient running of the Gulf steamer service. Above all, the uncertain, disorganised and lawless nature of local conditions in Bushehr in the late nineteenth century made Gray Paul's job as the BI agents a difficult one: in 1898, writing to Mackinnon Mackenzie in Calcutta, they warned that "the town itself is in a most disturbed condition and at any moment there may be a complete breakdown of (all port) arrangements"<sup>22</sup>.

### 3.2 Lingah

Lingah, where Gray Paul established an office in 1875, developed and prospered as a transshipment centre for traffic to and from Bahrain and the ports of the Trucial coast. The traffic of this port declined considerably after 1902 as a result of the imposition of heavy custom restrictions by the Persian Government<sup>23</sup>. Table 2.2 shows that, for a number of years, BI steamers calling at Bushehr also put in at Lingah on the way. Later, and especially from the mid-1880s, when a new contract came into operation, the services did not always include Lingah<sup>24</sup>. Because of the withdrawal of competing steamships in the mid-1880s, despite this reduction in the BI series to Lingah, the company virtually monopolised steamshipping at the port<sup>25</sup>.

As in the case of Bushehr, the value of imports into Lingah heavily exceeded exports: 42,30,810 compared with 36,73,490 rupees in 1876. The import trade steadily increased, often exceeding a crore of rupees in the 1890s. However, unlike Bushehr, British goods imported into Lingah were few and far between. Table 2.3 shows that in 1873 there were none at all, and only 9,350 rupees by 1897, or only 0.1 per cent of the total. Lingah was thus not exploited at all as a market for British goods. The BI and its agents preferred to concentrate on the leading ports of Bushehr, Basra and Mohammarah (later Khorramshahr), with their larger local populations and hinterlands. Ports with good inland connections by caravan routes were most important to the BI: Bushehr had at least two, whereas Lingah had none, its trade mainly sea-based, involving trans-shipping goods to other ports.

Lingah's exports also rose in value before the crippling customs dues were imposed: from 36,73,490 rupees in 1876 to over a crore of rupees in 1892-1894. The traditional trading areas of Lingah merchants were India and the Arab coast. They played an important part in the export of pearls from Bahrain, the import of guns from Muscat and coffee, cloth, flour and rice from India, and the export of dates to the Arab coast. Only drugs, pearls and mother-of-pearl shells were exported to the UK, which formed less than one per cent of the value of Lingah's exports in 1897-1899. Thus Lingah was seen as a necessary port of call on the mail run rather than of importance for trade with Britain, although the BI steamers, in their predominant position in steam tonnage trading with this port, would have played a large part in the carriage of goods between Lingah and India.

Gray Paul's branch manager, who was the only British resident at the port, had to contend with considerable local problems in managing the steamer service. As at Bushehr, the loading and discharge of the steamers were at the mercy of the Hamal Bashi. The master of the Purnia, writing to Gray Paul at Bushehr in 1897, complained:

I had a day extra at Lingah due to the want of boats, and had to overcarry 804 packages. The reason of delay appears to be that the Hamal bashi would not supply boats, and your representative (the Gray Paul branch) complained bitterly of his lack of energy and co-operation<sup>26</sup>.

### 3.3 Bandar Abbas

The Bandar Abbas branch of Gray Paul was established concurrently with Bushehr in 1865. The port was slowly developing as an exchange centre for goods from a large area of South-Central Asia, but it declined in the 1890s, when increasing Russian dominance of Central Asian trade severely curtailed the import of British goods via Bandar Abbas<sup>27</sup>. It was a regular port of call of the BI steamers where, as in the case of Lingah, the BI virtually monopolised local steamer traffic. Table 2.2 shows that in 1885-1886, for example, when BI steamers represented 44 per cent of steam tonnage entering Bushehr, the same vessels when calling at Bandar Abbas represented over 60 per cent of steamers

trading there. In 1897 and 1899 all the steamers entering were British, and the BI in particular continued to frequent the port despite the decline in its trade.

This decline is apparent when analysing the value of imports into Bandar Abbas, which reached a peak of nearly a crore of rupees in the early 1890s, from only 17,37,750 rupees in 1873. Valued at 63,41,030 rupees in 1901, it was thus still an important port of call. Exports from Bandar Abbas also increased; from 17,65,846 rupees in 1873 to 58,44,560 in 1895, thereafter declining sharply to only 15,40,126 rupees by 1900. Like Lingah and Bushehr, imports predominated. However, unlike Lingah, a significant proportion of imports into Bandar Abbas were from Britain, as this port was also a forwarding station for goods. Table 2.3 shows that although they totalled only three per cent by value in 1873, British goods imported rose more than twentyfold to nineteen per cent of the total in 1898. Exports to Britain from Bandar Abbas, however, remained insignificant throughout the period under review. The cargoes imported from Britain into this port were largely cotton piece goods, which were trans-shipped to many Asian cities until they came under Russian commercial and political dominance. India was the most important source of imports into Bandar Abbas, supplying indigo, rice, copper, iron and tea. Exports included a small quantity of drugs to Britain, and dates, dried fruit and nuts to India.

With the port of Bushehr, Bandar Abbas acted as an outlet for the Persian Gulf opium crop. BI vessels, in competition with the Bombay and Persia Steam Navigation Company, shipped approximately one third of its opium exports from here: this represented a quarter of the total opium output exported from the Gulf. BI steamers entered the Bandar Abbas opium trade in 1885, later than at Bushehr. 240 chests were carried to London although Hong Kong was usually the most profitable destination. In 1892 the carriage of opium by BI vessels from Gulf ports reached a peak: 2,194 chests from Bushehr and 746 from Bandar Abbas.

With its substantial imports of British goods, Bandar Abbas was an important branch to Gray Paul, which was the only European firm represented at the port. In 1908 it was observed that "except from Great Britain, no foreign power possesses any



tangible interest here". The Russians, however, did have a consulate at the port<sup>28</sup>. By the end of the period under review, the import and export business of Bandar Abbas was being transferred to Bushehr, which became the main place of trans-shipment of imports from Britain to the Persian coast of the Gulf. The considerable trade in importing rifles at Bandar Abbas was, meanwhile, stopped effectively by the local customs authorities. Despite this, the port remained a regular, rather than optional, port of call, and the BI established their own loading and discharge arrangements here by maintaining their own fleet of boats<sup>29</sup>.

### 3.4 Bahrain

Bahrain, where Gray Paul opened an office in 1883, provided its base on the Arab side of the Gulf in this period. Agriculturally and commercially the most valuable district on the Arab coast, a direct service by the BI to Bahrain became especially important after the decline of Lingah<sup>30</sup>. Table 2.2 shows that it was not a regular port of call to the same extent as Bushehr, Lingah and Bandar Abbas, but the tonnage of steamers entering increased significantly. From under 10,000 tons a year in 1874-1876 entrances exceeded 40,000 tons in 1879 and again in 1884-1885. In the 1890s it was almost always considerably higher. The BI's dominance of the mail steamer traffic at Bahrain was almost complete; in 1884, for example, the only other steamer entering the port was a coaster of 270 tons. The steamer trade of this port fluctuated more dramatically than at any other Gray Paul branches, as would be expected at an optional port of call, and was more dependent on local trading conditions. However, by 1904, the tonnage of British steamers entering Bahrain exceeded that of Lingah.

The value of goods imported into Bahrain increased consistently from 32,87,275 rupees in 1873 to one and a half crores by the early 1900s. Yet, like Lingah, it was not developed as a market for British goods; only five per cent of Bahrain's imports of 1897 were from the UK, and these were principally firearms. Exports from Bahrain, which increased in proportion to its imports, mainly to India, accounting for 72 per cent in 1899 (68 per cent of Bahrain's imports were from India). As such, BI vessels carried a large proportion of these cargoes,

which were principally coffee, dates, rice - and pearls.

The pearl fishery at Bahrain was its most important activity, representing one of the few sources of wealth on the Arabian side of the Gulf, and dominated its economy. 4,500 boats, manned by 74,000 men, were employed there by the end of the nineteenth century. More than half of these vessels (2,593) were operated under direct British protection, so Gray Paul, as the only British mercantile firm with a branch at Bahrain, were closely involved in the trade, and carried a large proportion of the pearl exports to India and other Gulf ports. In 1866, pearl exports were valued at £400,000; by 1905-1906 the trade was worth nearly £1 and a half million<sup>31</sup>. For this reason, unlike other Gulf ports, the value of Bahrain's exports kept pace with that of its imports in this period. Edward Hopkins, who was sent out as an assistant at Gray Paul's Bahrain office in 1912, emphasised the importance of pearls by that time:

Pearls, the main export, were big business... in the season Bahrain took on a new aspect, and for a few weeks our little group was enhanced by a couple of dealers from Hatton Gardens, entertaining men of the world, full of the latest from London.

Gray Paul arranged with another European firm, Mallet and Company to market the pearls overseas, providing them with a 3 and a half per cent commission covering risks of loss and theft. White rather than yellow pearls were most favoured, and valued at £.1 per grain, four grains equalling one carat.

By the time of Hopkins' arrival, a second European firm had established a branch at Bahrain: Robert Wonckhaus, the agents for the Hamburg-Amerika line. By the 1900s, this firm was becoming a strong competitor, especially at the head of the Gulf, but the BI provided the only regular service. Even so, as Hopkins put it:

the mail ship called once a fortnight on the way up, and on the alternate weeks on the way down. Thus we received English mail only once every two weeks, and our newspapers were always four weeks or more old.

The European community numbered only four men, who became firm

Statistics of Basra's import and export trade are given in sterling and, with an approximate exchange rate of 15 rupees to the pound<sup>34</sup>, it is clear that Basra's trade was among the most flourishing of the Gulf ports. In 1895, for example, imports into Basra were valued at £1,399,465 and exports at £1,090,734. (Bushehr's totals in the same year were equivalent to about £1 and a quarter million and about £600,000 respectively). In 1900 the value of exports from Basra, which for the period 1893-1904 remained roughly in balance with imports, exceeded £1 and a half million. Recent research has shown that, as in the case of Bushehr, the UK replaced India as the main source of trade. In 1901-1904, over £1 and a half millions' worth of goods were imported into Iraq as a whole from Europe and North America, through Basra, principally comprising cotton goods and general cargoes. Seaborne exports from Iraq tripled in quantity between 1880-1884 and 1910-1931. These included wool and cereals brought to Basra by the Lynch steamers down the Tigris and Euphrates and dates, liquorice root and horses by overland carriage<sup>35</sup>.

The date trade from Basra in the late nineteenth and early twentieth centuries was of particular importance to Gray Mackenzie. They arranged the loading of BI ships with dates on their own account and for other Europeans and local firms on consignment for Gray, Dawes and Company of London and several merchants in America and Australia. For example, in 1892, shipments of dates on Gray Mackenzie's own account represented over ten per cent of the total export of this commodity from Basra; 65,000 half cwt. boxes out of a total of 550,000. However, Gray Mackenzie's main business was in shipping dates for others. A typical shipment, of 1890 to an American merchant customer was of 22,791 boxes of Hullawee dates (the finest quality) at cost per invoice of £5,686. Packing charges amounted to £2,206, insurance at one per cent to £100 and freight per invoice to £1,227, with an extra £455 for transshipment. Gray Mackenzie's ten per cent commission totalled £966, on the final bill totalling £10,628. The vessels carrying the dates exported from Basra were mainly BI ships; so it is clear that Gray Mackenzie played a prominent part in this trade. Other firms involved were Lynch Brothers, the Persian Gulf Transport Company and the German firm Hotz and Co., together with several local

friends in their enforced isolation: Hopkins, Macpherson (the junior partner at Gray Paul and the branch manager), the Political Resident, and Holst of Robert Wonckhaus. Of the last named, Hopkins recalled:

Like his sovereign the Kaiser, he inclined to the manners, customs and dress of Britain, speaking English fluently. Whether, like his sovereign, he also hated and envied her I do not know for he certainly never showed it then and we were always on the friendliest terms with him.

Years later, looking back, Hopkins reflected on their conditions: "they lacked any cable, wireless or telegraphic communication with the outside world, telephone, electric light, motor cars, a cinema, a club, a bar and plumbing". Although very busy in the pearl season, Gray Paul's branch at Bahrain, which practically closed down for at least six months of the year, was enlivened only by the occasional visits of BI masters and 'the men-of-war on the Gulf anti-gunrunning and anti-slavery patrol'. Hopkins, who complained that "the mails being so far apart, officework tended to be concentrated around midday, leaving little to do in the intervals", found himself quickly transferred to the busier branch at Basra<sup>32</sup>.

### 3.5 Basra

Basra, the terminus of the BI service, was the second most important town in Mesopotamia after Baghdad. In decline in the second half of the nineteenth century, it regained importance with the stimulus of the river steamer service on the Tigris and Euphrates and BI shipping in the Gulf<sup>33</sup>. As the port of Basra did not come under the scrutiny of the British Resident at Bushehr, no comparable body of statistics as used in Tables 2.2 and 2.3 is available. A short series from 1894 to 1903, however, shows that in terms of steamer entrances and clearances, Basra was one of the most important Gulf ports. Separate figures for mail steamers entering Basra have not been discovered, but British steam tonnage dominated the trade to the extent of over 85 per cent. As each BI vessel would have called there as a matter of course, it is likely it retained a position of superiority comparable with other ports of call.

merchant houses. As in Bushehr, Gray Mackenzie dealt with Indian and Arab merchants rather than the actual producers of the commodities they handled. A letter of 1891 discussed the possibility of arranging with "native packers for the purchase of their dates on the spot, exercising a supervision over their packing", but complained that the date packers would not accept under ten per cent profit - based on the price of dates in London - and it was impossible to keep an adequate check on quality control.

According to Hopkins, Basra was regarded as "almost a metropolis" in comparison with Bahrain and the smaller Gulf ports. British interests predominated over those of other European countries at the port: 27 British residents lived there, mainly connected with the two British firms, Lynch's and Gray Mackenzie. The latter owned extensive property at the port, including the first water closet in Mesopotamia and the land and buildings of the Basra Club. Hopkins, assigned to looking after the loading and discharging of BI vessels and ships of other companies for whom Gray Mackenzie acted as agents, described how Basra:

was unlike most ports in that it completely lacked most of the facilities associated with such places. There were no docks or wharves, no warehouses or cranes, no tugs or dredgers, no buoys, lights or other aids to navigation, and neither harbour master nor port charges.

Problems in managing the service included the fact that "owing to the lack of any telegraphic line from down river, ships usually arrived more or less unexpectedly". The port was especially busy during the date season, when as many as four or five steamers at once were loading dates for Britain, the USA and Australia. Gray Mackenzie owned four steel barges, but these were not sufficient for all the loading and discharge work: the remainder was done by local craft, known as mahalas, which 'were poled, rowed, sailed or drifted between ships and shore'<sup>36</sup>. When timetables were being drawn up for the new Gulf Service, Gray Mackenzie staff wrote to MM and Co in Bombay that, although it was possible to load and discharge vessels at Basra in three days when business was slack, this was not the case in the date and horse seasons. All

10  
steamers were detained 24 hours in any case due to quarantine regulations<sup>37</sup>. Basra particularly suffered the effects of the lawlessness and piracy prevalent at the Gulf: for example, in 1912 Gray Mackenzie wrote to the British Consul at Basra complaining of the theft of ten bags of coffee, one bag of sugar and one case of tea from the Barala. They added, with some understatement, "we would take this opportunity of drawing your attention to the insecure state of the river". Rarely were the culprits tracked down or punished. When pirates raided a Strick, Scott and Company lighter, stealing two bags of sugar and exchanging shots with the watchmen, the agents complained that "this is another instance to show the utter helplessness of the Turkish Government to protect British property"<sup>38</sup>. Hopkins had described Basra as "a hoplessly inefficient port". Nevertheless a high value of trade was achieved there.

### 3.6 Mohammarah

Finally, Gray Mackenzie also represented BI steamers at Mohammarah which was to become the most important of the Gulf ports after the First World War. Mohammarah, as well as Basra, benefited considerably from the opening of the Karun river to steamers in 1888, after which it trans-shipped cargoes to many central Persian settlements such as Ahvaz and Esfahan<sup>39</sup>. No record of British steamers entering Mohammarah survives. It was an optional port of call for the BI from 1884 and enjoyed a regular weekly service from 1894. The value of imports into Mohammarah and the Karun ports rose from £125,115 in 1894 to £263,902 in 1904, reaching a peak of £340,764 in 1900. The value of exports rose from £28,251 in 1894 to £79,405 by 1904, reaching £151,725 in 1901. During the first six months of 1902, according to a return kept by Gray Mackenzie, BI steamers carried 326 and a half tons of local cargo and 97 and threequarter tons of trans-shipped cargo from Mohammarah, making it quite clear that this was only occasionally a steamer port: it was, in fact, the main haven for the long-distance dhow fleet of the Gulf<sup>40</sup>. Although its trade in this period represented only a fraction of that of the nearby port of Basra, it also took an increasing interest in trading with Britain. In the five years from 1894 to 1899, Mohammarah's imports from Britain rose from four per cent to 37 per cent and its exports to Britain from fourteen per cent to

nineteen per cent of its total trade. Imports from Britain by the latter date were mainly cotton goods, and from India coffee, rice, silks and sugar and cheaper cottons. Exports from this<sup>41</sup> area included wheat, dates, oilseeds and wool sent to Britain, and dates, horses, ghee, wool and specie to India. The region was regarded as of great agricultural and commercial potential: for instance the production of gum from Shiraz and Esfahan was already worth £40,000 by 1904, and further expansion was expected<sup>42</sup>.

The two firms of Gray Mackenzie and Lynch Brothers dominated the foreign trade of Mohammarah which, as the capital and only important town of southern Arabistan, had a British consular office. The growth of the Karun district's trade, through its connections with the BI service via Mohammarah, resulted in a threefold increase in its population and an improvement in their standard of living. The local labourers employed by shippers started their own smallholdings and purchased donkeys, ploughs and seeds. The opening of the Karun was primarily seen in terms of its benefit to the commercial prosperity of Britain and British India. As Curzon pointed out, the inhabitants of:

Central Persia, as far north as Isfahan, already derive the bulk of their luxuries, and almost the whole of their clothing, from Manchester or Bombay; and each fresh town, we may say each new village, that is brought into communication with the Persian Gulf, will thereby be drawn into the mesh of the Lancashire cotton spinner or the Hindu artisan<sup>43</sup>.

Thus in the period up to 1914, the two merchant partnerships of Gray Paul and Gray Mackenzie were well established at the principal Gulf ports. How profitable were these enterprises? Their partners made substantial investments in these Gulf companies at the beginning. Both firms were founded by the same individuals: Archibald Gray and E.S. Dawes referred to at the start of this paper. Paul and Mackenzie, when sent to Bushehr and Basra respectively, put up their savings, as did S.A. Cunningham, a junior partner who was recruited in the mid-1820s. A ledger recording these investments from December 1880 shows a total of £35,000 held in respect of the Bushehr branch of which

£9,500 each was invested by Gray and Dawes, with a further £7,000 by Paul, £8,000 by Mackenzie and the remainder by Cunningham. The shares were held in exactly the same proportions and amounts at Basra. The accounts survive for six years only, but it is interesting to note that Basra was already showing signs of its later predominance: whereas the total invested at Bushehr by the partners was reduced to only £10,000 by 1886, at Basra the working capital rarely dropped below £30,000 and reached £55,000 in December 1885.

Fortunately, amounts remitted home by the partners were also recorded, for the years 1886 to 1908. From the Bushehr branch alone Dawes personally had sent back to Britain profits of over £5,000 by 1886. In the following years to 1895, he remitted a further £1,500. Thus despite withdrawing most of his original investment (leaving only £2,500 by 1886) he made profits of over £6,500, besides the earnings which he may have invested in property and other projects at Bushehr of which no record survives. The other partners enjoyed similar returns on their investments at this branch. At Basra, earnings were even more spectacular. Both Dawes and Paul remitted over £7,000 home by June 1886, and subsequent remittances by Dawes exceeded £19,000. On his death in 1904, a final sum of nearly £8,000 went to his executors. Paul sent home further sums totalling nearly £17,000 between 1886 and 1900, and Mackenzie over £33,000 by 1908. Thus, an initial investment of approximately £10,000 in the Basra branch in the 1880s earned over 300 per cent profit over a period of twenty years<sup>44</sup>.

#### 4. The Mesopotamia Persian Corporation Ltd

In the years leading up to the First World War, the growth of German influence in the Gulf encouraged the British Government to support the commercial enterprise of its nationals in this area. Lord Inchcape, then chairman of the BI played an important part in the negotiations between the Board of the Baghdad Railway Company and the Ottoman River Navigation Company (ORNCO), part of an agreement by which Turkey and Germany recognised Britain's position in the Gulf. This agreement reached in July 1913 laid down that at least two of the directors of the Board of



the Baghdad Railway Company were to be British, and the ORNCO (which Lord Inchcape had been invited to form) was to enjoy a monopoly of the traffic on the Tigris and Euphrates, with a guaranteed minimum height for the carriage of materials for the building of the railways. This was planned in conjunction with Lynch Brothers who, with Lord Inchcape, were to hold a 40 per cent interest in the construction of railway terminal facilities at Basra and Baghdad. Lord Inchcape's insistence that the Baghdad-Kuwait stretch of the railway should be kept under British control led to the establishment of an informal protectorate over Kuwait in 1914<sup>45</sup>.

Although these plans were shelved with the outbreak of war, this international conflict itself stimulated the business and the partnerships to an even greater extent than that promised by the establishment of the ORNCO. The area became a major theatre of military operations, accelerating a process of transformation ultimately changing the Gulf from a backwater to one of the world's most prominent economic regions. The war brought additional demands on the shipping and importing services of the partnerships in catering for the needs of the huge military presence. In shipping fuel, logistics and general supplies, the firms took over the barges of the Hansa lines, and many other agencies<sup>46</sup>. But the war brought disadvantages too. The partnerships began to appreciate their vulnerability. To escape Turkish jurisdiction, Hopkins recalled that he had to carry the firms' gold and office records to Bushehr when Mohammarah was considered no longer safe. He described these developments:

The Turks unilaterally denounced the capitulations, those treaties dating back to the sixteenth century under which we and often foreigners enjoyed our peculiar extra-territorial position. So we now come under the jurisdiction of the Turkish courts, and our premises were no longer free from search or our property from seizure.<sup>47</sup>

After the war, the partnerships were anxious to reconsider the joint proposals concerning the Baghdad railway which they had planned with Lynch Brothers, thinking that a more efficient pooling of resources would strengthen their position in an

economy undergoing considerable upheaval. Lord Inchcape was again being pressed by the British Government to explore ways in which British commercial interests could play a part in the development of Iraq. Discussions between Lord Inchcape, W.A. Buchanan (by then Senior Partner of Gray Mackenzie and Gray Paul) and F.W. Parry (an executive director of Lynch Brothers) culminated in January 1920, in the launch of the Mesopotamia Persia Corporation Ltd., (MPC). With its registered office in Basra, this company took over the entire operations of Lynch Brothers and the two partnerships as well as the rights and interests of Lord Inchcape, with a monopoly of the navigation of the Tigris and Euphrates guaranteed by the Imperial Ottoman Government<sup>48</sup>.

Potentially, this new enterprise could have made a substantial contribution to the post-war expansion of the region and reaped good returns, as trade in Iraq and Persia in 1919 was promising. Oil in Persia had originally been discovered by the D'Arcy expedition in 1905, and the export of crude oil was monopolised by the Anglo-Persian Oil Company, with whom Gray Mackenzie and Gray Paul enjoyed close links. Exploration elsewhere in the Gulf had made only slow progress before, but the war considerably stimulated further efforts in developing this industry. Details of the remittances of the partners discussed earlier end in 1908, and the accounts of MPC, as a company registered in Mesopotamia, were not transmitted to London. However a brief unpublished history of Gray Mackenzie & Co Ltd, from its origins to recent times, written by a retired managing director with experience of the Gulf at that time, maintained that in the immediate post-war years<sup>49</sup>, the firms as individual entities were making handsome profits. Yet the amalgamation not only failed to achieve the expected economies in office staff and the elimination of duplication, but through the lack of co-operation between Gray Mackenzie and Lynch Brothers and the resultant management difficulties, actually incurred heavy losses which might have been avoided had the firms remained separate. The friction between the two firms was due to two principal reasons. Firstly although the agency business of Gray Mackenzie and Lynch Brothers were complementary, in trading they were traditionally competitive and as there was practically no change

in the personnel at the branches after the merger, rivalry inevitably continued. It soon became clear that the necessary co-operation between the senior partners which was essential for the proper control of the corporation's affairs was lacking. Secondly, an important distinction between the two firms lay in the fact that Lynch Brothers conducted their business in the UK through their own Head Office in London, whereas Gray Mackenzie managed theirs through their brokers, Gray Dawes & Co (the London agents of the BI and a firm with which they shared many partners). Lynch Brothers, London and Gray Dawes were both appointed buying and selling agents for the MPC, their informal and loose association leading to confusion and duplication of resources. The firms never became accustomed to working with each other. This was also the case in Mohammarah and Basra, where both companies had maintained separate branches. An attempt was made to merge offices without success.

This lack of co-operation meant that there was no adequate stock control. The slump in world markets in early 1922 resulted in heavy losses, and efforts to tighten control on all aspects of the corporation's business in 1923 proved abortive. Large losses continued. Profits distributed in 1924 and 1925 had to be considerably reduced due to excessive stocks, and bad debts, which had been mounting due to management inefficiency. The corporation's problems were aggravated by personality clashes between directors. John Lynch, of the London office of Lynch Brothers, was regarded by his opposite number at Gray Mackenzie as "a most difficult man, obstinate, and of no great business acumen"<sup>50</sup>. In 1924, liquidation of the MPC was discussed but abandoned. In retrospect, this proposal should have been adopted, as already over £210,000 had been written off over the years since 1920 for excessive stocks and bad debts. In an attempt to shake up the MPC, John Lynch brought his nephews Malcolm, Colin and Hector Campbell home from Australia to work in the London office, and when their uncle died in 1926, they inherited the business. No noticeable improvement took place. A particularly revealing indication of the lack of confidence of others in the corporation was the fact that the Euphrates and Tigris Steam Navigation Company, for whom Lynch Brothers London had acted as agents for over seventy years, were now expressing

great dissatisfaction at the handling of their affairs. They opened their own London office in 1927. The ultimate demise of the MPC in 1936 was the result of the suspension of dividends from 1930 onwards and demands by Gray Dawes for the settlement of £25,000 loan.

#### 5. The creation of Gray Mackenzie & Co Ltd and the expansion of Gulf trade

In 1936, when the firms reverted to their separate entities, the opportunity was taken to transform the two merchant partnerships of Gray Mackenzie & Co and Gray Paul & Co into one limited liability company registered in the United Kingdom : Gray Mackenzie & Co Ltd. The first minute book of the new company records the inaugural meeting of its directors, who were W.A. Buchanan (originally a partner since 1888 and who had survived the troubled times of the MPC); G.K. Hotblack (a close legal and business adviser of Lord Inchcape) and John Herbert Fyfe, connected to Gray Dawes. Their registered office was shared with Gray Dawes and the BI/PO complex at 122 Leadenhall Street. Their work as agents for the shipping lines was to dominate their activities, which earned the healthy pre-tax profit of nearly £26,500 in their first half year, up to June 1937<sup>51</sup>. The new company's growing activities in the years immediately before the Second World War were even more closely linked to the development of the oil industry in this region. For example, Gray Mackenzie and the Bahrain Oil Co worked closely together and jointly sank an artesian well. The Company's Khorramshahr Branch acted as agents for the Italian Government tankers on behalf of Lloyd Trestino "taking oil for the Anglo-Iranian Oil Co. of Abadan, the quantity of oil to be loaded between now and the end of the year being in the region of 120,000 tons". Gray Mackenzie took over new offices and land and developed their branches, gaining the Strick Line agency at Bandar-e-Shahpur and the Hanse line and Silver Line agencies at Dubai. The increase in tonnage of shipping calling at Basra, much of which was handled by the company, was impressive; from twelve vessels totalling 20,000 tons in January 1914, to seven of 36,000 tons in the same month in 1927, to seventeen (mostly tankers) aggregating over 112,000

tons by January 1938<sup>52</sup>. Gray Mackenzie continued their dealings in local produce, such as grain and dates, and were in a strong position to take advantage of the growth in British overseas trade with the expanding economy of the Middle East. This was accelerated in the Second World War as in the First.

Exports from the UK to Iraq increased tenfold between 1940 and 1948, and the increasing value of exports to Britain from Iran reflects the development of that country's oil industry<sup>53</sup>.

Gray Mackenzie suffered in common with other British overseas firms from calling up of expatriates for military service. The region remained relatively free from direct enemy attacks, because the German vessels interned in Bandar-e-Shahpur in 1939 remained there until captured by the Royal Navy at the end of the war.

The navigation problems of the Gulf were aggravated. Vessels still had to employ lighters and barges to unload cargoes at the Gulf's open anchorages, and the delays grew longer because of the huge increases in traffic. During the war, the firm employed only twelve Europeans. They handled not only an expanding volume of work, but acted as agents for the Ministry of War Transport, and the UK Commercial Corporation. They also worked in conjunction with the inland water transport organisation of India, thus ensuring that supplies to Russia were sustained throughout the hostilities. Gray Mackenzie's profits were reduced by the extensive damage to their property in Iraq and Iran in 1941 owing to breakdowns in law and order, the requisitioning of their floating craft and property, and the taking over of their workshops and barges in Basra in 1942; the latter had made a healthy profit of £49,212 the previous year. The local authorities would agree to providing compensation only at the pre-war profit level of approximately £9,000 per year.

The 1942 AGM, held at the London registered office, reported that the firm had gained several new agencies, which were subsequently to fuel its post-war expansion. These included the Norwegian Shipping Board, Watts & Co, the Federal Steamship Co, the Harrison Line, the Prince Line, the Orient Line, the United States Maritime Board, the New Zealand Shipping Company, Stephen Sutton & Co, the Port Line, and Cable & Wireless steamers at all ports except Basra. Due to the overwhelming demand for their

shipping services, Gray Mackenzie agreed to share commission with Lynch's for the duration and offer a joint service, and to pool their resources with Stricks at Khorramshahr, Abadan, Bushehr and Bandar-e-Shahpur. This latter port enjoyed such growth that the firms were forced to seek larger premises, and were able to add to their staff with a local manager from the Tigris and Euphrates Steam Navigation Company. The shortage of European employees became so acute that Mackinnon, Mackenzie & Co at Calcutta seconded one of their cargo superintendents to the Gulf, and the appointment of an ex-employee of Strick's, who had been evacuated from the Far East, was reported with relief at a 1942 meeting of directors<sup>54</sup>. The firm's performance in this challenging period was valuable preparation for the later oil boom and further transformation of the economy of the Middle East in the 1950s.

## 6. Conclusion

In considering the activities and achievements of the BI and their agents over a period of nearly a century, it is striking that when an observer in the 1890s maintained that "the mail steamers of the BI literally created the trade of the Persian Gulf", this was no hollow boast<sup>55</sup>. In the context of the BI services as a whole, however, the Gulf run was in its infancy and its trade before 1914 not yet on a large scale. For example, British goods imported into the Gulf were valued at nearly £2 and a half million in 1901-2<sup>56</sup>, whilst British goods imported into India exceeded £32 million<sup>57</sup>. The subsidy received by the BI for its mail service was not large: in 1904, less than £30,000 was received for providing two services employing up to eight costly, well-appointed steamers. Profits earned from freight and passengers were not substantial: between July 1901 and July 1902 traffic from Karachi to the Gulf was worth less than £15,000 in earnings to the BI<sup>58</sup>. The tonnage of cargoes for export was small: from January to August 1902 only 10,703 tons was shipped by BI steamers from Mohammarah, Basra and Baghdad<sup>59</sup>. Although the Gulf service was not the most important of the BI's activities, it was of the greatest significance to the economic life of the Gulf<sup>60</sup>. Before 1862, only a small British naval presence existed there. BY 1914, the BI and its shipping agents

had provided the necessary infrastructure for British commercial development in this region, providing a stepping stone for future expansion during the exploitation of the Gulf's oil resources. By 1945, Gray Mackenzie was playing a vital role in the growth of this trade. In the mid-nineteenth century, small local sailing vessels traded from the Gulf to East Africa, Aden and India. By the mid-twentieth century, the steamers of the BI had brought the Gulf ports into a much wider commercial network, and successfully found yet another outlet for British products.

#### NOTES

- 1 A shorter version of this paper, entitled 'British India Steamers and the Trade of the Persian Gulf, 1862-1914', appeared in The Great Circle: The Journal of the Australian Association for Maritime History, vol 7, no 1, April 1985. Parts of it have been reproduced here with the kind permission of the editor, Dr. Frank Broeze
- 2 This is scheduled to appear in 1986 as part of Macmillan's 'Studies in Business History' series
- 3 National Maritime Museum (NMM), BI Archives, BI Handbooks 1866-1885, BIS/36/1
- 4 See Tuson, P. (1982) A Brief Guide to Sources for Middle East Studies in the India Office Records, London, 3. See also: Forbes Munro, J. (forthcoming) 'Sir William Mackinnon', Dictionary of Scottish Business Biography, Aberdeen; Kelly, J.B. (1969) Britain and the Persian Gulf 1795-1880, Oxford; Landen, R.G. (1967) Oman Since 1856, Princeton; Hoskins, H. (1928) British Routes to India, New York; Owen, R. (1981) The Middle East in the World Economy, 1800-1914, London; Issawi, C. (1971) The Economic History of Iran 1800-1914, Chicago, and Issawi, C. (1966) The Economic History of the Middle East 1800-1914, Chicago, are two useful books of annotated readings and documents. Recent research on the Gulf has concentrated on political rather than economic aspects of its history. Discussions of British shipping in the Gulf include Blake, G. (1956) BI Centenary 1856-1956, London, 99-108 and Taylor, J. (1976) Ellermans : a Wealth of Shipping, London, 58-62 these

- 14 Saldanha, J.A. (1906) Precis of Commerce and Communication in the Persian Gulf, 1801-1905, Calcutta, App.D, consulted in the India Office library. The improvement in the trade of Bushehr as a result of the BI steamers is highlighted by the fact that freight rates fell dramatically. In 1870, for example, the freight on iron bars from London to Bushehr was 69s 6d; by 1883 it was 30s and by the 1890s even less. See Curzon, G. (1892) Persia and the Persian Question, London, 554-584
- 15 Report on the Administration of the Persian Gulf and the Muscat Political Agency, (Calcutta, annual, 1873-1905) has many references to this trade. They include: Vol.1874-5 Table 23, Vol.1877-8 Table 12, Vol.1879-80 Table 7 and Vol.1881-2 Table 3, with statistics for the period 1886-1897. This source was consulted in the British Library and India Office Library. 1879 marks the entry of the BI in the direct shipping of opium to Hong Kong; they had been involved in the indirect shipping of opium via Bombay from the start
- 16 Specifications of BI ships may be checked in Blake, op.cit., Appendix, 253-264
- 17 NMM BIS/7/46, Persian Gulf Mail Timetables, 1883-1902, letters between captains of BI ships and Mackinnon Mackenzie at Calcutta. A name which frequently appears as playing a large part in devising the new timetables is that of James Lyle Mackay, an employee of MM from 1874 and Chairman of the BI 1913-1932, as the first Lord Inchcape
- 18 Lorimer, op. cit., 2556
- 19 Saldanha, op. cit., App. E, returns of British subjects resident in Bushehr, 1869
- 20 Landen, op. cit., 102 Indians captured much of the business activities of Gulf cities; in the period 1862-72 Indian traders established themselves as intermediaries between Gulf Arabs and Europeans. The rupee, with an approximate exchange rate of 15 to £1 sterling at the turn of the century, was expressed with digits grouped in twos except the final three. Thus the sum of 96,67,80,884 rupees (equal to £64,000,000) may be broken down into 96 and a half crores or 96,67,80 lakhs. NB: 1 lakh = 100,000



references are brief and lacking in detail

- 5 The Progress and Present Position of Russia in the East,  
London, 1839, 2nd ed. 150-151
- 6 This concept is employed by Frede Harcourt in her article  
'The P & O Company : Flagships of Imperialism', in  
Palmer,S. and Williams,G. (1982) Chartered and Uncharted  
Waters : Proceedings of a Conference on the Study of  
Maritime History, London, 6-28
- 7 Inchape Archives (IA) 40 St Mary Axe, London. Gray  
Mackenzie, correspondence relating to the Wills of Gray,  
Dawes and Paul. I am grateful to Dr J. Forbes Munro for  
information about Robert Paul. Mackenzie, who was the son  
of William Mackenzie (then Inspector General of the Madras  
Medical Department), was aged only 25 in 1869
- 8 See note 3; The firms' banking services were particularly  
important in view of the late development of banking in  
this region. See the paper by Geoffrey Jones in this volume
- 9 These problems are graphically described, together with  
British achievements in effecting improvements to the  
conditions experienced by shipping in the Gulf, in  
Chiroi,V. (1903) The Middle Eastern Question, or some  
Problems of Indian Defence, London, 241. See also Public  
Record Office (PRO) FO 602/15 Piracy at Persian Gulf Ports,  
1900-1906 and FO 602/24 Lights and Buoys, 1913-1914
- 10 Lorimer,J.G. (1908, 1915) Gazetteer of the Persian Gulf,  
Oman and Central Arabia, Calcutta, App. K., 2439, consulted  
in the British Library
- 11 Landen op. cit., 101
- 12 With cargoes and in ballast
- 13 Goods were also carried by local craft; in 1874 at Bushehr,  
for example, small native vessels plying in the trade of  
the port numbered 210 with an aggregate tonnage of 10,295,  
compared with 63 steamers of 59,100 tons. The trade  
between the Gulf and India, and through India with Britain,  
was not an altogether new trade: it had been carried on by  
these local sailing ships in the earlier years of the  
nineteenth century. The advent of the BI steamers diverted  
much of the trade away from them

rupees; 1 crore = 100 lakhs or 10 million rupees

- 21 IA, Gray Mackenzie Title Deeds of Bushehr Properties, 1896-97
- 22 NMM BIS/7/47, letters between the Political Resident at Bushehr, Gray Paul and Mackinnon Mackenzie at Bombay and Calcutta, 1898
- 23 Lorimer, op. cit., entry on Lingah; Landen, op. cit., 101
- 24 From 1874 the BI mail service called at Lingah at least once a fortnight. See Lorimer, op. cit., 2467
- 25 The BI met with less competition at the smaller ports, which were ports of call for the purposes of the mail contract rather than for cargoes. Irregular traders mainly called at the largest, most prosperous ports
- 26 NMM BIS/7/47, quoted by Gray Paul to the Bushehr Political Resident, 1897
- 27 Landen, op. cit., 101. Threatened Russian imperial expansion in the Gulf was one of the main concerns of the supporters of British trade in this region: by the end of the nineteenth century, the Russians dominated the trade of northern Persia with the British in the south. See Curzon, op. cit., 554-584
- 28 Lorimer, op. cit., entry on Bander Abbas. The Russian consul here reflected Russia's attempt to break into the Gulf trade in the early 1900s, an attempt which failed
- 29 NMM BIS/7/47, letter from Bushehr Political Resident to Mackinnon Mackenzie at Calcutta, 1898
- 30 Lorimer, op. cit., entry on Bahrain
- 31 Ibid., App.C, 2220
- 32 IA, Gray Mackenzie, memoirs of Edward Hopkins, unpublished ms. 'Bahrain'
- 33 Lorimer, op. cit., entry on Basra; Landen, op. cit., 101. Gray Mackenzie also acted for the BI at Baghdad, but only for the years 1876 to 1883. Lynch Brothers dominated British interests at this city
- 34 Calculated from The Imperial Gazetteer of India: The Indian Empire, Vol.III, Economic (Oxford, 1907), 277. See note 21
- 35 Roger Owen, op. cit., 183, 273; Lorimer, op. cit., entry on Basra, in which he states that in 1908 goods valued at £1.3m were imported into Basra by sea, nearly half of which

- were cotton goods from the UK. By 1914, the import and export trade of Iraq was 'still mainly in the hands of the British', Longrigg, S.H. (1953) Iraq 1900-1950, Oxford, 54. Information on the date trade is to be found in IA, Gray Dawes, Notebook 1891-1909 (1372)
- 36 See note 33. The Rules of the Basra Club are also to be found in the Gray Mackenzie Archives at Inchape
- 37 NMM BIS/7/47, letter from Gray Mackenzie at Basra to Mackinnon Mackenzie at Bombay 1897
- 38 PRO FO 602/27 Robberies on British ships and lighters at Basra, 1909-1914. The India Office Library also contains claims by Gray Paul against robbers, e.g., R/15/5/54 19/6, Gray Paul's claim against Muhammad Ibrahim ibn Saif, 1917-1918
- 39 Landen, op. cit., 102. The opening of the Karun River to British trade was seen as a counter to Russian influence in the area, PRO FO 60/414 Memorandum by R.M. Smith, 1 June 1878
- 40 NMM BIS/7/46, Persian Gulf Traffic, Jan-Aug. 1902. The trade deficit was largely financed by specie exports, as in the case of many of the Gulf ports, and as was true of early British trade with China
- 41 Ainsworth, W.F. (1890) The River Karun: an opening to British Commerce, London, 187, quoting Col. Champain, a contemporary observer
- 42 Cutting from the Board of Trade Journal, c.1904, from Gray Dawes Archives at Inchape, uncatalogued notebook, 1886-1926, 121
- 43 Curzon, G. (1890) 'The Karun River and the Commercial Geography of South West Persia'. Proceedings of the Royal Geographical Society, 514-515, 526-528. George Mackenzie played a prominent part in making surveys of the commercial potential of the Karun area and the costing of the river steamer service for Gray Mackenzie. See Ainsworth, op. cit., preface and 132-133 and 205
- 44 IA, Gray Dawes, Ledger 1877-1908 (1411)
- 45 See Noble, unpublished ms, 2-8
- 46 Noble, 8

- 47 IA, Gray Mackenzie, memoirs of Edward Hopkins unpublished ms., (To Bushehr and Back to Basra)
- 48 IA, Gray Mackenzie, Articles of Association of the Mesopotamia Persia Corporation Ltd., 1920
- 49 Noble, 9-10. For a discussion of the early oil industry, see Ferrier, R.W. (1982) The History of the British Petroleum Company, (vol I, 1901-1932,(Cambridge 1982) and Jones, G. (1981) The State and the Emergence of the British Oil Industry, London
- 50 Ibid., 10
- 51 IA, Gray Mackenzie, Minute Book, 1936-1945
- 52 Lloyd's Collection, Guildhall Library; Lloyd's Weekly Shipping Index Jan. 1914; Lloyd's List, 1 Jan. 1927; Lloyd's Weekly Shipping Index, 1 Jan. 1938
- 53 Imports into Iraq from UK were valued at 1702 million dinars in 1940, compared with 19,790 by 1948, rising from a quarter of Iraq's imports to nearly a half. Mitchell, B.R. (1982) International Historical Statistics: Africa and Asia London, 457
- 54 IA, Gray Mackenzie, Minute Book, 1936-1945
- 55 Curzon, op. cit., preface
- 56 Chirol, op. cit., 63
- 57 Imperial Gazetteer of India, op. cit., Table IV, p 311. For further discussions of British goods in world trade see Kenwood, A.G. and Lougheed, A.L.L. (1971) The growth of the International Economy 1820-1960, London, and Foreman-Peck, J. (1983) A History of the World Economy, Brighton. The export of British cotton manufactures is examined in Farnie, D.A. (1979) The English Cotton Industry and the World Market, 1815-1895, London
- 58 NMM BIS/7746, letter from Karachi branch to Mackinnon Mackenzie at Bombay, July 1902. Freight earnings were approximately £11,500 and passenger earnings £1,750
- 59 See note 41
- 60 The eight steamers employed by the BI for the Gulf Service accounted for only 13% of the total fleet of 61 vessels by the early 1880s

Rosemarie Said Zahlan

## 1. Introduction

The first oil agreement in the Gulf area was signed in 1923 as an exclusive option for oil operation in the Hasa province of what was to become Saudi Arabia; the last of that series was signed in 1945 for the Trucial State of Umm Al-Qaiwain. During the intervening years, the process of negotiations for the preliminary oil concessions followed different patterns which were set both by the rulers of the Gulf states and by the oil companies with whom they were negotiating. Moreover, British policy regarding the granting of these concessions was slow and hesitant in being formulated.

Its framework had been set by the agreements signed by the rulers of the Gulf states who had undertaken not to grant oil concessions except to a company appointed by the British government. The ruler of Kuwait was the first to have committed his signature to such an agreement in 1913; he was followed by the ruler of Bahrain in 1914; by the ruler of Qatar in 1916; and by those of the Trucial States in 1922<sup>1</sup>.

Apart from constituting the genesis of the present wealth of the Gulf states, the preliminary oil concessions had other repercussions which were equally important; for they were also a landmark in the socio-political evolution of the states.

The high level of income generated by their oil resources - together with the accompanying economic, social and political ramifications - are well known and need no elaboration. What has attracted less attention, perhaps, is the sequence of phases which led to the transformation of the Gulf states as we know them today. Throughout the process of transformation, a complex interaction existed between the negotiators of the concessions, the rulers of the Gulf states, their respective societies and the Imperial power.

In order to simplify the presentation of this interaction, the impact of early oil concessions will be discussed under three

main headings: the international; the regional; and the local.

## 2. The International Impact

Although the early oil concessions were largely responsible for the changes in the Gulf states, it must be mentioned here that another set of agreements had provided the starting point for these changes. These were the air agreements which the various rulers had signed for the landing and refuelling of British civil and military aircraft whose route linked Egypt, Iraq and India.

Hitherto, the role of the rulers in their respective relationships with Britain, the only foreign country with which they were allowed to have relations, was a passive one. So long as each new ruler signed all the treaties which his predecessors had committed themselves to, he obtained British recognition of his accession to power. And so long as he abided by his treaty conditions, he had very little interaction, aside from formalities, with British representatives.

The negotiations, first for the air agreements and later for the oil concessions, changed this situation. The position of the ruler no longer remained passive; it became much more active and dynamic. His personal acceptance of the various terms and conditions was imperative to the conclusion and proper functioning of the new agreements. If he chose to withhold his agreement, the British authorities would find themselves in a difficult position for the ruler's opposition could endanger the facilities which were to be erected. In Ras al-Khaimah, for example, the ruler refused on more than one occasion to accept housing facilities for the air route; it was only after the pearling fleet of his state was seized by the British authorities, and threats of other consequences were made that he finally and rather reluctantly accepted them<sup>2</sup>.

This incident underlined the growing strategic importance to Britain which the Gulf states had assumed after World War I. Much of this was due to a concern with the maintenance of the air route to India which was vital to Imperial communications. The negotiations for the oil concessions, therefore, undertaken within the framework of the treaties which bound the rulers to

the oil company of Britain's choice, were guided by British strategic - rather than economic - objectives.

The negotiations themselves marked another new phase, for they were conducted on a tri-lateral basis. There were three parties to the discussions: the ruler, the oil company and the British government. The days of negotiation between the ruler and the British representative alone were over.

The new status of the ruler - albeit circumscribed by the nature of his relationship with Britain - allowed him to be more active in the actual process of negotiating. He had far more leeway than previously, particularly since the discussions involved a third party whose main interests were commercial.

By and large, he was aware of the economic benefits to be derived from the discovery of oil (though not perhaps of their extent). He therefore held out for the best financial terms possible before affixing his signature to the oil concession. The ruler of Kuwait, Shaikh Ahmad bin Jabir, went one step further. He allowed two different companies, The Gulf Oil Corporation (USA) and the Anglo-Persian Oil Company (Britain) to outbid each other while competing for the same concession. American oil companies had at first been debarred from bidding for the concession because the Colonial Office had imposed a British nationality clause on concessions in the Gulf states. But when it was waived, both companies became serious rivals for the concessions. Shaikh Ahmad thereby obtained much better terms than if he had granted the concession immediately: he waited astutely until the opportune moment, and awarded it to both companies on a 50-50 basis.

But the ruler could also opt for obtaining political rather than commercial benefits during the trilateral discussions preceding the signing of an oil concession. Such was the case of the ruler of Qatar, Shaikh Abdallah bin Qasim. Since the early 1920s, he had faced great personal insecurity in his state as a result of Wahhabi-Saudi pressure which threatened his very position. Although he had insisted on and obtained a security clause in his "exclusive" agreement of 1916 with Britain, it had been so vaguely worded that the various possibilities of its interpretation became an endless bone of contention between him and the Political Resident<sup>3</sup>. Every time he had tried to implement

what he regarded as the security clause in the 1916 agreement, the Political Resident would inform him that he had misunderstood its meaning. In 1935, during the oil negotiations, therefore, he made his signature to the concession conditional on receiving a clearly defined undertaking of British support against possible attack. He was thus able to extract an official British agreement of protection in exchange for signing the oil concession. The security agreement was more vital to him than financial rewards.

A second major change was the opening of the Gulf states to the outside world. Until then, the British authorities had successfully sealed off the region. Very few foreigners had been granted a visa to go there and only minimal reference to the position there was permitted. Once the employees of the oil companies began to arrive (as had the airplane passengers before them) the entry of foreigners could no longer be tightly controlled. In 1938, for example, there were an estimated 305 Europeans and 128 Americans working for the oil company in Bahrain. As the barriers of isolation began to be lifted, an awareness of the political and economic realities of the Gulf states began to filter out. Out of these hesitant beginnings, a tiny number of British newspaper articles appeared on the Gulf states; radio stations (Bari, Qasr el-Zuhur) beamed their broadcasts at them; and Egyptian, Syrian and Iraqi newspapers, which had started to arrive in the Gulf on a regular basis, now turned their attention to the new eastern flank of the Arab world. The parochial nature of the Gulf states had ended.

Another important repercussion was that US oil companies entered the Gulf region for the first time, their interests ultimately providing the basis for a forward US policy in the Arab world. Although Britain had at first sought actively to exclude these companies by insisting on a British nationality clause in any concession signed with the Gulf states, it finally acceded to an open-door policy with the United States. But its stipulations for the first American concession, which was in Bahrain, were stringent. They included: that the Bahrain Petroleum Company (BAPCO), a subsidiary of the Standard Oil Company of California, would be a British company registered in Canada; that one of the five directors of BAPCO would at all



times be a British subject; that as many as possible of BAPCO's employees would be British or Bahrainis<sup>4</sup>.

With these binding conditions acting for it, Britain could not have anticipated the swiftness with which the same company (Standard Oil of California) acted to obtain the Saudi concession three years later. Nor could it have foreseen the intense Anglo-American diplomatic activity in London regarding the participation of another American company, Gulf Oil Corporation, in the Kuwait concession. Once three concessions (those for Bahrain, Saudi Arabia, and Kuwait) had been won by US companies, it was inevitable that the US government would then press for official representation in the Gulf states. The first such request was made in 1943 for permission to open a US consulate in Bahrain.

Britain at first stood firm in refusing to sanction such an establishment. The significance of the US request went far beyond a simple case of adding one representative office to other, similar offices. The desire to establish a US consulate in Bahrain in 1943 was not a routine request. It was extremely complex, and clearly aimed at undermining the extraordinary British hold over Bahrain. This hold was governed by the position of the Political Agent who was the only foreign representative with whom the ruler of Bahrain was entitled to communicate. The Political Agent controlled Bahrain's foreign relations; he had jurisdiction over all foreigners in Bahrain; he sat as a judge in the Joint Court along with the ruler's representative there; he controlled the entry of all foreigners to Bahrain; and he was the only link between the government of Bahrain and BAPCO.

It is no wonder then that Britain was extremely reluctant to allow the US to establish a consulate in Bahrain or anywhere else in the Gulf states. This reluctance existed despite the crucial American support which Britain enjoyed during the war years. A temporary compromise was reached when the Foreign Office in London suggested to the Department of State that a US consulate be established in Dhahran instead of Bahrain, and the US consul in the former place could travel to Bahrain when and if official business demanded.

After the war, however, another request for a US consulate

was made, this time for Kuwait. But now the Foreign Office found it difficult to refuse, much as it was inclined to do so. Britain's Imperial position had changed radically with the outcome of the war, and it realised it could not maintain its pre-war standing internationally. Moreover, Kuwait was then known to possess one of the world's largest oilfields, a fact which made it impossible to maintain the pre-war hold over the state. By 1948 there were a large number of Americans working in Kuwait; they were being greatly inconvenienced by having to avail themselves of US consular facilities in Basra. Britain ultimately had to accept and a US consulate was opened in Kuwait in 1950.

### 3. Regional Impact

The most direct regional consequence of the oil concessions, perhaps, was that the precise delineation of each state's boundaries became of crucial importance. Such a delineation was naturally alien to Arab society which suddenly had to come to terms with Western concepts of territorial limits. The extent of a ruler's territory had previously been determined by the patterns of tribal alliances which were not always permanent. Now that every inch of land had become potentially valuable, it was inevitable that conflicts over territorial definition would arise.

After the Saudi oil concession was signed in 1933, the US government officially enquired of the British government where the eastern frontiers of Saudi Arabia lay. Their definition by the Foreign Office in London shortly afterwards was rejected by Saudi Arabia. Thus was started a major territorial dispute between Saudi Arabia on the one hand and the Trucial States, Qatar and Oman on the other, which was to affect relations between them for the next thirty or so years. The tensions and insecurity caused by the undefined borders with Saudi Arabia culminated in the Buraimi dispute of the 1950s which was the most dramatic manifestation of the situation. Less dramatic, perhaps, but very realistic was the creation of "spheres of interests" of the USA and Britain in eastern Arabia.

Disputes between the Gulf states themselves also ensued largely because the oil companies, understandably, were utterly

confused and unable to ascertain the extent of the concessions they were negotiating. On the advice of the India Office, the definition of the oil company's mandate in each Trucial State carried only the vague formula that the concession covered "the territories of the sheikh". Just before granting an oil exploration option in 1936, the ruler of Abu Dhabi indicated his concern and attempted to reach an agreement with neighbouring Dubai over their common borders. Although an agreement was made in 1939, it was not to be lasting. The border issue had raised all the latent tensions between the two states, who finally went to war against each other in 1945. These armed hostilities set the course for the friction between the two which was to continue unabated until the past few years. Other territorial claims between neighbouring states are amply illustrated in the esoteric patchwork map which makes up the United Arab Emirates (UAE) today.

Another inter-state conflict which arose as a direct consequence of the early oil concessions was that between Bahrain and Qatar over Zubarah, on the western coast of the Qatari peninsula. Bahraini claims of sovereignty had lain dormant for many years, but were re-asserted in 1937 when an oil exploration team visited Zubarah soon after the Qatari concession had been signed. Qatar rejected these claims, and both sides seemed prepared to fight. Armed clashes were prevented by the Political Resident who also tried to solve the dispute by officially upholding the Qatari claim. The ruler of Bahrain, utterly convinced of Bahraini sovereignty, did not readily accept the Political Resident's decision. He retaliated by imposing a trade embargo on Qatar; this had a devastating effect on Qatar which had always relied on Bahraini ports and facilities for its trade. The hardship suffered by the Qataris was so widespread that many citizens were obliged to emigrate. The economic crisis was only alleviated by the income from the production of oil which started in the early 1950s. Zubarah remained a bone of contention between Bahrain and Qatar until the very recent past.

A second major regional consequence of the early oil concessions was the gradual establishment of different forms of relationship between the Gulf states and the rest of the Arab world. Bahraini students were sent to study in Lebanon; their

Kuwaiti counterparts travelled to Egypt and Iraq. Likewise, Egyptian, Lebanese and Palestinian teachers for Bahraini and Kuwaiti schools arrived there to live and work. The citizens of the Gulf states, particularly those of the privileged elites, felt stronger bonds with their fellow Arabs than they had previously with the Indians. These bonds found expression in Arab nationalism during the 1936-39 events in Palestine, when the Kuwaitis and the people of Sharjah and Dubai in particular, gave much to support the Palestinians. During the next decade, the Bahrainis and Qataris followed suit. The former links with India had assumed second place abruptly.

The process was not one-way. An interesting example of early Arab awareness of the Gulf states - apart from the newspaper articles mentioned earlier - occurred in early 1938, a few months before oil was struck in Kuwait. The Amman representative of the Arab Bank wrote to Shaikh Ahmad of Kuwait, offering to establish the first bank there. British official efforts since 1935 to encourage either a British-owned or a British-directed bank to open a branch in Kuwait had failed. For representatives of both the Eastern Bank and the Ottoman Bank, despite support from the Political Resident, had decided that there was little or no possibility of a thriving financial community in Kuwait to warrant such an undertaking. So the chance of a bank being established in Kuwait must have pleased the ruler and merchant community there. But after consulting the High Commission in Palestine, the Political Agent strongly advised the ruler against accepting the offer of the Arab Bank because of the strong links which existed between its senior management and the Higher Arab Council<sup>5</sup>.

#### 4. The Local Impact

It goes without saying that all the elements of the international and regional repercussions of the early oil concessions met on the local level; in the Gulf states themselves.

The most obvious local impact of the early oil concessions was manifested after oil was discovered in Bahrain in 1932. The new income greatly relieved Bahrain, which like all the other

Gulf states, had been suffering from the collapse of the pearling industry which had been their financial mainstay. With the help of Belgrave, British adviser to the ruler, a modern state infrastructure was set up: the educational system was expanded at a fast rate; employment opportunities became available, and public funds were diverted on a regular basis to the new departments of public works and health services.

There were other, more subtle, repercussions of the oil agreements whose effects were not immediately recognisable. One of the most important, perhaps, was the change brought about in the relationship between the ruler and his people. The oil concessions (and before them, the air agreements) provided the rulers with regular payments. Tiny though they may seem today, these payments brought about a marked change. Hitherto, the economic activities of the Gulf states had provided the rulers with their main sources of income. The most important of these, of course, had been the pearling industry. The rulers also derived a substantial income from customs dues and from taxes on sailing vessels.

The extent of a ruler's income had been directly related to his power and standing in the community: this determined the rhythm of economic activity and whether taxes could be imposed and collected on a regular basis. Thus a state of economic interdependence between the ruler and his community had existed. Now, for the first time, the rulers were not dependent on their people for the generation of their respective incomes. This at one step set them apart from their people: it also allowed them to be generous without taxation. The economic interdependence between a ruler and his people was thus broken.

This gap between a ruler and his people provided one of the seeds for the 1938 reform movements in Bahrain, Kuwait and Dubai. Another, particularly in the latter two states, was the fact that the ruler's income from the agreements was personal to him and not to his society at large. During their few months of life, the majlis movements of Kuwait and Dubai regarded the ruler's income from the agreements as an integral part of the state budget. In both places, the majlis, which had executive and legislative powers, utilised the ruler's income to finance public projects, and in Kuwait the first state budget was planned; it

included expenditures<sup>6</sup> on a Department of Public Security and an organised police force.

The feelings of Arab nationalism evoked by the general strike in Palestine also found expression in the Kuwaiti majlis movement. In 1936, a group of prominent merchants formed an opposition to the ruler who had refused to join them in manifesting strong pro-Palestinian support. This group acted together to raise funds for Palestine in defiance of the ruler's orders, and in doing so began to press for political and economic reforms at home. It continued in opposition as the Palestine problem<sup>7</sup> grew in intensity and as its local grievances remained unsolved. Thus, the nucleus of the Kuwaiti majlis movement was formed. Another example of the close links with the Arab world was the fact that the first Bahraini demands for a majlis were made in an Egyptian newspaper.

The oil revenues had started to accrue after 1933 in Bahrain. The consequent wealth of the ruler and his family caused the resentment of both the educated youth who were unable to find employment, and the merchants who were on the verge of bankruptcy. Both groups had been adversely affected after the mini-boom of 1936-1937 when the oil refinery was being built; once the refinery was completed, fewer positions were available at the oil company for the educated, and shopkeepers' sales decreased dramatically.

In addition to the existing problems, it was the complexity of government administration in Bahrain which contributed to the growing gap between the ruler and his people. The direct approach of the old-fashioned majlis of the ruler necessarily became diffused after the establishment of government departments: consequently, access to the ruler had become much more difficult. Whereas, previously, most Bahrainis could approach their ruler personally with any outstanding problems, they now had to go through department heads for general matters, and to Belgrave for the serious ones. The old forum had been replaced.

By 1938, the accumulation of collective grievances was expressed in the reform movement. Although its initial demand was for the establishment of a majlis along the lines of those recently set up in Dubai and Kuwait, this was not pursued for long. More pressing grievances had to be attended to, including

the need for reforms in the government. The most important complaints concerned the inefficiency and injustice prevalent in the law courts; the ineffectiveness of the education department which was not turning out graduates to assume jobs either in government or in the oil industry, both heavily dependent on foreign manpower; and unsatisfactory labour relations and employment conditions in the oil company which discriminated against nationals. The last two of these demands, in short, focussed on the "Bahrainisation" of the oil industry.

The movement for reform gathered momentum when the students and oilfield workers joined in. The government acted swiftly to curb opposition, aware of the trends in Kuwait and Dubai, and made a number of arrests; its efforts were reinforced by the oil company which dismissed all striking workers. Before long, the movement petered out.

Although the Bahrain movement was short-lived, some of its demands were met. The government sanctioned the formation of a national labour committee to report on labour affairs, and it appointed a labour relations representative to the oil company; moreover, the advice of an educational expert was sought to improve the system and raise its standards.

The events in Bahrain constituted a new beginning in the evolution of the region. Unlike the reform movements of Kuwait and Dubai, whose protagonists belonged to the elites of their respective societies, that of Bahrain covered a broad base of society which included oil industry workers, students, shopkeepers and merchants, albeit all city dwellers. Other differences existed. The Kuwait and Dubai movements challenged the position of their respective rulers; in both places, the reformers established a majlis with executive and legislative powers, of which the ruler was only the figurehead.

At no time was the position of the ruler of Bahrain questioned. The Bahrain reforms were directed at government institutions. Moreover, they were concerned with improving the educational and employment opportunities of Bahrain, fully aware of the interdependent quality of these two.

The events in Bahrain were an important turning point in the modern history of the Gulf states. For the reform movement there provided the culmination of the impact of the early oil

concessions in the region: it marked the first of the many socio-economic and political repercussions of the oil industry in a Gulf state.

#### NOTES

- 1 The texts of these agreements are available in Aitchison, C.U. (1933) A Collection of Treaties, Engagements and Sanads Relating to India and Neighbouring Countries, Delhi, fifth edition, vol.XI
- 2 For details of this episode see Zahlan, R.S. (1978) The Origins of the United Arab Emirates, London, 93-96
- 3 The confusion over the wording of the 1916 agreement is discussed in Zahlan, R.S. (1979) The Creation of Qatar, London, 61-65
- 4 The conditions of this agreement are available at: India Office Records, London: L/P&S/18:8.430:Oil Concession signed by the Shaikh of Bahrein in favour of the Eastern and General Syndicate on the 2nd December 1925
- 5 See India Office Records: R/15/5/192
- 6 For further information on the Kuwait movement, see Al-Rumaihi, M.G. (1975) "The 1938 Reform Movements in Kuwait, Bahrain, and Dubai", Journal of the Gulf and Arabian Peninsula Studies, I, 4 October (in Arabic); and on the Dubai movement, see Said, R.J. (1970) "The 1938 Reform Movement in Dubai", Al-Abhath, I, XXIII, December (in English and Arabic)
- 7 See Zahlan, R.S. (1981) "The Gulf States and the Palestine Problem, 1936-48", Arab Studies Quarterly, 3, 1, Winter



J.P. Bannerman

### 1. Introduction

The title of this paper suggests that it will be an analysis of the effects of oil company activities on the economic, political, social and cultural lifestyle of the inhabitants of the Arabian peninsula. But such a study would require at least one, if not several, volumes. In the first place, although there are a number of common factors, generalisation is impossible: Kuwait, Bahrain and Dubai were and are still essentially city states; Saudi Arabia, Abu Dhabi and Oman consist of a limited number of urban centres surrounded by sizeable rural and transhumant societies; and the role of the tribe in politics and in society more generally differed considerably from state to state. This paper focuses primarily on the impact of Petroleum Development (Oman) Ltd (PDO) on the lifestyle of the inhabitants of Central Oman, with particular reference to the Duru', Janaba and Harasis tribes and to the Ibri area, where PDO had a resident representative from 1954 to the late 1960s. The timescale falls outside the main focus of this collection of studies and many of the observations are geographically limited. This study, which is descriptive rather than analytical and which offers no real conclusions, consists of three main sections: pre-oil society; the observable effects of the exploration phase of oil company activities; and some more general comments on the effects of the production and export phase. Only the last section is generally applicable.

### 2 Pre-oil society

The political system in Central Oman before the advent of oil was, by Western criteria, rudimentary if not anarchic, but it was not without its own logic. The most important factor was that allegiance - and loyalty - was offered on a personal basis: hence the European concepts of the nation state and of

territorial sovereignty and integrity were neither applicable nor comprehensible. The political unit was not a territorial concept but was "people-centred"<sup>1</sup>. Further the ruler - or tribal leader - had to earn allegiance and his poor performance was critically assessed. Lack of baraka, a period of ill luck, or a major row could easily reduce drastically the number of followers and, through them, the territorial holdings deemed to be within the sphere of influence of the ruler or shaikh in question. Two classic examples of this process are, of course, the secession of the Al Bu Falasa section of the Bani Yas in the 1830s, and the constantly fluctuating relationship between Sharjah, Ras al-Khaimah, Fujairah and Ajman. But this is not merely a historical process. As late as the 1950s there was clear evidence of a split between the southern Wahiba in Oman and their northern hereditary tamimahs (senior shaikhs or recognised tribal leaders) which might have resulted in the establishment of a separate tribal unit. Conversely, at about the same time, the Hikman were in process of being absorbed (or reabsorbed) into the southern Wahiba and were losing their separate tribal identity. This "mobility of allegiance"<sup>2</sup> had implications for the political standing of individual tribes and tribal confederations, particularly where the mutual exclusivity of tribal diyar was an ideal though not, in practical terms, an absolute. For example, the Afar, a tribe of southern Omani/Dhofari/Mahri provenance, were accepted - subject to certain conditions - as legitimate residents of Duru' and Ya'aqib territory (and, if the Afar are to be believed, elsewhere in Oman). A comparison between the signatories of the Preliminary Treaty and the General Treaty, both signed in 1820 within a period of two months, reinforces this mobility.

Similar considerations applied at the higher political level - that of the "state" - despite the clear relationship between people and the political unit<sup>3</sup>. In Oman, for example the complex relationship between the Imamate and the Sultanate was essentially a function of tribe and power; the famous Agreement of Sib of 1920 which is generally held to have regulated that relationship was signed by tribal leaders, including the Imam, in their capacity as tribal leaders. State territories were generally defined in terms of tribal allegiance and tribal

territory and inter-state rivalry and strife was essentially tribal. In 1805 a resolution by the Bombay Government succinctly summed up the situation in the following terms: "...as the pirates... appear to be thus connected on both shores of it (the Persian Gulf) so as to claim the protection of the Wahabie or King of Persia as may best suit their views for plunder and security..." Finally the structure of Government, though rudimentary by Western standards, was, by its use of tribal practices, appropriate, relatively effective and remarkably democratic. Widespread use of the majlis system at all levels could provide both in practice and in theory a degree of popular participation in the governance of the State which is difficult to fault<sup>4</sup>. The system was, of course, open to manipulation by both ruler and ruled, and such manipulation was commonplace. Both Sultanate and Imamate for their own reasons insisted that their control and authority applied. But it is clear from reports of actual practice that the extent of Imamate control was limited, that until the early 1950s the Sultanate meant little and that later-imposed Sultanate authority was regularly challenged<sup>5</sup>. The difficulties experienced by PDO in the early stages in their attempts to reconcile openly expressed tribal independence with titular Sultanate authority (which delayed the actual entry of the company into its preferred area of operations by some years) shows clearly the conflict of authority.

The economic and social scene was equally rudimentary. There was virtually none of the infrastructure normally regarded as necessary. There were no roads, no motorised transport, no hospitals, no electricity, no running water (apart from falajs), indifferent housing and rudimentary shopping facilities in the main towns. During my stay in the Gulf, I have seen an Abu Dhabi town in which the only permanent building apart from the Ruler's fori was the bank and I have taken on unskilled labour consisting of 20 year olds who had never drunk water. But this somewhat bleak picture needs some balance. In the more fertile parts of Oman (essentially the fringes of the Hajar range) agriculture was rather better than subsistence agriculture and life for the more well-to-do was relatively comfortable.

There is another qualification to this rather stark picture, relating particularly to Oman, and to a lesser extent to the

Trucial States, to both of which oil companies came relatively late. It was the habit of the inhabitants of Central Oman and the Trucial States to seek employment elsewhere in the Gulf - in Kuwait, in Bahrain or in Qatar - and elsewhere. Although the numbers involved were relatively small, a number of Omanis were already familiar to some extent with oil company activities - and with the effects of such activities on the population. But this familiarity was qualified and limited: they figured predominantly as unskilled, and often casual, labour; their concern was simple - to make enough money to retire, for a period at least, to the Central Omani equivalent of the life of Riley; they were often illegal immigrants and always illegal emigrants - and tended therefore to a profile which was so low as to be almost horizontal; and they accepted (and in many cases welcomed) the temporary nature of their sojourn outside Oman<sup>6</sup>.

### 3. The Exploration phase

This phase of an oil company's activities has little real effect on the macroeconomics of the receiving state and has equally little effect on society across the board. But the impact, particularly on the inhabitants of the areas in which the company operates, is significant, in material, social and intellectual terms. Nor are such effects necessarily restricted solely to the areas of operations: there is often a knock-on effect. Thus, in Central Oman, PDO's early operations were in the Duqm and Fahud areas, but the effects were also felt in and around Ibri, among the Harasis of Southern Oman and, though more patchily, among the Janaba at 'Izz.

Among the more obvious material effects on locally engaged employees were the provision of regular food and wages, the provision of medical attention (all locations had at least a qualified male nurse and the company's Medical Officer paid regular visits) and the consequent effects on their health and wealth. More widely, PDO's need for water supplies (met by drilling wells) and the company's policy of allowing the local population access to water at these wells both<sup>7</sup> provided a much needed boost to the local economic infrastructure, and served to limit to some extent nomadic wandering. The introduction of

motorised transport - and the company's willingness in certain circumstances to lend out transport to influential people - extended mobility<sup>8</sup>. Again the regular use of tinned food for field workers brought them on to the local market, since most field workers saved 50 per cent of their field rations for use at home or for sale, while the farmers, particularly in the Ibri area, found<sup>9</sup> in the company a useful market for fruit and vegetables. There were sometimes unexpected, even bizarre, side effects from the injection of canned foods into the local market. Since either miscalculation or shipping delays occasionally resulted in empty shelves in the company stores, the company staff at Ibri on more than one occasion had to repurchase - at inflated prices, needless to say - tins of corned beef and sardines originally provided as field rations for re-issue as field rations. Finally, even during<sup>10</sup> the exploration phase, a certain amount of vocational training was provided, particularly in driving skills and elementary vehicle maintenance. For example by the end of the 1950s all heavy goods vehicle drivers with PDO were Omani.

PDO also found itself providing a number of services particularly in the Ibri area. There were no postal or banking facilities outside Muscat. But the ingenious Omani both at home and abroad soon learned that letters addressed to Fulan bin Fulan care of the most convenient company location would reach the addressee provided sufficient information was included in the address. In some cases recipients would call regularly to check on incoming mail and in some cases delivery was made if a company vehicle was travelling in the right direction. Outgoing mail was similarly dealt with and where necessary stamps were provided on repayment. Company employees were permitted to run savings accounts and to make regular remittances to relatives through company channels. And when the Indian external rupee was introduced in 1959 the company acted more or less as a banking agent for the exchange of notes<sup>10</sup>. The company medical staff (mainly Indian or Pakistani male nurses) were expected to treat anyone who turned up at their dispensaries, whether a company employee or not, while the male nurse at Ibri had a number of regular rounds to outlying villages. Serious injuries or illnesses were regularly flown to Azaiba for treatment at the

American Mission Hospital at Mutrah. Finally the company - perhaps again making a virtue out of the necessity - was prepared, within limits, to assist in the transport of goods both by vehicle and by air (see note 8).

At a less material level, the advent of exploration parties and the consequent opening up of the country provided the beginnings of the expansion of social, cultural and intellectual horizons. Films (provided for the expatriate employees) were enthusiastically, if illegally, watched by Omanis; the radio, particularly after the introduction of the battery-powered transistor radio, became commonplace - and surprisingly sophisticated concepts were taken on board through such channels<sup>11</sup>. The local dialect of Arabic was also considerably enriched. Loan-words for hitherto unknown equipment were swiftly and easily incorporated; "rig" (plural "rugug"), "mutir" (plural "mawatir"), "kunkurri" (concrete), graizmiyya (fitter's mate), "skruwdraiwi" (screwdriver), etc - the list is long and varied. But more sophisticated borrowing also occurred. For example, the English word "finish" provided two interrelated concepts "fannasha" (2nd derived form) meaning "to sack" and "tafannasha" (5th derived form) meaning "to resign". Finally the presence of an imported but heterogeneous skilled workforce helped to widen horizons albeit among a small group of the population, though we should not under-estimate the knock-on effect.

To the surprise of many, theft was rarely a problem in Central Oman. Stealing from individuals was generally deemed unsporting and against the rules, while stealing company property was acceptable only if "guards" were not employed. The provision and nomination of guards were always regarded as the perk of the appropriate tamimah and this was usually sufficient to prevent wholesale theft. On one memorable occasion I was called in to investigate the theft of several sacks of coffee beans, rice and sugar and a number of tarpaulins from a gravity party campsite in Duru' territory. Ali bin Hilal, the Duru' tamimah, agreed with suspicious docility to accompany and assist. On arriving at the campsite, Ali asked to see his guards, only to be told that they had been discharged two days earlier for sleeping on duty. End of investigation! The one exception to this general rule was thread protectors which were almost irresistible. Once the hole

in the bottom had been filled in, they made excellent mortars for coffee making.

The advent of the company also had an effect on tribal politics and concepts of state. The normal rule was that local labour should be drawn from the tribe in whose area the company was at the time operating, although skilled labour were normally acceptable everywhere. This led to sharper definitions of traditional tribal landholdings and to often successful attempts to assert tribal exclusivity, while at the state level, rulers were forced to re-define their spheres of influence in territorial terms so that oil companies knew the extent of their concession areas. It is, perhaps, worth noting that although the internal frontiers of the member states of the United Arab Emirates were largely laid down in 1956 and 1957 on the basis of prior agreement from the rulers to accept the adjudication of the Political Agent, there are still frontier problems. Although the entry of the oil company did, in the case of Central Oman, imply the extension of a greater degree of governmental control in order to ensure the safety and security of company staff and operations, the use of the tribal structure as a channel for exerting authority and as a basis for employment provided an opportunity for the abler and more fortunate tribal leaders to improve their economic and social standing and consequently their political clout, at least temporarily. Although the network of Walis (provincial governors) established by the late Sultan Said bin Taimur was in theory comprehensive, there had always been tribal leaders who were powerful enough to bypass the system and appeal direct to Caesar. Others who became important for company operations sought, with some success, to assert a degree of independence, partly because the Walis lacked resources to deal with problems, but more importantly because they learned early on to extort special treatment in return for relatively trouble-free labour relations. Although some company representatives sought actively to minimise the degree of special treatment accorded, some seemed to prefer the relatively trouble-free life that could be bought at the expense of proper company control of its operations and of a consistent application and extension of the effective authority of the Sultan's government<sup>12</sup>. To put it crudely, some company representatives allowed themselves to be

blackmailed into increasing the economic and political power of certain major tribal leaders and were at least tacitly encouraged in this by the late Sultan's insistence on operating through the tribe (though, to be fair, he had little alternative).

Most authorities seem convinced that the discovery and exploitation of oil deposits has led to the progressive and in part deliberate destruction of the importance of the tribe. There is clearly a deal of truth in this proposition as far as political importance is concerned, not least because the peculiar nature of the oil industry has provided the ruling elite (or the government) with an independent source of economic, and therefore political, power. A ruler in receipt of oil revenues can disburse monies and patronage independently of the traditional power structure. He can, and often does, force fundamental change in the nature of the interdependence of ruler and ruled. He can buy off troublesome tribal leaders and, more importantly, bypass the traditional power structure by providing assistance direct to the man under the palm tree. He also has the resources to extend control and authority through, for example, a more effective police force and/or internal security organisation. But this argument seems flawed on three counts. It assumes that the socioeconomic and cultural roles of the tribe cannot be divorced from its political role; it assumes that the habits of centuries can be eradicated in ten to fifteen years; and it ignores the strength of attachment to tribal identity, particularly against a background of urban drift. It seems more sensible to accept that the political importance of the tribe has been largely eroded, but it can and frequently does remain an important factor in social life. We should not lose sight of the importance still given to tribal affiliation even in more sophisticated countries; the persistence of tribal alliances and enmities in, for example, the People's Democratic Republic of Yemen and the persistence of the ritual of renewing tribal roots among for example the Kuwaiti upper-classes; and the establishment of tribally-based neighbourhoods in the major conurbations. To the extent that tribal structure remains intact, it therefore provides a potentially important tool in the event that any current regime loses the confidence and support of the populace at large.



#### 4. The Production and Export Phase

In most cases, radical changes did not occur until oil had been found in commercial quantities, export had commenced and revenues started pouring in at astonishing rates. It is worth bearing in mind that the total public revenue of Kuwait in 1937 amounted to some £60,000, in 1950 to KD 3.93 million, and in 1953 to KD 60.17 million. The 1950 public revenue figure for the Sultanate is equally startling: £225,000 and it was still less than £1m, inclusive of British civil subsidies, in 1966.

One of the first problems faced by the Gulf states (including Saudi Arabia) once production and export commenced on the basis of a 50/50 split of profits was the need to set up some form of administration to handle the revenues. In one or two cases - for example Bahrain and Kuwait which were trading centres of long standing - this posed fewer problems than it did in the more rudimentary states like Abu Dhabi, since there was some familiarity with the concepts needed to cope with revenue administration. But in all cases there was either no formal government structure or an extremely rudimentary one and a scarcity of skilled and experienced nationals. It was necessary, therefore, to import manpower to fill the embryo bureaucracy which they found it necessary to establish. This, of course, inserted an alien blocking mechanism between the ruler and his people who were used to a relatively free access through the traditional forms of rule and control (except in Oman). All rulers saw - or had forced upon them - the need to devise some way round this problem, since it did have implications for their continued political control of their political unit. But the manner of so doing has varied from country to country. In Saudi Arabia, for example, the royal family still make active use of the majlis system and claim that this gives the population adequate access and a greater degree of participation in the process of government than would be the case were they to import a Western-style, democratically elected assembly. But it is an open question whether this is still appropriate and effective, and the more open questioning and criticism of the system today suggests that it may not be. In Kuwait, a different approach appears to have been followed. The 1962 constitution provided

for an elected National assembly and an elected National Assembly they have. However it seems to be clear that the ruling family in Kuwait took the view that if people wanted a National Assembly they could have one, provided that things were so arranged that political power and control remained where it belonged - that is in the hands of the traditional ruling oligarchy. But they too have maintained the traditional majlis system, and much business is still done in the evening in the Kuwaiti diwaniyya. Other states in the area are still experimenting and will no doubt in due course establish a suitable and appropriate system. The point at issue here is that any system is effective as long as the population at large believes that they continue to have a share in the governance of the polity and that adjustment becomes necessary only when this is no longer the case<sup>13</sup>. In this connection the Western pattern is not necessarily the best and most appropriate for the Gulf states: a system which is responsive, flexible and generally acceptable will differ from state to state, depending upon population size, distribution and other circumstances.

There is no doubt that most, if not all, rulers in the area were genuinely concerned to use their oil revenues to improve the material lot of their people. They also wished to pass on to their people some of the wealth accruing to the State. A brief study of the early years of oil production and export in individual states shows a similar pattern of activity, based essentially on establishing the infrastructure necessary for further development and modernisation. The concentration in material terms was on the development of health and educational facilities, roads, electricity, housing and fresh water. But we should bear in mind that the further development of the infrastructure required expansion in the rudimentary bureaucracies which, given the educational level of nationals of the states in question, meant sizeable imports of skilled labour, which in turn increased the bureaucracy and emphasised its alien blocking nature. In addition, of course, the major construction companies also imported labour and since, in some cases, they were operating continuously for a considerable period, the process of modernisation and development has distorted the demographic structure of the country. Kuwait is, once again, a useful

example. It has been estimated that the total population of Kuwait in 1948 was between 110,000 and 120,000 of whom about 90,000 were Kuwaitis. By 1957 45 per cent of the total population of 206,500 were expatriate and by 1965 the expatriate percentage had risen to almost 53 per cent of a total population of 467,000. Similar patterns have applied in other countries. Finally, the fact that there were generally no local companies capable of carrying out major development projects or providing required services meant that orthodox channels for the productive disbursement of Government funds were not available. Other means had to be devised. In some cases straight handouts, in keeping with the historic role of a leader in "looking after" his followers, became the norm, and land purchase at inflated prices was also common. Generally, public services were provided free or at heavily subsidised rates, and in most states this is still the practice. But such practices did have drawbacks. The "welfare state" approach tended to encourage the habit of looking to the State for all needs and the all too prevalent attitude that work was something to be done by expatriates. In the case of land purchase, funds tended to be channelled to those who already had considerable wealth and who did not necessarily see it as their duty to arrange further spread.

A further social problem arose with the increased drift to the main towns. Once again, there have been different approaches to the problem of settlement of nomads and semi-nomads. In most cases housing has been provided but little was initially done to assist in the cultural and social adjustments necessary to make physical resettlement successful. This has increased the effects of the cultural and technological shock resulting from the rapid material development of the states, and in Kuwait, for example, the current crop of under-graduates at Kuwait University have been characterised by one of the social sciences staff at the university as the "lost generation". He explained that the present generation's parents generally still retained the older values and foci for identity and that he expected the present generation's children to have made the complete change from traditional tribal-oriented life to urban living. However the present generation had been brought up in the urban environment but on a basis of traditional values: they had a crisis of

identity. By way of contrast, the Qatari approach to the problem of settlement seems particularly cunning if persistent rumours have any truth in them. According to these rumours developments were planned. Wells were drilled for water at certain strategic points where the ruling family wished settlements to develop. The nomads and semi-nomads soon became envious of the material comforts afforded by regular electricity supplies in the town, but were as yet unwilling to give up their normal way of life. They therefore asked to be supplied with portable electricity generators so that they could continue to move around the country and still enjoy the comforts of civilised living. After some experimentation a generating set was found which was technically portable but which was just too large for easy transportation. This, combined with free access to water, led many to settle where the ruling family had always intended they should.

As will be evident from the early part of this paper, society in the Gulf States before the advent of oil was very simple, very traditional and very conservative. The opening up of horizons resulting from the arrival of sizeable numbers of sophisticated expatriates with different lifestyles, higher educational levels and higher education abroad, the introduction of television and the cinema, and the availability (except where censorship is exercised) of a wide range of written material have all imposed strains on the social and cultural fabric of society. Some have imitated the freer and less formal lifestyle of the West while others have opposed the introduction of what they regarded as the overly materialistic and amoral values of the West. In addition, the disparity between considerable social and economic progress and little or no real change in the structure of politics has bred discontent, some justified but much not justified. We should not, therefore, be too surprised at the difficulty the ruling elites have encountered in attempting to manage the pace of change so as to satisfy those who are committed to a radical comprehensive and swift development and modernisation of the social, cultural, economic and political structures of their society, while not alienating the more conservative elements who seek to retain traditional ways and values as far as possible and are committed to a slower rate of change. Nor should we be surprised at the incidence stance of

what we would describe as corruption: an eye to the main chance is an integral part of the heritage of the area and leaders are traditionally expected to acquire the means to look after and reward their followers. Problems arise only when the amounts in question become unacceptably large and are deemed to be sticking to an unacceptably small number of fingers. Finally we should not be too surprised at the reassertion of Islam not only as a phase but also as a political, cultural, social and economic system. As Albert Hourani has put it, in times of crisis, man returns to his primordial influences - which in a Muslim state must be Islam.

Let me end with two illustrations of the impact of the oil industry which seem to me to encapsulate the social, cultural and intellectual tensions faced by the Gulf societies today. It is as well to remember that the suave businessman or government servant with a bank of telephones on his desk, a mini-computer in the corner of the room, and a framed PhD certificate from MIT on the wall quite possibly started life herding camels or goats across the desert to find water or grazing. The change in lifestyle is very apparent and it is not surprising that governments find it difficult to get the pace of change right. Secondly, going back to my own experiences, we often found it difficult to find good guides when we needed to move into unknown territory or chase a wandering bedu shaikh around the country. Yet Omanis seemed perfectly able to travel their country on camel. After some investigation we identified the problem as twofold. Firstly the different levels at which one sits in a landrover or on a camel seemed to have some effect on ability to observe and secondly, but much more importantly, many found it difficult to adjust to the faster rate of movement in a landrover as opposed to a camel and to the consequent speed of change in the scenery. But, in all fairness, I have to admit that after a period of adjustment most Omanis regained their abilities as guides.

## NOTES

- 1 There is a clear and apposite analogy to be drawn with the system prevailing in feudal Europe
- 2 See for example changes of allegiance in the Yemen Arab Republic during the civil war
- 3 This relationship was for me epitomised in a comment made in 1980 about Omanis "Nahnu Kullina Bani Himyar"
- 4 For example, the "Diwaniyya" system in Kuwait is still an important channel for the conduct of government business, for monitoring public opinion, for defusing political tensions and for keeping in touch
- 5 As late as 1960 the Hikman of Southern Oman refused to acknowledge the authority of Sultan and his Minister of the Interior
- 6 When the peak of employment by Abu Dhabi Petroleum Company was passed in 1964/5 and wholesale, though phased, reductions in the labour force, both direct and contract, was imminent, the company, concerned about the possibility of labour unrest, sent me to investigate. 75 per cent of those I talked to were Omanis, not Abu Dhabi nationals (and as such technically should not have been employed); knew me; and were looking forward to a period of idleness
- 7 The PDO well at Ajayiz was the only source of water for the whole of Jaddat al Harasis, apart from dew which was collected by hanging up blankets or other cloth over night and wringing them out in the morning
- 8 Until the late 1960s only PDO and SAF (Sultan's Armed Forces) vehicles were permitted in the interior
- 9 By the end of the 1950s, Ibri was doing a roaring trade in bananas, melon, limes, tomatoes and grapes and was supplying company locations not only in Oman but also in Qatar, the Trucial States and Iraq
- 10 Although the Indian rupee had been a normal unit of currency in Muscat for many years, the Maria Teresa thaler or dollar was still the preferred unit in 1958 in the interior. There were in fact a number of changes in the normal currency unit between the early 1950s and 1972: from the Maria Teresa dollar and local qurush to the Indian rupee (and Annas and Pice) to the external rupee to the Omani Riyal. The

successive changes appear to have gone smoothly. It is worth noting also that the early changes comprehended a change from coinage to paper

- 11 In the early 1960s, I recall carrying on a complex discussion on the political power structure of Indonesia with an Omani who had been restricted to his village in Wadi Samail for over ten years - and he knew more about it than I did
- 12 The system of "duty shaikhs" and all that this entailed, referred to in Dr. Seccombe and Dr. Lawless's paper was a relatively late development in Oman and was largely the result of the "anything for a quiet life" brigade
- 13 The earliest examples of formal popular participation, albeit under controlled conditions, occurred in 1921 in Dubai and Kuwait

## 5 THE GULF LABOUR MARKET AND THE EARLY OIL INDUSTRY: TRADITIONAL STRUCTURES AND NEW FORMS OF ORGANISATION<sup>1</sup>

Ian Seccombe & Richard Lawless

### 1. Introduction

This paper examines the effects of the nascent oil industry developments on a number of aspects of the structure and organisation of indigenous employment in the Arab Gulf during the period 1930-1950.

The negotiation of the preliminary oil concessions on the Arab Gulf coast in the late 1920s and early 1930s occurred against a background of world trade depression and regional economic stagnation. The local economy was essentially based on the pearl trade while seasonal (of approximately four months' duration) employment in the<sup>2</sup> pearling industry dominated the regional labour market. Lorimer<sup>2</sup>, writing at the turn of the century estimated that more than 74,000 men were engaged in pearling each year. This off-shore employment, centred on Bahrain and Qatar, attracted thousands of seasonal workers from the interior of Trucial Oman, Al-Hasa, from the Batinah and Dhahirah districts of Oman and from the southern coast of Persia. In the mid-1920s, however, the introduction of the cheap Japanese cultured pearl signalled the beginning of a precipitous decline in pearling, a decline which became irreversible with the Wall Street crash of October 1929, and the ensuing financial depression of the early 1930s. Commercial activity and supplementary industries such as dhow-building and repair suffered from the lack of capital as pearl merchants were increasingly unable to sell off their stocks from preceding years. Nor were the pearl-boat captains able to support their divers during the long off-season when few other employment opportunities were available. The number of divers working the pearl banks off Bahrain fell, after a number of strikes and riots in 1931 and 1932, to less than 12,000 in 1935<sup>3</sup>. Indeed, the financial depression was such that slave-owners along the Trucial coast began selling off their slaves (at a sacrifice in price) in order



to avoid the cost of maintaining them<sup>4</sup>.

It is against this background of considerable social and economic upheaval in traditional economic structures, that the international oil companies negotiated the preliminary oil concessions, and began the task of recruiting and training a large industrial workforce in a labour market that had almost no prior exposure to an industrial routine. This paper examines some of the ways in which the companies stimulated new forms of labour organization and manipulated traditional structures to accommodate their own needs. Attention will focus on labour recruitment, intra-Gulf migration and the encouragement of sub-contracting entrepreneurs.

## 2. Employment policies and the oil concessions

After the discovery of oil at Masjid-i-Suleiman in south-west Persia in 1908 and the formation of the Anglo-Persian Oil Company (APOC) in 1909, attention began to turn to the Arabian shore of the Gulf. In 1911, the Managing Director of APOC wrote from London to the British Political Resident in Bushehr (Bushire) requesting his opinion as to whether a valid<sup>5</sup> concession for working oil in Kuwait was obtainable from the Shaikh. During the course of the nineteenth century the Arab shore of the Gulf, with the exception of the coastline of Al-Hasa province and its two oases, had passed under British protection. Britain followed a clearly-outlined policy aimed at preserving her exclusive position in the Gulf, and preventing any outside interference in the region. Treaties were signed between Britain and the Shaikh of Bahrain in 1820, 1880 and 1892, with the Shaikh of Qatar in 1868 and 1916, the Sultan of Muscat and Oman in 1891, the Shaikhdoms of Trucial Oman (Abu Dhabi, Dubai, Sharjah, Ras al-Khaimah, Umm Al-Qaiwain, Ajman and Fujairah) in 1892 and the Shaikh of Kuwait in 1899. The rulers, in exchange for protection, agreed to surrender their external sovereignty. Under the terms of these agreements:

they undertook not to enter into any agreement or correspondence except through the British Government, not to permit the residence of any foreign agent except with British

consent and also not to cede, sell or mortgage any part of their respective territories except to the British Government<sup>6</sup>.

With the discovery of oil in Persia, Britain induced the Shaikhs to agree not to grant any oil concession to foreign powers or to nationals of foreign powers without her approval, in order, as a former British Political Resident in the Gulf put it, "to prevent their exploitation by adventurers and to ensure them a fair deal"<sup>7</sup>.

In spite of Britain's strenuous efforts to exclude other foreign interests from the region, American oil companies were the first to establish themselves on the Arabian shore during the interwar years. Their successful penetration began in 1928 when Standard Oil of California (SOCAL) won the concession from the Shaikh of Bahrain after the Iraq Petroleum Company (IPC), who had priority to all rights there under the Red Line Agreement of 1928, had indicated that it was not interested. Demands from the British authorities that the concession be held by a British company were met after a prolonged Anglo-American diplomatic correspondence which led to SOCAL creating a subsidiary company, the Bahrain Petroleum Company (BAPCO), registered in Canada, to develop the concession. The discovery of oil in Bahrain in 1932 was followed a year later by a further success for SOCAL when it gained oil rights in Al-Hasa province of Saudi Arabia against a counter bid from IPC. In the next year, following diplomatic negotiations between the United States and British Governments, the American-owned Gulf Oil Corporation and Britain's APOC reached a compromise and formed the Kuwait Oil Company (KOC), financed and administered equally by the two groups, which successfully secured a concession in Kuwait in December 1934.

In the face of these American successes, Britain was determined to prevent American oil companies penetrating the rest of Eastern Arabia. Consequently, the Political Resident in Bushehr put pressure on the Shaikh of Qatar who in 1935 granted a concession to the APOC, acting on behalf of IPC, thus thwarting SOCAL's ambitions in this area. Continuing this policy, Britain supported the efforts of Petroleum Concessions Limited (PCL), created in 1935 with ownership and shareholding identical to that

of IPC, in its efforts to secure concessions in the Shaikhdoms of Trucial Oman. Although PCL was not owned exclusively by British interests, it "operated as a British company in that its personnel, finances and outlook were British"<sup>8</sup>. In the absence of a completely British company, it served to exclude foreign competitors, especially the wholly American-owned Standard Oil of California. Nevertheless, the concessions were not completed until the Political Resident issued an ultimatum to the rulers in 1937, reminding them of the 1922 agreement and making it clear that, while the British Government were prepared to approve agreements with PCL, they were not prepared to consider permitting negotiations with any other company. Six years later, the rulers of all seven Trucial States had committed themselves to the company selected by the British Government for the exploration and exploitation of their oil resources<sup>9</sup>. Agreement was easier at Muscat where the Sultan was glad to relieve his financial straits by granting concessions or options for concessions to PCL for the main block of Oman in 1937, and separately for the detached southern province of Dhofar<sup>10</sup>.

Each of these concession agreements made specific reference to the question of the nationality of the companies' employees. In keeping with earlier concessions in Persia (1901) and Iraq (1925), oil companies operating on the Arab shore of the Gulf undertook to employ local nationals as far as practicable, whilst reserving the right to import and to employ such foreign labour as was necessary for 'efficient' operation. Thus article 8(b) of KOC's December 1934 concession states that:

The Company shall employ subjects of the Sheikh as far as possible for all work for which they are suited under the supervision of the Company's skilled employees, but if the local supply of labour should in the judgement of the Company be inadequate or unsuitable the Company shall have the right with the approval of the Sheikh which shall not be unreasonably withheld to import labour, preference being given to labourers from neighbouring countries who will obey the local laws. The Company shall also have the right to import skilled and technical employees<sup>11</sup>.

Article 17 of APOC's May 1935 concession agreement with the ruler of Qatar provides for a rather broader definition of 'local nationals':

The labourers employed by the Company must be from amongst the Sheikh's own subjects or from amongst those approved by the Sheikh, excepting technical employees and the managers and clerks whom the Company may require and whom it cannot find in the country<sup>12</sup> (emphasis added).

The right which such agreements gave the companies to introduce foreign labour clearly clashed with the British Government's policy of excluding foreign interests from the Gulf region. British officials argued that the employment of foreign labour might, in the event of disturbances or unfortunate incidents, be used as a lever to gain political representation for foreign interests in the Gulf. This is made clear, for example, in the tri-partite discussions between Foreign Office, India Office and APOC representatives over draft concessions for Qatar and Kuwait. C.F. Warner (Foreign Office) emphasised that "it is necessary to bear in mind the responsibility with which we might be burdened in connection with the protection of foreign employees and the contingent risks of foreign interference if we proved unable to safeguard their position"<sup>13</sup>. In a memorandum on the same meeting, J.C. Walton (India Office) commented that "the danger of incidents would be much greater in the case of foreign than in the case of British personnel, as the former would be less amenable to the advice and instructions of the local British authorities"<sup>14</sup>. The British Government's policy of excluding foreign interests from the Gulf was extended by specific clauses in the Political Agreements with the companies to the movement and employment of labour in the oil industry. Thus clause three of KOC's Political Agreement with the British Government (March 1934) specifies that:

The employees of the Company in Kuwait shall at all times so far as is consistent with the efficient carrying on of the undertaking be British subjects or subjects of the Sheikh. With the consent of His Majesty's Government, which consent

shall not be unreasonably withheld, persons of other nationalities may be employed if in the opinion of the Company they are required for the efficient carrying on of the undertaking.

NOTWITHSTANDING anything contained in the Agreement between the Company and the Sheikh, the importation of foreign native labour shall be subject to the approval of the Political Resident in the Persian Gulf<sup>15</sup>.

A similar clause was inserted in the agreements for Bahrain, Qatar, the Trucial Coast and Oman giving the British authorities effective control over the employment and recruitment policies of the oil companies, and ensuring that when imported labour was required it was drawn from the Indian sub-continent rather than from the nearby alternatives of Iraq and Iran.

### 3. The growth of oil company employment

The establishment of the oil industry's basic infrastructure in Bahrain and Al-Hasa in the mid-1930s had an enormous impact on depressed local employment conditions. While the development of crude oil production, gathering and refining facilities demand skilled and technical manpower which had to be imported, they also required a considerable input of unskilled labour which for the most part was obtained locally. The number of Bahrainis employed by BAPCO grew rapidly from 400 in December 1934 to over 3,700 in December 1936, as work got underway on BAPCO's initial 25,000 b/d refinery. Refinery construction accounted for over one-half of all Bahrainis employed by BAPCO in 1936, while only 24 locals were engaged in refinery operations. Similarly, local employment with California Arabian Standard Oil Company (CASOC, later ARAMCO)<sup>16</sup> in Dhahran grew from only 541 in January 1938 to 2,745 in December 1938 and to over 3,000 in 1939 (Table 5.1). Local employment in KOC and Petroleum Development Qatar (PDO) remained limited, with the companies still engaged in the exploration, rather than the production, phase.

With the increasing demands of the war in the Far East following the loss of oilfields in Burma, Malaya and the Netherlands East Indies, both BAPCO and ARAMCO embarked on major refinery expansion projects in 1944. ARAMCO expanded its

TABLE 5.1: Oil Company Employment of 'Indigenous' labour 1933-50

Year	BAPCO	KOC	PD(Q)	CASOC/ARAMCO	PD(TC)
1933	151	-	-	-	-
1934	394	-	-	-	-
1935	1,312	-	-	120	-
1936	3,747	154	-	1,100	-
1937	3,350	299	28	1,550	-
1938	1,596	168	n.a	2,745	-
1939	1,881	199	n.a	3,178	-
1940	1,849	213	c300	2,688	-
1941	1,293	202	c300	1,647	-
1942	2,215	219	)	1,654	-
1943	2,095	62	)war-time	2,692	-
1944	2,286	66	)shut-down	7,585	-
1945	3,580	253	)	8,100	-
1946	3,887	1,019		5,491	-
1947	3,829	2,217	1,133	12,018	99
1948	4,184	4,598	1,755	12,226	69
1949	4,620	3,971	n.a	n.a	n.a
1950	4,303	2,545	1,860	10,767	166

Notes

BAPCO: data is for December in each year with the exception of 1944 (March) and 1948 (October)

KOC: 1936-40 and 1947 data is for June; 1941-46 data is for July; 1948 data is for August and for 1949 and 1950 is December

PD(Q): 1937 data is for October; 1941-42 and 1947-48 data is for December; 1950 data is for September

CASOC/

ARAMCO: all data is for December

PD(TC): 1947 data is for December; 1948 and 1950 data is for September

original (1940) 3,000 b/d Ras Tanura refinery to a 25,000 b/d capacity, at the same time building new wharves, loading lines, storage tanks and a second submarine pipeline to Bahrain where the BAPCO refinery was being enlarged to produce 6,000 b/d of aviation gasoline. ARAMCO's local labour force expanded from 2,700 in 1943 to 7,600 in 1944, and in 1945 the company took on 10,000 new employees, more than 8,000 of whom were reported to be Saudi nationals. In addition to direct employment, all the oil companies followed a policy of using local sub-contractors in basic construction activities. The policy offered the companies a number of advantages, for example contractors' easier access to local labour sources enabled the oil companies to cope more readily with fluctuations in labour demand. KOC relied heavily on five local contractors, particularly in the immediate post-war years when, after four years on a care and maintenance basis, the company's activities were rapidly expanded with local employment growing from only 1,019 in July 1946 to almost 4,600 in August 1948<sup>17</sup>. Data on contractors' employees are scarce since many were hired on a daily basis and without formal contracts. Moreover, Audsley (Labour Advisor to the British Middle East Office, Cairo) reports that in 1948 more than 5,500 'Kuwaitis' were employed by sub-contractors on KOC projects while PDQ contractors had some 1,800 local labourers. In ARAMCO the policy of using local sub-contractors was particularly well developed (see section 6) with an average of 130 contractors engaged on ARAMCO projects in the late 1940s. Employment by ARAMCO's contractors ranged from 2,400 in January 1947 to over 7,200 in January 1949. Contractors' labour was also used on Tapline and the Dammam-Riyadh railroad (see Table 5.2).

By 1948, some 23,000 local Arab nationals were employed by the oil industry, while a further 15-20,000 were engaged by local contractors working on oil company projects. The oil industry dominated the regional economy, dictating conditions of employment and of remuneration throughout the local labour market. This made it increasingly difficult for other employers, particularly in the traditional sectors, to attract and retain labour. Particularly hard hit was the Gulf pearling industry which now employed only 5,000 seasonal divers. Any recovery which the industry might have achieved with the defeat of Japan

TABLE 5.2: Saudi Arabia: Arab Contractors' Employees 1947-51

	ARAMCO	Tapline	Railroad	TOTAL
<u>1947</u>				
Jan.	2,400	-	-	2,400
Oct.	4,409	898	-	5,307
<u>1948</u>				
Jan.	3,552	1,075	-	4,627
Oct.	6,699	1,327	-	8,026
<u>1949</u>				
Jan.	7,201	1,366	-	8,567
Oct.	2,983	3,813	-	6,796
<u>1950</u>				
Jan.	3,552	4,458	-	8,010
Oct.	3,835	4,057	1,043	8,935
<u>1951</u>				
Jan.	4,434	1,458	1,435	7,337
Oct.	5,252	921	1,428	7,601

Source: Coon, C.S., Franck, P.G. (1955) 'Operation Bultiste: promoting industrial development in Saudi Arabia' in Teaf, H.M., Franck, P.G. (eds) Hands across frontiers: case studies in technical cooperation, A.W. Sijthoff's Uitgeversmaatschappij, N.V., Leiden, p.361



(reducing the supply of cultured and artificial pearls) was undermined by the continuing loss of labour to the oil industry. In April 1946 a group of Bahraini nakhudas (pearl-boat captains) petitioned PCL, calling on them not to recruit indebted divers for work in Qatar<sup>18</sup>. According to BAPCO's labour rosters, indebted divers formed anything up to fifteen or 20 per cent of their locally-recruited manpower in the late 1930s. Both BAPCO and ARAMCO had agreements with local nakhudas whereby a proportion of wages due to the former divers in their employment would be paid direct to the nakhudas to offset against the divers' debts. El-Elawy<sup>19</sup> argues that the availability of employment in ARAMCO created critical labour shortages and precipitated the decline of date cultivation in the Al-Hasa oasis from the early 1940s.

This section has briefly outlined the growth of 'indigenous' employment in the early oil industry and illustrates the impact of alternative employment opportunities on traditional economic sectors. While the oil companies played an important role in the demise of certain traditional economic structures, they were also instrumental in maintaining certain institutions such as slavery, and in creating new economic structures and forms of labour organization. The following sections will examine the rise of labour recruiters and the development of local Arab sub-contracting firms.

#### 4. Recruiting Agents: Tradition and Change in the Supply of Labour.

The recruitment of local labour by the oil companies was, at least until the early 1950s, sub-contracted to local agents. In Bahrain, the labour recruiting contract was held by Ali and Mohammed Yatteem. Here, as elsewhere, wages were paid by the company to the contractors, rather than directly to the employees, who deducted their own commission. Although convenient for the companies, who lacked the facilities for direct recruitment themselves, the payment of commissions to the agents made it costly and the system was widely abused by the recruiters for their personal profit. In Qatar the labour contract was held by Abdullah Darwish which, according to

...made Abdullah the arbiter of employment of virtually every worker in Qatar. Anyone who wanted to be sure of employment had to stay on good terms with the Darwish. The contract led to Darwish agents deducting 'registration fees' and other extra costs from the labourers' wages.

The so-called 'registration fees' were demanded by Saleh al-Mana, the Shaikh's representative to the Company, for providing potential employees with a letter of introduction to the company or a Qatari 'nationality' chit recommending his employment by the company. This provided the Shaikh with an important source of revenue as Packer (PCL manager in Bahrain) reveals:

The Sheikh and his entourage regard the Company as a cow to be milked as much and as often as possible...(their) interference in the conduct of the Company's operations, particularly their persistent attempts to control recruitment and to extort money from employees, hinders progress<sup>21</sup>.

Packer cites this as the major reason why the Shaikh was constantly pressing the Company to employ more Qatari 'subjects' and to dismiss foreigners.

Similar problems arose in Kuwait where KOC used two labour-recruiting systems. Three main labour contractors, including Yusuf Al-Ghanim, were used to supply unskilled, semi-skilled and artisan labour on a monthly basis. These contractors, who recruited in Iraq, Bahrain and India as well as locally, were paid a percentage commission (twelve-fifteen per cent) on the wages due to the men they engaged. According to Audsley the company paid out almost £153,000 to these agents in 1948, of which over £23,000 went on commission charges. KOC also used a further nine contractors to supply unskilled 'bulk' labour on a daily basis. These contractors were paid a flat rate according to the number of men which they supplied. The agents were responsible for paying the workforce, after deducting their own charges. Inevitably there were frequent complaints that the men were not paid their dues, a factor which increased antagonism

between local labour and the imported Indian workers most of whom were on fixed monthly salaries<sup>22</sup>.

Recruitment was made a constant problem by the excessively high rates of labour turnover among a labour force that was still used to a seasonal employment structure. Finnie<sup>23</sup> claims that, prior to 1953, ARAMCO had to hire 600 Saudis each month merely to replace those who had left; over a year this amounted to almost half of the total local workforce. Similar rates of turnover were noted in other companies and, since wage rates were based on length of service, high turnover resulted in the concentration of indigenous labour in the lowest grades. In Qatar, labour turnover was particularly high in July and August when a large proportion of Qataris left the company, despite its relatively high wage rates, to take part in the pearl diving season<sup>24</sup>.

One of the reasons why Qatari employees of PDQ maintained their links with the annual pearl dive was that many were possessed slaves working not for themselves but for their masters. Investigating employment conditions in Qatar in 1951 Jacomb (Political Officer, Doha) reported that:

Ever since PD(Q) started work in Qatar they have employed slaves owned by Qataris (and even in some cases by Trucial Coast sheikhs and their subjects). The Company do not of course do this by choice; the slave is to them one of many applying for work. I found that the possessed slaves working for the Company received their pay from the paymaster but almost at once had to hand over between 80 and 95 per cent to an agent for their master. It was therefore obvious that the slaves were farmed out<sup>25</sup> as a source of income for their masters. (emphasis added)

As the value of slaves appreciated, the trend towards increasing manumission of slaves noted in the early and mid-1930s was reversed. British officials found growing ill-feeling whenever the question of slavery and manumission was approached. Although Field's<sup>26</sup> claim that "Whenever the shaikhs wanted to expand their incomes they ordered their slaves to strike," may be exaggerated, there can be no doubt that the arrival of the oil company in Qatar did much to maintain, albeit unwittingly,

slavery as an institution.

The shaping of oil company employment policy by traditional institutions is also apparent in those cases, such as the Trans-Arabian Pipeline project, where investments occurred across tribal boundaries. The Tapline contractors were obliged for political reasons to vary the tribal composition of their workforce as the project proceeded through areas under different tribal dominance. This section concludes by examining the influence of tribal organisation on recruitment policy in the case of Petroleum Development Oman's (PDO) early exploration work.

In the vast territories of the Sultanate of Muscat and Oman, where the authority of the central government was limited, the paramount shaikhs of the leading tribes retained a measure of independence. Agreement had to be reached with the tribal shaikhs before oil exploration could take place in their territory. Later when the company needed to establish a reliable system of labour recruitment and labour supply in order to exploit the oil, this was achieved by utilizing the traditional tribal organisation of society. PDO evolved a system whereby it employed members of a tribe for work in their own tribal areas. These arrangements were carried out through the shaikh or shaikhs of a tribe recognised by the Sultan and an elaborate system of duty shaikhs and labour supervisors was developed. The only exception to this policy was with regard to the skilled (Omani and expatriate) workers. The company came to an understanding with the shaikhs that "outside" artisans would only be employed if they could not provide a worker from their tribe.

This arrangement worked well, but Chatty<sup>27</sup> has shown that the Company's approach to the recruitment of local labour, though utilizing the traditional tribal organisation, irreparably changed these traditional structures. Traditionally, because of the very nature of their way of life, the territory of a pastoral nomadic tribe had been flexible. Their territory was also liable to changes reflecting the tribe's relations with neighbouring tribes and the climatic cycle. The company on the other hand wished to establish fixed, stable tribal boundaries in order to fit labour recruitment patterns into its own legal bureaucratic system. The tribes' usual flexibility and adaptability was

restricted, as a static and rigid interpretation of terrain was imposed upon them by the Company, irrespective of the climatic cycle or intertribal relations. Boundary disputes between the tribes and thus labour recruitment questions became a source of constant concern to the company.

The selection of the tribal elders, who managed the hiring needs of the oil company, was instrumental in altering the traditional tribesmen - shaikh relationship. Traditionally, although ultimate authority in the tribe rested with the shaikh, it was based upon meticulous evaluation of tribal sentiment. Too frequent disregard of tribal consensus could result in a gradual shift in authority and influence to another tribesman of the shaikhly family. The shaikh could therefore be described as "first among equals". The company, however, had neither the time nor the resources to respond to the fluid and constantly changing political careers of the various tribal elders. It needed to maintain long-term relations with its duty shaikhs and labour supervisors. Thus once an individual shaikh had been adopted the company attempted to keep him in a position of authority by whatever means at its disposal. Whereas the shaikhs had once acted primarily in the political interests of their tribesmen, they had become more concerned with their own economic welfare. In fact the shaikhly control over the tribal labour had, to a large extent, economic rather than traditionally political overtones. The shaikhs, in addition to their yearly government subsidies, received salaries and gifts in cash and in kind from the company. An estimate for 1966 reported seasonal gifts of clothing totalling 1,733 rupees, miscellaneous aid totalling 6,000 rupees as well as cash handouts of approximately 5,500 rupees made to shaikhs of the Duru' tribe by the company over a twelve-month period. The relative permanence of their appointments by the company soon encouraged the shaikhs of the Duru' to increase their income by charging a fee of five rupees to their tribesmen for providing them with oil company jobs. The leaders of other tribes also took to exacting a substantial payment for each man they assigned to work for the Company. Later the return of skilled tribal Omani artisans from abroad upset the fairly rigid and secure retainer system developed by the tribal leaders. The returnees requested work without referring to the shaikhs of

their tribe, who felt that their authority was therefore being undermined and their economic position weakened.

The normal internal jealousies within the shaikhly families were aggravated by their determination to stand well with the company and to profit from it. In the case of the Duru' tribe, each sub-unit leader originally claimed the exclusive right to furnish labour to the company and it was some time before these internal quarrels were settled. Thereafter, according to a company report of 1957, the only remaining cause of friction was the ambitions of some of the junior shaikhs to serve as labour supervisors at Fahud.

#### 5. Intra-Gulf Labour Mobility, Technical Training and the Early Oil Industry

The development of the nascent Gulf oil industry during the mid-1930s, and its demand for unskilled labour maintained the patterns of intra-Gulf labour migration that had traditionally been associated with the Gulf pearling industry. At the same time, oil proved to be the catalyst for several new forms and patterns of intra-Gulf mobility. The demand for labour in Bahrain and Al-Hasa in the mid-1930s contrasted sharply with employment conditions throughout the lower Gulf and along the southern Persian coast, which had been the major source of seasonal labour in the pearling industry. The scale of intra-Gulf migration stimulated by emergent oil company demand is not, however, apparent from surviving labour rosters and pay-roll data, since the majority of 'local' immigrants were registered as part of the indigenous labour force. For example, the BAPCO labour roster of April 1934 records only 31 non-Bahraini Gulf Arabs - 20 Hasawis, seven Kuwaitis, two Muscatis, two Omanis - compared to 280 Bahrainis. By April 1936, there were more than 3,000 Bahrainis on the roster, but only 40 other Gulf Arabs (28 Saudis, three Kuwaitis, seven Muscatis, one Omani). The real level of Gulf Arab immigration and employment was undoubtedly much higher, as Hugh Weightman's (Political Agent, Bahrain) report on the November 1938 strike indicates: "We believe that there are considerable numbers of Nejdīs and Hasawis masquerading as Bahrainis and every effort is now being made to stop them"<sup>28</sup>.

In similar vein the KOC labour rosters frequently note that the category 'Kuwaiti' includes an unknown number of workers from Iraq and other Gulf states. This lack of precision over nationality status was of course in the companies' own interests given their commitment, in the concession agreements (see above section 2), to preferential recruitment and employment of subjects of the respective shaikhs. The extensive use of labour contractors to recruit unskilled manpower also reduced the companies' control over the nationality composition of their 'local' workforce. The problem is well illustrated in correspondence between Lermite (PDQ manager) and Jackson (Political Agent in Bahrain):

We wish to bring it to your notice that labour recruited in Doha nowadays includes a considerable proportion of non-Qatari subjects - Iranis, Baluchis, Omanis, Saudis etcetera. These labourers are all recruited by the representative to the Government of Qatar and sent to Dukhan camp as and when required. In the majority of cases they are illiterate and possess no identity documents other than the green engagement chit issued by the representative... we would be grateful for your advice as to whether the Shaikh of Qatar has jurisdiction over these persons and to what extent they are to be considered as 'Qatari' subjects...<sup>29</sup>

In his Report on a visit to Qatar, January 1949, Matthew Audsley notes that of the 2,712 'Qataris' employed by PDQ in December 1948, only 1,580 (58 per cent) were subsequently found to be subjects of Qatar. The rest were other Gulf Arabs, Persians and Baluchis.<sup>30</sup>

A clear picture of intra-Gulf migration is available for Bahrain in the 1940s, when, as a war-time emergency measure, the Government of Bahrain introduced food rationing and issued ration-cards to newly arrived immigrant workers. In June 1944, on the eve of BAPCO's major refinery expansion programme, the Government of Bahrain lifted its ban on Qatari immigration, a ban which had been imposed in 1937 as part of Bahrain's economic boycott of Qatar during the Zubarah dispute. The removal of this restriction led to a surge in immigration from Qatar. Belgrave,

writing in the Annual Report of the Government of Bahrain for 1944 asserted that:

During the last five months of the year over 700 persons from Qatar were registered as having entered Bahrain. The number of Qataris who have actually entered Bahrain is undoubtedly very much greater than the number of arrivals which were registered. Numbers of Qataris obtained work with the Bahrain Petroleum Company, declaring themselves to be Bahrain subjects<sup>31</sup>.

Immigration from Qatar continued throughout the 1940s, primarily because PDQ did not resume its operations until late 1947. Between January 1945 and October 1949, some 4,200 ration-cards were issued to newly arrived Qatari Arabs, large numbers of whom sought and obtained employment with BAPCO. The ration-card statistics also show an influx from the Trucial Coast (rising from 750 in 1946 to 1,769 in 1948) and Muscat (1,600 arriving between 1946 and 1949). BAPCO labour rosters show an increase in the employment of Muscatis from nineteen in December 1945 to 149 in December 1946 and to over 270 in September 1947.

BAPCO's 1944 refinery expansion programme renewed the question of Persian employment in the Company. Under strong British Government pressure the Company had, in the late 1930s, gradually reduced the number of Persian employees from a peak of 555 in September 1937. Both the Government of Bahrain and the Political Resident disputed the Company's claim that such labour was drawn from the long-standing Persian community in Bahrain. Belgrave, writing in October 1937 claimed: "... increasing numbers of Persians are entering Bahrain illegally and being immediately given employment by BAPCO..."<sup>32</sup> The encouragement given by the Company to Persian immigration was seen as politically undesirable because of its effect on the island's delicate religious balance, and because of Iran's continuing claim to sovereignty over Bahrain. Moreover the British authorities saw it as an attempt by an erstwhile American company to avoid the legal obligations associated with the recruitment and employment of Indian labour. Thus Fowle (Political Resident) writing to Weightman (Political Agent, Bahrain) in December 1935



suggests that:

... it is possible that in order to avoid conforming to the requirements of the Indian Workmen's Compensation Act (1923) in the case of Indian labour, the Company might instead recruit only foreign labour such as Persians...any tendency in that direction should be checked<sup>33</sup>.

Despite this, Anderson (BAPCO manager) wrote to Hickinbotham (Political Agent, Bahrain) in June 1944: "... the Company is very much interested in the possibility of obtaining labour from S. Persia... the Company wishes to know whether there would be any objection to bringing in Persian labour..."<sup>34</sup>. Hickinbotham's reply was swift and to the point: "Any measure which will be likely to increase the permanent Persian population of Bahrain would be regarded with strong disfavour by the Bahrain Government for political and other reasons"<sup>35</sup>. In the face of war-time shipping shortages the political authorities had to agree to the employment of Persians to meet the demands of the emergency expansion programme. A quota of 1,000 Persian labourers was permitted to land in 1944 on the understanding that: "... Persian labour imported by you will not be permitted to remain in Bahrain after the completion of the work for which it was imported."<sup>36</sup>

The rapid post-war development of KOC also stimulated intra-Gulf labour movements although, as in the case of Bahrain, it is difficult to identify non-Kuwaiti Gulf labourers because of the mis-representation of nationality status. KOC's own records show that Omanis were the main Gulf immigrant group, increasing from 54 in September 1948 to 180 in December 1949 and 855 in March 1950. Many of these Omanis had been recruited in Bahrain when labour was laid-off there in the late 1940s as BAPCO's expansion programme came to an end. Omanis were also a major labour source for PDQ whose operations at Dukhan and Umm Said were considerably expanded from 1949. Many Omani traders and pearlfishers had traditional links with Qatar and its ruling family: links which provided them with informal labour market information and a preferential entrée to employment in the oil company. The appearance of intervening opportunities in the early 1950s led to a much reduced labour flow from Oman to Kuwait<sup>37</sup>.

Over the period from the 1940s to the late 1950s many Omanis had left interior Oman for Saudi Arabia and the Gulf states because of the continuing dispute between Sultan Said bin Taimur and the rival Imamate administration. Communities of exiled Omanis provided an important link for later migrant workers (prior to 1970 emigration from Oman to Saudi Arabia and the Gulf was entirely clandestine). Birks and Sinclair<sup>38</sup> show that links established between particular villages and destinations during the 1940s were still important in determining migration patterns in the 1970s.

Trucial Oman was also an important source of migrant labour for Qatar, Bahrain and Saudi Arabia. Hubert Evans in his Economic Report on Sharjah dated August 1950 remarks that:

The exodus from Sharjah territory of traders and labourers, which was arrested during the period of the war, has been particularly marked over the last year or so. In 1949 more than 3,000 (travel) certificates were issued to applicants belonging to the Trucial Coast, a high percentage of these being subjects of the Sharjah Sheikdom, mostly labourers migrating to Qatar, Bahrain, Kuwait and Saudi Arabia<sup>39</sup>.

In the early post-war years increasing numbers of employers (oil companies, local contractors, non-oil foreign institutions, public works departments) were competing for a share of the region's limited indigenous manpower, and the relatively simple pattern of intra-Gulf labour flows outlined above was affected by two new factors: (i) inter-company wage differentials (ii) the establishment of a pool of local skilled and semi-skilled labour. Increasing competition for available labour led to rapid wage inflation in the Gulf. Audsley, for example, noted that the average wage of an unskilled Arab employee of KOC had increased from eight annas a day in 1939 to a minimum of Rs.3 per day by 1948. By 1952 it had increased further to Rs.5/9 per day<sup>40</sup>. Indeed, rapid wage inflation was used by KOC to justify its import of unskilled Indian labour in 1946-47<sup>41</sup>. In the pre-war period, regional wage rates were largely dictated by BAPCO and CASOC/ARAMCO, the two major employers. Indeed new employers entering the labour market, such as KOC, deferred to these two

companies in setting their own wage rates. Differences in the rates of wage and prices inflation during the war years, which arose from the relative efficiency (Bahrain) or inefficiency (Qatar, Saudi Arabia) in the control of supplies, meant that the oil companies entered the post-war period with significantly different basic wage rates. In particular, relatively low wage rates in Bahrain were justified by the Government of Bahrain (which met regularly with representatives from BAPCO, the RAF and other major employers, to discuss wage rates) on the grounds that the cost of living in Bahrain was considerably lower than elsewhere in the Gulf. Wage differentials between BAPCO and ARAMCO were, however, exacerbated in 1946 when, at Ibn Saud's insistence, wage rates for Arab labour working at Ras Tanura and Dhahran were raised to give Arab workers parity with the Company's Italian and Indian manpower. By June 1946, when the Government of Bahrain lifted war-time restrictions on emigration, ARAMCO were paying local employees more than twice as much as BAPCO. Within the next six months, more than 1,300 Bahrainis departed for work with ARAMCO and its contractors. The outflow, particularly of skilled and semi-skilled labour was considered by the Political Agent to be prejudicial "to the efficient working of the Bahrain Petroleum Company and other undertakings essential to the Bahrain State."<sup>42</sup> An attempt to re-introduce restrictions on labour mobility led to strike threats, and BAPCO were forced to double basic wages. Nevertheless, the outflow, to Saudi Arabia and Qatar, continued through the late 1940s. In March 1950 the Census of Bahrain recorded more than 5,000 Bahraini males working abroad in other Gulf states.

Although BAPCO did not introduce a formal trade training programme until the late 1940s, informal on-the-job training opportunities were taken by many Bahrainis to acquire basic artisan skills. Moreover, the uninterrupted operation of the Company throughout the war years meant that BAPCO had a significant body of long-service employees. BAPCO began a formal trade training programme in 1948. Subsequent upward mobility among the local labour force is noted by Audsley over the 1949-53 period, with an increasing proportion of workers in higher artisan grades (Table 5.3). Audsley notes however that the Company were losing considerable numbers of experienced Bahrainis

TABLE 5.3: Bapco's Bahraini non-contract daily rate Employees by grade, January 1949 and 1953

Grade	% distribution	
	1949	1953
D.0	49.2	0.9
D.1	31.0	30.4
D.2	15.6	35.1
D.3	4.1	19.4
D.4	0.1	11.3
D.5	-	2.7
D.6	-	0.2

Source: Audsley, M.T., (May 1953) Notes on a visit to Bahrain 1st to 8th April 1953. (PRO FO 371/104449 EA 2184/3)

from the higher grades (D.3 - D.6); a loss which was hindering the Company policy of advancing Bahrainis as far as possible<sup>43</sup>.

Trained Bahrainis were attracted away from BAPCO by three major alternatives:

- (i) the option of establishing their own repair or workshop in Manama;
- (ii) easier and more remunerative private sector contracts in Manama, Kuwait or Saudi Arabia;
- (iii) the intensive training provided by the company enabled many to emigrate to work as experienced artisans in PDQ, ARAMCO or their sub-contractors.

KOC also paid much more attention to the training of local labour in the early 1950s in an effort to reduce its reliance on imported Indian sub-continent technicians, artisans and clerks. As in the previous case there was a considerable leakage of skilled labour from the Company's employment; some 26 per cent of the 310 trainees who graduated from KOC's training scheme over 1951-53 left to work in the private sector.

One company which remained seemingly indifferent to the training needs of the local labour force was PDQ. With the completion of much of the early infrastructural work, the Company's demand for local labour fell considerably; Qatari employment in PDQ collapsed from 1,758 in April 1948 to only 475 in December of the same year. At the same time foreign employment remained more or less constant. The Shaikh, clearly anxious that this might lead to social discontent, became increasingly insistent that the Company dispense with non-Qatari labour. A significant strike by PDQ's Qatari labour in July 1951 had its origin in the demand by Qatari workers for the dismissal of 150 Dhofaris. Pelly (Political Resident) was critical of the Company's policy:

Throughout, these strikes were coloured by the illusion that they (PDQ) are in a buyer's free market for labour despite the fact that not only does this concession bind them to give preference in employment to Qataris... but there is a strong movement supported by the Sheikhs and the people to insist

upon the right to such a preference<sup>44</sup>.

Audsley was also critical of the Company's long term strategy:

...if the Company is to satisfy the Ruler and others of its intentions to do everything possible to enable Qataris to substitute foreigners in the majority of less skilled occupations a scheme (vocational training) of considerable proportions will be inevitable<sup>45</sup>.

The programme set up by PDQ in response to this criticism was described in 1952 by F.C. Mason (Audsley's Assistant) as simply "window-dressing"; its technical training component being "...equivalent to a craft lesson in an English primary school..."<sup>46</sup> The British government saw the granting of a concession to the American Superior Oil Company as a serious challenge to PDQ. Audsley wrote:

labourers come from Doha and they may be attracted by offers of employment by Superior Oil, the Ruler and his retinue may be influenced by American promises, to the detriment of PDQ interests, to provide accommodation and trade training for Qatari workers<sup>47</sup>.

#### 6. New Structures of Employment : the Arab Contractors

The discovery and exploitation of oil by the major Western oil companies led to the emergence of numerous local contractors, especially in construction, transport and the supply of goods and services to the companies and their employees. These contractors ranged in size from very small-scale operations to large enterprises employing hundreds of workers. Detailed information about the origins, development and activities of local contractors in the Gulf region is lacking, with the exception of those entrepreneurs assisted by ARAMCO's Arab Industrial Development Division (AIDD) set up in 1946. The following discussion is based primarily on an account of AIDD by C.S. Coon and P.G. Franck<sup>48</sup> written in 1955.

ARAMCO began using local contractors in 1943 during the

construction of the refinery. At this time they were experiencing a manpower shortage and were having difficulty recruiting workmen, and in housing them after they had been recruited. Productivity of local workers was also found to be low. From 1943 to 1945 the company began to encourage and assist local contractors, a development that expanded rapidly after 1946 and the setting up of AIDD to handle both the contractors and the assistance side of the company's activities. The encouragement of the contractors was in line with ARAMCO policy that the company was in the oil business and no others. The contractors were able to provide manpower more quickly than the Company in the wartime emergency, and were more adept at choosing foremen for particular crews than the company was. The contractors were not limited by the rigid physical requirements the company was obliged to maintain, nor were the requirements for housing provided by the contractors for their workers as strict as those of the company. Furthermore some of the key contractors were important men in their communities and were able to recruit workers more effectively than the company's agents. AIDD's operations covered the whole of the Al-Hasa province, including the two oases of Qatif and Al-Hasa, and two parts of Nejd province - Al-Kharj oasis and the area traversed by the Trans-Arabian Pipeline (Tapline). Many of the contractors were from the oases and seaports of the eastern region, and some had originally worked for ARAMCO as foremen, clerks, or interpreters; the majority of the workers recruited by the contractors were from the oases of the eastern region<sup>49</sup>.

Most of the contractors began in simple construction work, laying foundations, digging trenches and making concrete blocks and slabs. Some of them bought trucks and moved into the transport business, others into the construction of houses and administration buildings involving carpentry, plumbing and electrical work; and into maintenance work on pipelines and port facilities. Although AIDD acted as technical advisers both to private individuals and municipalities, the contracting branch was by far the most important activity. Contracting involved several stages. First the company's Operations Staff provided AIDD with a written statement of the job to be done and a notice was posted for contractors interested in making a bid to meet the

American contract supervisor on an appointed day, when the job would be explained to them. The assembled contractors then had seven days in which to make their bid. The company's Engineering Department helped to evaluate the bids received, to tabulate them and compare them with the engineers' estimates. The lowest bid was taken if the bidder was capable. After the contractor was chosen a draft contract went to the general manager under whose department the work was to be carried out and for scrutiny by the company's lawyers. A date for the work to commence was set, and from then on the role of AIDD was as liaison between the contractor and the company. AIDD's regional supervisor in whose territory the work was being done served as a link between the operating department and the contractor. He made regular visits to the project to see how the work was progressing and to make sure that relations between the contractor and the Americans involved were satisfactory. On major contracts a monthly report system was maintained.

The Company did not advance any money to the contractors although in 1946 AIDD was given some US\$ 300,000 to buy surplus army equipment in Calcutta for use by the contractors. The contractors borrowed money on the strength of the contract from local merchants, or obtained credit for their equipment. On a big contract the Company could pay at various stages - 25, 50 and 75 per cent of completion. Under regulations established by the Saudi Government a registration fee of one per cent of the contract gross was levied. This was withheld from the contractors' payments by the Company and then passed on to the Government. Another two per cent went to the Worker's Compensation Fund which the Company also withheld and then paid direct to the Fund, again according to Government regulations. The Government, through its labour regulations, required the contractors to furnish housing for their workers when they were working away from their home towns and also tried to enforce sanitation, basing its requirements on the Company's regulations.

The Company provided the bulk of the contracts to this new class of entrepreneur, either directly or by way of projects undertaken for the Saudi Government, such as the port construction project at Dammam, or the Government railway from Dammam to Riyadh. Arab contractors were used extensively by the



Company to expand and maintain oil and non-oil facilities which were concentrated in three districts: Ras Tanura, with the tanker terminal and refinery; Dhahran, with the field headquarters and the largest residential area, and Abqaiq, the largest oilfield. In each there had to be installed complete utility services, including sewers, roads, hospitals, schools, dining halls, cinemas, banks, playgrounds, social centres, stores, post offices and mosques. For every dollar spent on new oil facilities (including the refinery), another dollar had to be spent on supporting installations. By 1952 ARAMCO's Community Services Division had the job of maintaining and expanding facilities for living and recreation for over 24,800 people. It owned and maintained nearly 1,200 family homes and quarters for 8,500 bachelors. Company housing was not provided for Saudi employees, but if workers wanted to build their own homes AIDD gave technical assistance, negotiated with a local contractor and inspected the building work. In addition to construction work, contractors were hired for the removal and disposal of garbage from Company areas and the spraying of DDT for malaria control in the villages and towns of the Al-Hasa oasis. Work on Tapline, linking the Saudi oilfields with Sidon on the Mediterranean coast, also provided numerous opportunities for local contractors<sup>50</sup>. They were employed, for example, in the construction of Government buildings and residential quarters, and laying utility lines at the pump stations. In general, contracting up and down Tapline was not easy. Distances were great and the contractors had to drive their trucks all the way to Dhahran 800 miles away; materials were difficult to obtain and skilled labour was scarce. Indeed the scarcity of skilled labour was a common problem experienced by the local contractors during the late 1940s and early 1950s. In part, this was caused by the US\$ 80 million United States Airforce construction project at Dhahran airport, but in some cases Company foremen competed for men with local contractors. A contractor with a good pipefitter or welder (usually an old company employee, either ARAMCO or BAPCO) preferred to keep him on the payroll between jobs rather than risk losing him to another employer. Some of the contractors began to employ Lebanese and also Italians from Eritrea.

Six outside companies were employed by ARAMCO to perform special services which the Company did not want to set up as special departments which might then become permanent. Three were concerned with special construction work and three with exploration. The bulk of this service work was undertaken by Bechtel International Corporation of San Francisco. Early in 1952, 40 per cent of Bechtel's men were at Ain Dar working on installations for a new oilfield (pipelines, gas-oil separation plants) and building family homes, ten-man portable bunkhouses and demountable office buildings. Other Bechtel men were working on the new Company hotel and on two 20,000 b/d capacity gas/oil separators at Qatif, halfway to Ras Tanura. Bechtel's primary job was supervision (by foremen and others) of the Arab contractors selected for the work by AIDD. Bechtel's men saw that the Company got its work done according to specifications, while the AIDD staff ensured that Bechtel did not demand more from the local contractors than their contracts specified.

Few contractors kept detailed records or statistics and the best source of information on their activities is the reports of the Workers' Compensation Fund into which every contractor had to pay two per cent of all money received. Each month officials of the Fund made up a list showing the number of contractors working, men employed and money paid in. During the two-year period from September 30, 1949 to September 30, 1951 the Fund recognised a total membership of 353 licenced contractors reduced from an earlier 379, due mainly to the formation of partnerships between previously independent operators. Of the 353 licenced contractors, only 130 paid money into the Fund during this period; the others were apparently not working. ARAMCO statistics reveal the scale of payments made to local contractors from the beginning of 1947 to the middle of 1952 (Table 5.4). During the first three years, some US\$ 15.7 million was paid for over 1,000 completed contracts. In the next two and a half years (to May 1952), the Company and Tapline paid out US\$ 22.7 million for 700 completed contracts, of which some US\$ 3.7 million was on behalf of the Saudi Government for construction work on the railway. It is estimated that ARAMCO and Tapline paid local contractors a total of US\$ 46.8 million during the six year period 1947-1952.

TABLE 5.4: Payments to Arab Contractors - 1947 to 1952

Year	Projects For			All Projects	
	ARAMCO	Saudi Govt. Railroad	Tapline		US dollars(c)
		Saudi Riyals			
1947	6,252,200	(a)	626,700(b)	6,878,900	2,063,670
1948	13,727,863	(a)	5,360,737	19,088,599	5,726,580
1949	14,496,923	(a)	11,867,444	26,364,367	7,909,310
1950	8,464,008	3,320,825	25,288,327	37,073,160	11,121,948
1951	14,818,904	6,181,084	4,245,556	25,245,584	6,816,309
1952					
Jan. to May (d)	12,409,025	3,871,510	1,457,196	17,737,731	4,748,867(d)
TOTAL:	70,168,923	13,373,419	48,845,999	132,388,341	38,386,683

## Notes:

- (a) Arab contractors did not work on this project before July 1949. Data were not recorded separately until August 1950.
- (b) Arab contractors did not work on Tapline projects before July 1947.
- (c) The conversion rate for the riyal 1947-1950 was \$0.30 and an average of \$0.27 for 1951-1952.
- (d) June-December 1952 payments on ARAMCO and railroad projects were SR 31.2 million (\$8.4 million). Other data not available.

Source: Coon, C.S., Franck, P.G., (1955) 'Operation Bultiste promoting industrial development in Saudi Arabia' in Teaf, H.M., Franck, P.G. (eds) Hands across frontiers: case studies in technical cooperation, A.W.Sijthoff's Uitgeversmaatschappij N.V., Leiden, p.360.

In April 1949, ARAMCO stopped its expansion plans as productive capacity increased beyond world oil demand. Consequently, contract work was reduced and the number of contract employees working for the company declined. However work on Tapline increased rapidly during the same period and absorbed most of the workers released from ARAMCO projects. By June 1950, some 6,100 employees of local contractors were working on the pipeline project compared with 1,370 in March 1949. When the Tapline contracts were completed, new construction work was required by the Company and the number of contract employees assigned to ARAMCO increased steadily through May 1952. The balance created by the completion of Tapline contracts was absorbed by work on the Government railway, where employment of contract workers increased from 400 in August 1950 to 2,450 in May 1952.

The close association between the volume of contract work and the scale of construction and other non-recurrent work for the Company, Tapline or the Government was a source of serious concern for AIDD officials. Their monthly report for June 1949 discussed the cutback in construction work and the effect on local contractors. Some contractors had already gone out of business, and the reduction in the income of contractors and in the number of their employees had begun to affect the volume of business undertaken by the town merchants. Criticisms were voiced about the soundness of the local contracting system, and some claimed that direct employment of contract workers by the Company would cost less. There were fears that the Company might become too deeply involved in helping contractors to survive. But the Company took the position that the local contractors who had emerged in its shadow had to learn that any investment, including the hiring of workers, involved a risk which could not be separated from the general level of business activity in the community. It was hoped that the trend towards new partnerships between contractors, in an effort to strengthen their resistance to business fluctuations, would continue. While some mergers had been successful, others disintegrated because of disagreements among the members.

## 7. Conclusion

Halliday<sup>51</sup> has argued that the early oil industry made almost no impact on the local economy of the Arab Gulf since the international oil companies established few local linkages and provided only limited employment for indigenous manpower. The evidence presented in this paper challenges both of these views.

Firstly, this review has demonstrated that the scale of both direct and indirect employment generated by the oil industry, particularly in its construction phases, was considerable and attracted labour from all parts of the Gulf region. By 1950 the oil companies employed more than 20,000 local Arab workers (excluding contractors' employees), while pearling, traditionally the region's major employer, accounted for less than 5,000. Government of Bahrain reports for the late 1940s and early 1950s show increasing concern at this dominance of the labour market. Indeed, the possibilities of reviving and expanding traditional activities such as pearling and agriculture were discussed as a means of absorbing labour laid-off by the oil company when its labour intensive phases came to a close.

Secondly, it is apparent that through its utilisation of traditional institutions and established merchant groups as sub-contractors for labour recruitment, construction and transportation activities, the oil companies were closely linked to the local economy. By increasing local purchasing power, through wages and payments to contractors, oil company activity was closely reflected in the fortunes of contractors and local merchants. The import of thousands of skilled and semi-skilled workers from the Indian sub-continent also requiring provisions, accommodation and services provided a further stimulus to the local economy.

Finally, through job experience and training, the oil companies widened the range of skills available in the local labour market.

## NOTES AND REFERENCES

1. This paper is based on a research project ('Labour migration to the Gulf during the period 1900-1954') funded

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49. Among the first to seek employment with ARAMCO and later to become contractors and merchants were the Dawasir. The Banu Dawasir, originally from south-central Nedj, migrated from Bahrain where they had lived for over 100 years to the Al-Hasa coast in 1923, following a clash with the British authorities on the island. They established



- themselves as traders, merchants and craftsmen in Al-Khobar and Dammam before the arrival of the Oil Company
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Patrick Clawson and Willem Floor

## 1. Introduction

Since the 1820s, Iranian policy-makers and reformists wanted to modernize the economic base of Iran and thus enable it to withstand and compete successfully with the European powers that encroached upon the country's economic and political independence. During the nineteenth century, various efforts were undertaken to achieve this objective. However, all these endeavours failed to achieve the desired result, owing to the weakness of the government, ignorance, lack of infrastructure, and the inability of the government to protect its nascent industry. With the advent of a strong, nationalist government after 1921 headed by Reza Khan, the drive to establish a modern industrial base, which would enable Iran to become more self-reliant, increased considerably. In 1931, the government, disappointed by the lack of response by both national and foreign investors towards modern industrial development in Iran, decided to develop new industries as a means of reducing imports and supporting the foreign exchange position. This decision was further influenced by concern over deterioration in Iran's terms of trade due to a fall in export prices, and over decreasing availability of foreign exchange to pay for necessary imports. Industrialization was seen as a partial answer to these problems<sup>2</sup>. Although Iran's economic development in the 1930s was not based on an articulated central plan, there was nevertheless the conviction that economic development could only be achieved through a compulsory rise in the share of national income withheld from consumption for investment purposes. Iran was partly successful in realizing its economic policy objectives, and in pulling itself up by its bootstraps; however, owing to the failure to grow proportionately through an increase in management effectiveness, better education of labour, better health and nutrition, and better political and social organization, Iran did

not manage to accomplish a take-off into self-sustaining growth.

This article discusses two aspects of the Iranian development programme of the decade beginning in 1310 (1931/32 - 1940/41); first, the extent of industrial development and the means by which the investments were financed and, second, the mechanisms for securing the foreign exchange needed for the investment programme.

## 2. Industrial Development and its Financing

While many new industries were created in this decade, the industrialization effort was not without its problems. These can partly be ascribed to start-up problems, partly to the lack of competition, but in general to the low level of development of the country. For example, the sugar industry had to face a shortage of beets and a low sugar content in the beets that were available. The result was a short milling season, such that the plants were utilized at a rate sometimes as low as ten per cent of the year. Underutilization explains why, in spite of duties on imported sugar which amounted to over 200 per cent of the c.i.f price and the very low price of beets in relation to sugar prices, no profits were made. In 1936, the British consul in Shiraz estimated that the Marvdasht mill produced sugar at a cost which was 200 per cent higher than imported sugar<sup>3</sup>. The annual loss on sugar production therefore was substantial, amounting to 50-70 million riyals per annum between 1938 and 1941<sup>4</sup>. However, the growing demand for sugar during the 1930s was increasingly met by internal production. By 1940, 20 per cent of the total sugar consumption was met<sup>5</sup> by national production as compared with only five per cent in 1933.

A similar development can be observed in other industries. Iran had seven match factories by 1935; these factories produced some 85 per cent of total demand by the end of the 1930s, as compared with only 46 per cent in 1933. The cement factory<sup>6</sup> supplied about 20 per cent of the national consumption. The textile industry, which was larger than that of Hungary or Yugoslavia by the end of the 1930s, was able to reduce the import of cotton yarn from 24 million kg to about 300,000 kg. Although

less successful than with yarns, this branch of industry was also able to reduce the imports of textile fabrics by some 25 per cent during the same period. Another factor of importance was the development of the power sector in Iran. In 1930 there was an installed capacity of about 600 kilowatts, while in 1939 this had been increased to about 19,000 kilowatts. The total investment costs amount to RIs 77 million which were invested in almost equal parts by the state and private financiers<sup>8</sup>.

The single most important investment in the period was the construction of the trans-Iranian railroad, which played an important role in reducing transport costs and thereby encouraging production for distant markets, internal or external. The total cost of construction was about RIs 2,565 million (Table 6.1). Most of the financing came from the revenue produced by the monopolies on sugar and tea, including taxes of both domestic and imported sugar and tea. Reflecting the cautious character of public finance in this era, the government began collecting these taxes in 1925/26, well before construction on the railroad began; the unspent balance was accumulated in a fund which was not exhausted until 1935<sup>9</sup>. However, about twelve per cent of the railroad financing came from oil revenues, about sixteen per cent from the general government budget, and about fifteen per cent from bank borrowing.

Since public credit did not exist in Iran, the government took the initiative in stimulating private capital to invest in industrial development by facilitating the procurement of bank loans. Moreover, since foreign trade was becoming less profitable owing to exchange regulations and government monopolies, capitalists turned to industrial developments. As a result of a policy of import quotas and steep tariffs, Iranian industry faced reduced external competition and could therefore charge high prices. The profitability of industrial investment was therefore a significant inducement to expansion of industry. Profit rates as high as 80 per cent were reported; however, in general the profit rates reported to official sources were much lower. According to a survey conducted by the Bank Melli during the period 1313-16, the average rate of return on capital was 27 per cent for the 293 companies surveyed<sup>10</sup>. Although profits in

TABLE 6.1: Iran: Railroad Construction Finances 1925-39  
(in millions of riyals)

Income:	<u>2565</u>
Monopoly over sugar and tea	1405
Government contribution in riyals	449
Government contribution in sterling (1)	310
Loans from domestic banks	370
Other income	30
Expenses:	<u>2554</u>
"Works"	2149
Other	405
Deficit:	<u>10</u>

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Source: Bank Melli Bulletin, May-November 1940.  
(1) 3,846,681 pounds sterling

trade were higher, averaging 34.5 per cent, this was not considered a serious obstacle to encouraging industrial development.

The state not only took the initiative in spearheading industrial development; it was also the main investor in industries such as the sugar industry, silk-spinning industry, cement industry, chemical industry, and a metal/steel industry. As shown in Table 6.2, during the period 1310-19 the Government invested a total of RIs 2,099 million in industry, of which RIs 1,857 million were in state industries. Private investors also followed suit, attracted by the profitable returns (Table 6.3). Most of the private money invested appears to have come from re-invested earnings and hoards of ready cash, rather than proceeds of sales of fixed assets such as land; however, there are few data to confirm this general impression. Thus, of a total of about RIs 2,800 million invested in industry during the 1930s, the state took the lion's share.

One method of financing industrial development is through government expenditure by increasing the money supply, that is, the government borrows from banks and the money supply rises by nearly the same amount<sup>11</sup>. During the Reza Shah period, the Iranian government made use of the railway construction and of industrial development.

Prior to the establishment of the Bank Melli Iran in 1928, the ability of the Iranian government to finance its operations through bank borrowing was severely limited because the government had effectively no control over the money supply. The money supply consisted of: a) silver coins whose face value approximated their silver content<sup>12</sup> and b) paper notes issued by the Imperial Bank of Persia against backing in metal or hard foreign currencies<sup>13</sup>. Under such conditions, the money supply and the price level in Iran were heavily influenced by the fluctuations in the world price of silver. Since decisions about the issue of bank notes were made by a private bank based on commercial considerations alone, the Government was unable to manage monetary policy in a manner to promote economic development. While the initial motivation for the establishment of the Bank Melli was primarily nationalistic, the Government

TABLE 6.2: Iran: Budget for Investment by Government in Industry, 1310-1319  
(in millions of riyals)

	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319
Budget for investment in capital of private firms										
Annual	11	11	4	11	35	11	2	16	63	60
Cumulative	11	22	26	37	72	83	85	101	164	224
Ministry of Industry and Mines Budget										
Annual	—	16	23	20	66	73	145	315	454	745
Cumulative	—	16	39	59	125	198	343	658	1112	1857
Memorandum Items:										
General budget expenditure: (1)	373	481	509	903	1154	1300	1639	1528	2613	3111
Ministry of War	179	186	215	239	256	275	319	388	415	520
Transport, communications	1	1	1	280	424	479	646	147	854	999
Industrial investment	11	27	27	31	101	84	147	331	517	805
Other	182	267	266	353	373	462	527	662	827	787
General budget revenue (2)	373	500	508	712	831	1100	1360	1528	1930	3094
Public undertakings	33	41	43	53	69	71	142	181	256	435
Tobacco, opium, cotton goods	98	127	92	115	166	235	285	347	347	835
Tariffs, sugar, tea	103	108	151	261	261	400	473	422	502	508
Other	139	224	222	283	335	394	460	578	825	1316

Sources: League of Nations, 1938, and United Nations, 1951. Note that data are not actual revenue and expenditures, only the budgeted levels.

(1) Including extrabudgetary expenditures on roads and railroads for 1313-16; excluding all other extrabudgetary expenditures, which evidently included considerable military allocations.

(2) Including the sugar and tea monopolies for 1313-16 when these were extrabudgetary; excluding other extrabudgetary revenue, which came primarily from oil income and a road tax.

TABLE 6.3: Iran: Increase in Share Capital in Private Industrial Firms, 1314-19  
(in millions of riyals)

	1314	1315	1316	1317	1318	1319
Paid-in capital of existing firms	227.7	706.6	441.6	464.8	527.1	624.6
Increase in capital	-	-	20.9	22.7	33.2	57.3
Reduction in capital	-	-	-	2.4	3.8	2.5
Firms dissolved	-	-	330.6	33.6	17.4	25.2
Other (residual)	-	-	-	36.5	50.3	67.9

Source: Bank Melli Bulletin, annual article on "sociétés enregistrées." The reasons for the large movements in 1315 and 1316 are not known.



soon became aware of the new Bank's potential for financing development by expanding the money supply<sup>14</sup>. By the end of 1319, the currency outstanding was RIs 1212 million and the gold and silver cover was RIs 720 million<sup>15</sup>.

The exact magnitude of the Iranian government's borrowing from domestic banks in the 1930s is difficult to measure. For one thing, the concept of "government borrowing" is now clear-cut in countries such as Iran where the government owns many productive economic enterprises. To some extent, credit to such an enterprise may be considered as comparable with commercial credit extended on the same basis as any other bank loan. However, banks may be motivated or pressured to lend to parastatal enterprises on implicit guarantee from the government, in which case the lending is essentially to finance government-sanctioned expenditure. Since most of the bank loans to parastatals in Iran in the 1930s went for long-term industrial finance of a sort the banks were not making available to other borrowers, that financing can best be considered to be lending to the government. The problem then arises of measuring bank lending to the government, including the parastatals. Unfortunately, in the 1930s, many of the modern concepts of macroeconomic analysis had not yet been developed, such that no country kept what are now known as monetary accounts. Furthermore, in Iran, the information available about the balance sheets of the banking system are rather fragmentary. Some information is available about the balance sheet of each of the major banks (Table 6.4), but these data do not provide details of government borrowing<sup>16</sup>.

The Iranian government evidently had no loans from domestic banks outstanding at the start of 1310 (March 1931). Data<sup>17</sup> for the end of 1319 on the basis of modern concepts are available and indicate that, for the Bank Melli, net credit to government was RIs 890 million at the end of 1319, while credit to official entities was RIs 480 million. To this can certainly be added the RIs 70 million loan for the railroad from the Agricultural and Industrial Bank. Lacking other data - on, for instance, loans to the government by other banks - let us take the sum of RIs 1,400 million as the increase in government borrowing during the decade

TABLE 6.4: Iran Balance Sheet of Major Banks, 1933  
(in millions of riyals)

	Total	Bank Melli	Imperial Bank	Pahlavi Bank	Russo- Persian Bank
Assets:	<u>1480.9</u>	<u>673.6</u>	<u>626.7</u>	<u>62.1</u>	<u>118.5</u>
Cash, precious metals and foreign goods	558.8	422.0	109.2	15.6	12.0
Foreign securities	365.2	-	365.2	-	-
Loans	513.1	229.3	135.0	42.1	105.7
Other	43.8	22.3	16.3	4.4	0.8
Debits:	<u>1480.9</u>	<u>673.6</u>	<u>626.7</u>	<u>62.1</u>	<u>118.5</u>
Currency notes	195.0	195.0	-	-	-
Deposits	966.8	451.3	441.1	37.9	36.5
Capital and reserves	283.2	21.4	160.7	20.4	80.7
Other	35.9	5.9	24.9	3.8	1.3

Source: Malikpour, A. (1935) Die Wirtschaftsverfassung Irans, 94

1310-1319.

Such a sum can be compared with the railway construction cost of Rls 2,555 million and with the Government's total spending during the decade on the Ministry of Agriculture and Industry, as well as capital invested in firms, of Rls 2,081 million. Taking such sums as the proxy for the Government's physical development efforts, we would conclude that the government bank borrowing financed about 30 per cent of that effort.

### 3. Acquiring Foreign Exchange for Development

A major problem facing any less-developed country that wishes to embark on an ambitious industrial development programme is the need to acquire foreign exchange. The capital goods required to establish new industries must in general be imported, as often must at least some of the inputs in the production process of the new industry. At the same time, the spending on the industrial development programme creates jobs and increases incomes, such that consumers have more disposable income, which translates into more demand for all sorts of goods. While local products may be able to satisfy part of the extra demand, some of that demand is for imports, which further adds to the import requirements. Acquiring the foreign exchange for the extra import needs poses difficulties. The new industries under construction are of no use in generating foreign exchange until completed. In order to meet the expanded import needs, industrial development programmes usually require some combination of: foreign investment, foreign loans, reduction in the country's foreign exchange reserves, and intensification of the export effort.

Iran's industrialization during 1310-1319 (1931/32-40/41) was no exception to this general pattern. Imports rose from an annual average of Rls 616 million in 1310-12 to Rls 970 million annually in 1315-16 at the height of the railroad construction, declining to Rls 724 million in the last three years of the decade (Table 6.5); however, owing to some possible shortcomings in the data, caution must be used in interpretation<sup>18</sup>. The

TABLE 6.5: Iran: Composition of Imports, 1310-19 (1)  
(in millions of riyals)

	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	Total
Machinery	24	38	46	96	81	69	90	41	21	33	539
Metal goods	26	40	82	54	88	143	190	94	92	171	980
Vehicles	47	61	66	82	98	92	80	90	29	32	677
Cotton cloth	231	169	143	134	163	127	183	54	103	127	1434
Other	303	303	268	282	373	539	427	416	367	502	3780
Total:	631	611	605	648	803	970	970	695	612	865	7410

Source: L'administration générale des douanes, Statistique du commerce de l'Iran avec les pays étrangers, various issues.

(1) Excluding monetary gold and non-dutiable imports.

increase was particularly dramatic for metal goods, the category which included nearly all the railroad construction material. From an average of Rls 50 million in the first three years of the decade, metal goods imports rose to Rls 165 million in 1315-16, finishing off the decade at an annual average of Rls 119 million. In the same period, machinery rose from Rls 33 million to Rls 80 million before settling back to Rls 32 million. To some extent, the increased imports for industrialization were compensated for by reduced imports of consumer goods produced by the new industries; in particular, the import of cotton goods fell from an average of Rls 132 million in the first three years of the decade to Rls 107 million in the last three years of the 1310s. However, the substantial rise in the overall import bill meant that Iran had to acquire considerably more foreign exchange than had been its wont - no small task in the midst of a world-wide depression that saw world trade fall about 80 per cent from its pre-depression peak.

The process by which Iran acquired the foreign exchange for its industrialization effort can be studied from two angles. First is the macroeconomic approach, namely, the overall pattern and direction of exports and finance, which shows what commodities Iran exported and to whom, and what amounts it borrowed and from whom. Second is the microeconomic approach, namely, the inducements that led businessmen to increase exports and economize on imports. These two topics will be considered in turn below.

### 3.1 The pattern and direction of exports and finance

The additional foreign exchange for industrial development could come from several sources, which can be grouped into two basic categories: larger export earnings (the "bootstrap" method), or foreign capital (the borrowing method). In order to determine whence came the foreign exchange to meet the increased bill for imports, information is needed on the balance of payments. Unfortunately, few data are available, partly because the very concept of a "balance of payments" had not been developed by economists at this time, and the data that would be needed to construct the balance of payments were not collected. One particularly thorough scholar<sup>19</sup> made estimates for 1307 of many detailed items that permit presentation of a balance of

payments along modern lines (Table 6.6), but nothing similar exists for any year between 1310 and 1319.

With regard to the oil sector, the Customs Service collected data on exports and imports of goods, but little is publicly available about profit remittances or the imports of services. The best way to estimate the net contribution of the oil sector is to add two elements: (i) direct payments to the Iranian government of about 33 million pounds or, converting at the official exchange rate for the applicable year, Rls 2600 million; and (ii) purchase of goods and services in Iran, to the extent these were not met with riyals generated from the sale of petroleum products in the local market. Widely different estimates of such purchases are available<sup>20</sup>; a lower-bound figure would appear to be about Rls 600 million.

Non-oil trade data are available from the Customs Service, including figures on non-dutiable imports by diplomats, the government, and some industries. However, in addition to the qualifications noted earlier, further complications exist in that certain categories of goods were excluded from the Customs data, particularly caviar exports and arms imports<sup>21</sup>. There may have been some imbalance in the smuggled trade as well. For these reasons, caution indicates one should include Rls 100 million for net unrecorded trade.

The capital and services account are more difficult to measure. Service expenditures were evidently rising during this period, owing to increased employment of foreign consultants and to more Iranians studying abroad. Other elements in the services account included profit remittances by the Imperial Bank, pilgrimage costs and, on the income side, remittances, e.g., from Iranians in Kuwait. Anecdotal evidence suggests that the government effectively restricted the flow of funds out of the country<sup>22</sup>, so the imbalance on the services account may have been contained to a relatively modest Rls 400 million. The balances on the bilateral accounts with Germany and the USSR can be derived from the trade data, adjusted in Germany's case to include the hard currency payments made by Iran in 1938/39. The government capital account reflects the repayment in 1933 of a 490,000 pound loan from the British Indian government made during World War I<sup>23</sup>. The government appears to have made no reduction

TABLE 6.6: Iran: Balance of Payments, 1307 (1928/29)  
(in millions of riyals)

Oil sector:	
Exports	79
Imports	1038
Services, profit remittances (1)	-80
	-879
Non-oil trade:	
Exports - recorded	-119
unrecorded (net)	477
Imports	81
	-671
Services and transfers (net):	
Diplomatic missions in Iran	1
Iran's expenditure for diplomats and students	10
Travel (net)	-13
Debt service	-3
Remittances	-3
Other (net)	15
Current account	-5
	-39
Capital account:	
Foreign investment	15
	15
Overall balance:	
	-24
Financing:	
Deposits in UK of AIOC Payments	24
Exports of gold and currency	-29
Imports of gold and currency (2)	3
Drawdown of railroad reserve	-63
Other (residual)	52
	61

Source: Doevel, H. (1933) Persiens auswärtige Wirtschaftsbeziehungen,  
Hamburg: Friedrichsen die Gruyter, und Co., 63-64.

in its other outstanding foreign loan (from 1911 for 1,125 million pounds) nor to have borrowed abroad. With regard to private capital, the Bank Melli estimated that during the 1934 crisis alone, RIs 200 million in unrecorded silver left the country<sup>24</sup>. As for foreign exchange reserves, Iran began the decade with about RIs 500 million in reserves (2 million pounds sterling in gold in London and the rest in silver in Iran) and ended with about RIs 1200 million (RIs 311 million in gold, RIs 409 million in silver and US\$ 30 million in foreign exchange)<sup>25</sup>.

Putting together the information cited above, a balance of payments for the decade 1310-19 can be produced (Table 6.7). The picture that emerges is that Iran's relatively high import bill in this period was met by export earnings, not by foreign capital, and that furthermore the contribution of the oil sector was somewhat limited. Iran's export earnings during the 1930s were remarkable in the context of a worldwide contraction in trade that reduced the volume of goods traded by some 60 per cent<sup>26</sup>. The decade began with trade shrinking on the same pattern as for other countries: the value of exports fell from RIs 702 million in 1310 to RIs 522 million in 1311, and RIs 466 million in 1312. Then the turn-around began, with exports rising to RIs 513 million in 1313 and averaging RIs 660 million in 1314-17, before closing out the decade at RIs 804 million in 1318 and RIs 925 million in 1319.

The reasons for the growth in Iran's exports after 1933/34 (1312) are not hard to find (Table 6.8). Trade with Germany grew rapidly; from 1313 until 1319, the average annual growth rate in exports to Germany was 47 per cent; however, the trade data may overstate the growth in trade somewhat<sup>27</sup>. Exports to Germany went from less than nine per cent of Iran's global exports to 48 per cent, despite the difficulties of transportation owing to the war in 1319 (1940/41). Furthermore, the increase in exports to Germany seems to have been largely a net addition to the total export bill, not a diversion of products that otherwise would have found a different market. Exports to Germany were primarily fruits (especially raisins) and wool, not cotton and carpets; the new German market allowed Iran to expand its wool exports from under RIs 30 million per annum in the first four years of the decade to an average RIs 140 million in the last two years.



TABLE 6.7: Iran: Balance of Payments, 1310-19 (1931/32-1940/41)  
(in millions of riyals)

Oil sector:	3200
Exports	14300
Imports	-2100
Other foreign currency costs, including profits	-9000
Non-oil trade:	-1300
Exports	6600
Imports - dutiable	-7400
- non-dutiable	-400
Net unrecorded trade	-100
Services and capital:	-1200
Services (net)	-400
Account with Germany	-350
Account with USSR	300
Official capital (net)	-50
Private capital (net) (1)	-700
Change in reserves: *	700

Sources: As explained in text  
(1) Calculated as a residual

TABLE 6.8: Iran: Direction of Exports, 1310-19 (1)

	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	Total
Germany	63	43	66	44	83	138	199	290	393	443	1762
USSR	251	117	90	203	186	270	235	37	-	117	1506
Other	388	362	310	266	377	269	237	323	411	365	3308
Total	702	522	466	513	646	677	671	650	804	925	6576

Source: L'administration générale des douanes, Statistique du commerce de l'Iran avec les pays étrangers, various issues

(1) Excluding petroleum and caviar.

Similarly, fruit exports (mostly raisins and dates) averaged under Rls 70 million per year in 1310-13, but over Rls 170 million in 1318-19. Germany was the destination for 67 per cent of the fruit and 74 per cent of the wool exported in 1318-19.

Germany's motivation for the expansion of trade with Iran was primarily the need to secure access to markets for her industrial output and guaranteed sources of raw materials, in the context of the enormous barriers to free trade erected in the 1930s and in view of Germany's lack of colonies. In each year's negotiations with the Iranians under the trade agreement in the late 1930s, the German side was eager to see a considerable all-round expansion of trade. The German government had adopted Schacht's "Neue Plan" in September 1934, under which German foreign trade was to be expanded through bilateral trading agreements, in view of the difficulties of access to the world market. The "Neue Plan" was in many ways an extension of the statist approaches to development which had long been popular in German academic and political circles. Within this context, Germany and Iran entered into a bilateral trading agreement in October 1935, replacing the unilateral bilateralism imposed by Germany in July 1934<sup>28</sup>. Under the bilateral agreements, any excess of exports over imports by one country (Iran or its trading partners, Germany and the Soviet Union) was deposited in a special account and could not be used for any purpose other than imports from the country with a deficit. Indeed, it was this feature of the arrangements that made them into clearing agreements, quite different from the sort of bilateral trade accords so frequently signed now by Eastern and Third World countries, which simply specify a target for trade and may entail some procedures to encourage reaching the target. After the signing of the German-Iranian trade agreement, the German government explicitly re-oriented trade from hard currency countries to Iran; for instance, Germany shifted its purchases of dried fruits from California, Iraq and Southern Europe to Iran<sup>29</sup>.

The bilateral agreement with the USSR - signed in 1931 and renewed in 1935 - also aided the expansion of Iran's exports, but nowhere near as much as the accord with Germany<sup>30</sup>. For one thing, the USSR had long been a major trading partner of Iran, so the bilateral agreement did not open up a new market for Iran,

although of course the Soviet Union during the 1930s was turning firmly away from foreign trade and towards an autarchic policy that would have led to a sharp decline in trade with Iran had there been no bilateral agreement. In addition, exports to the USSR essentially halted in 1317-18; indeed, in the latter year, total trade with the Soviet Union (exports and imports) was RIs 7 million. Furthermore, the commodities exported to the USSR were, to a larger extent than with Germany, goods that might have had a reasonable market elsewhere. For instance, Iran's cotton exports went entirely to the USSR in 1315, while in 1316, the Soviets took RIs 84 million out of the RIs 93 million total.

In so far as Iran ran a deficit under the agreements, Iran was effectively financing imports with a loan - that is, using foreign capital to meet the import needs created by the industrialization programme. During the years of peak railway construction, 1314-16, Iran used this mechanism to finance part of its record import bill. The total import bill in this period was RIs 2,743 million, while exports earned RIs 1,994 million, or 27 per cent less. Over one-third of the RIs 749 million gap was made up by deficits in the clearing account with Germany for RIs 136 million and with the USSR for RIs 142 million. In addition, Iran appears to have used the bilateral payments account to pay for some services from Germany, in that the reported imbalance in October 1938 had reached RM 34 million, or somewhat over RIs 230 million<sup>31</sup>.

The imbalance in the account with the USSR was not corrected before the war, owing in part to the breakdown in the trade agreements in 1938/39-1939/40 (Table 6.9). On the other hand after 1937 Germany became intensely concerned about the imbalance in trade, and Iran was subject to increasing pressure to address the issue. Beginning during the visit of Reichsbank President Schacht to Iran in November 1936, discussions were held about a large loan to the Iranian government; however, the Iranian side saw this loan as a means of financing additional imports of industrial equipment, not settling the existing imbalance<sup>32</sup>.

After negotiations with Ripken from the Foreign Ministry in April and October 1938, Iran agreed to pay 800,000 pounds in order to settle RM 25 million of the deficit in the payments account<sup>33</sup>.

Since 800,000 pounds was equivalent at the official rate of

TABLE 6.9: Iran: Foreign Trade in 1310-19 (1931/32-1940/41)  
(in millions of riyals)

	Germany	USSR	USA	UK	Other	Total
Exports except oil:	1762	1506	766	669	1873	6576
Carpets	187	-	522	241	399	1349
Cotton	233	492	-	-	138	863
Fruits	500	126	-	93	371	1090
Wool	338	681	244	335	916	2680
Other	504	681	244	335	916	2680
Imports subject to duty:	1569	1844	614	693	2690	7410
Tea	-	-	-	-	587	587
Sugar	-	416	-	-	329	745
Cotton cloth	76	629	6	199	524	1434
Machinery	249	42	5	58	185	539
Metal goods	392	226	72	83	207	980
Vehicles	135	28	371	68	75	677
Other	717	503	160	285	783	2448
Balance:	193	-338	152	-24	-817	-834
Memorandum items:						
Oil exports	195	10	3	7361	5704	14339
Non-dutiable imports	-	-	-	-	-	2450

Source: L'administration générale des douanes, Statistique du commerce de l'Iran avec les pays étrangers, various issues

exchange to only RM 9.3 million, Germany in effect agreed to a discount in order to obtain hard currency.

From the material relating to the negotiations of 1937-39, the clear impression emerges that Reza Shah was eager to expand and deepen ties with Germany in order to secure arms and industrial equipment, particularly a steel mill. He evidently saw the railroad construction as only the first stage in an all-round development effort - an effort which would require continuing high import levels, financed through expansion of exports, but also through loans and/or imbalance in bilateral trading agreements. The Iranian government arranged for a loan to pay for much of the cost of construction of a steel mill by the German firm Demag; that is, the imports would not be billed to the payments agreement<sup>34</sup>. The German government was not pleased either by the construction<sup>34</sup> contract or the financing mechanism; it was clearly concerned about the effect on the preparations for war. Germany pushed hard for increased exports from Iran to Germany while holding back on shipments from Germany, particularly of arms and equipment for the steel mill<sup>35</sup>. The effort was so successful that Iran built up significant positive balances in the payments account: RM 40 million, or about Rls 280 million, by November 1939<sup>36</sup>. The result was frustration of Reza Shah's plans for industrial development.

Despite the problems in trade at the end of the decade, much of Iran's industrial development utilized German machinery, although the Soviet report that 80 per cent of the new industrial installations were of German origin may be exaggerated<sup>37</sup>. For example, most of the match factories were of German make, while in the power sector, some 70 per cent of the equipment was German, although the largest plan with 32 per cent of the installed capacity was produced in Czechoslovakia<sup>38</sup>. The cement plant was completely equipped with German machinery<sup>39</sup>. The grain silos, however, were all Russian-made and the modern cotton ginneries were of US origin<sup>40</sup>. In the most important industry, textiles, 60 per cent of the spindles were of German origin and the remainder were supplied from UK sources<sup>41</sup>. At the end of 1933, four of the five cotton mills were of German origin and none British. By the end of 1936, a further ten mills had been built, of which two used German equipment and seven British. In

the next two years (1937-38), an additional nine mills were built: six with German equipment and three with British. At the end of 1938, Iran then had 24 mills, of which twelve had German equipment and ten British.

In addition to its importance as a trading partner, Germany also had a considerable impact on policy formation. The first and second directors of the Bank Melli, Dr. Lindenblatt<sup>42</sup> and Mr. Gielhammer, were German; the Bank employed 50 Germans<sup>42</sup>. The impact of German advisers and German étatist concepts was said to be particularly great on Ali Akbar Davar, who held several ministerial<sup>43</sup> posts over time, including that of Minister of Finance<sup>43</sup>.

### 3.2 Inducing business to export and economize on imports

The three principal policy tools available to a government that wishes to induce business to export and to economize on imports are: to go into business itself, to establish a system of controls that restrict imports and/or compel exports, and to adopt policies (exchange rate and tax policies, especially) that make exports profitable and imports expensive. Further research is needed to establish the relative importance of each of these instruments in Iran during 1310-1319. The preliminary evidence available suggests that the main effect came from the pricing policies with an important contribution from the government-run enterprises.

The Iranian government during the 1930s established a variety of enterprises to encourage exports. In particular, the government arrogated to itself the right to export opium, caviar, rice, and some other commodities including, for a period in the mid-1930s, rugs and dried fruits<sup>44</sup>. It is unclear to what extent such government-owned monopolies served to increase export earnings. Indeed, the experience of other countries suggests that sometimes government monopolies reduce exports, in part because the monopolies are not always particularly efficient. The casual impression is that the Iranian export monopolies may have increased government revenue, but they seem not to have had a major impact on stimulating exports, except in the case of some non-traditional exports<sup>45</sup>. With regard to import substitution, the record of the newly-established government enterprises is unclear, again because of the general inefficiency of the

operations.

Besides entering into production itself, the Iranian government also used direct controls to regulate foreign trade. Direct controls should be distinguished from exchange rate regulations that raised the prices of foreign exchange. The former involved import quotas for each category of goods established at the beginning of the year, with merchants having to apply to the Ministry of Commerce for licences which were counted against the quotas. The latter entailed requirements, described below, about the purchase of foreign exchange which raised its price. If the operative constraint were the direct controls, then merchants would direct their energies primarily towards securing licences rather than foreign exchange. All the dissertations and UK economic reports consulted described the process in quite the opposite terms: merchants were principally concerned with acquiring the necessary foreign exchange. Indeed, one long-time employee of the Bank Melli suggests, "issue of import licences by the Ministry of National Economy appeared superfluous"<sup>46</sup>. However, one effect of the controls was to give a considerable advantage to merchants in Tehran, who were able to pursue applications much more easily than could their provincial colleagues<sup>47</sup>. Even setting aside 20 per cent of the import licences for the merchants from outside Tehran, the 1310s evidently witnessed a considerable migration of merchants to Tehran.

With regard to the use of the price mechanism to limit imports, one element of the government's policy was the increase in tariffs. The proclamation of tariff autonomy was more than an expression of nationalism; it was also a major economic initiative. While there are no easy means to compare the average rates under two different sets of tariffs, the Bank Melli estimated that on average the new customs rates were 20 per cent above the old<sup>48</sup>. The effect on revenue from import duties was dramatic. (Table 6.10) In the period 1310-14, customs duties averaged 21 per cent of dutiable imports, while in the period 1315-19, they averaged 38 per cent - an effective fourteen per cent price increase. Unfortunately, little information is available on the revenue from different imports. For 1319, the Customs Administration reported that Rls 193 million out of the

TABLE 6.10: Iran: Import Duties, 1310-19 (1931/32-1940/41) (1)

	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319
In millions of riyals	101.9	144.1	130.6	148.5	170.9	263.0	340.7	288.4	289.8	324.7
As per cent of imports	16.1	23.6	21.6	22.9	21.3	27.1	35.1	41.5	47.4	37.5

Source: L'administration générale des douanes, Statistique du commerce de l'Iran avec les pays étrangers, various issues.

(1) Import duties are "droits d'entrée" only; imports are dutiable imports only



total import duties of Rls 325 million came from sugar, a truly astounding percentage. Since total imports of sugar were only Rls 87 million, this figure implies that the effective tariff rate on sugar was 222 per cent. Such a high tax rate is evidence that the domestic sugar industry needed a great deal of protection and was not very efficient, as suggested earlier. In addition, the government levied a heavy tax on sugar, which applied to domestic and imported sugar alike, with the result that the consumers were paying a price well in excess of the world market level.

Besides taxes, the other major price mechanism which discouraged imports was the exchange rate. Through 1929, a freely fluctuating market determined the value of the riyal, primarily on the basis of its silver content. In response to the collapse of silver prices in the fall of 1929, the Government established an official exchange rate<sup>49</sup>. Despite periodic adjustment, the official exchange rate remained generally out of line with market forces during the decade of the 1310s. The official rate was primarily used for government transactions, meaning mostly royalty payments by the Anglo-Iranian Oil Company and imports for the government. The bulk of trade, however, was conducted at more depreciated exchange rates. The regulations governing private trade underwent frequent major changes, suggesting that the government was never entirely satisfied with the limited control it was able to exercise over private imports<sup>50</sup>. As established by the law of 11 March 1931 implementing the government "monopoly" on foreign trade, the essence of the system was a free market in foreign exchange, in which the price readily adjusted<sup>51</sup>. The free market in foreign exchange generally took the form of a system of exchange certificates: while exporters had to surrender their foreign exchange, exports earned certificates which would then be sold to importers, who could use the certificates to purchase foreign exchange at the official rate from banks. The free market exchange rate was then the sum of the official rate and the premium for the export certificates. At times, the government attempted to control the price of the certificates - which basically had the effect of driving the market in certificates into illegality<sup>52</sup>. Generally, the government allowed exporters of

certain categories of goods (non-traditional exports which the government wanted to encourage) to keep a higher percentage of their export proceeds, which they could then sell directly rather than through the indirect mechanism of the market in certificates<sup>53</sup>.

Table 6.11 gives the evolution of the official and the free market exchange rates. The riyal appreciated somewhat in the first part of the decade, in part because the price of silver (the main backing for the riyal) increased from 17.3 pence per standard ounce in 1311 to 27.8 pence in 1314, before dropping back to about 20 pence in 1315, where it remained for the rest of the decade. As the government's development expenditures rose sharply in 1315-16, the exchange rate came under pressure, with about a year's lag. Between 1314 and 1317, the value of the riyal was slashed in half, which must have been a not inconsiderable inducement to import restraint. However, it is not clear what effect the free market exchange rate had on the trade under the bilateral agreements with Germany and the USSR. It seems that, overall, the German mark was overvalued relative to the riyal, such that Iranian producers had a strong incentive to export to Germany, while Iranian importers would take advantage of imports from Germany only in so far as marks were available at the official rate without having to pay the premium<sup>54</sup> for export certificates needed for trade with other countries.

#### 4. Conclusion

The financing for Iran's large-scale industrialization and development effort in the 1310s would appear to have come primarily from domestic sources, although this conclusion must remain tentative. A major component of the financing was the inflation tax, made possible by the active monetary policy followed by the Bank Melli. In addition, the government increased its revenue through substantial increases in tariff rates and through the pricing policy followed by the sugar and tea distribution monopolies. To some extent, financing may have come from re-invested earnings; however, in public enterprises, unlike private ones, the rate of profit was quite low during the period. In addition, during the peak years of railroad

TABLE 6.11: Iran: Exchange Rates, 1310-19 (1931/32-1940/41)  
(in riyals per pound sterling)

	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319
Official exchange rate	90.00	103.00	84.50	78.67	83.31	80.50	80.50	80.50	77.20	65.64
Free market rate	100.00	103.00	84.50	78.67	83.31	97.50	120.00	168.60	179.90	172.48

Sources: Bank Melli Bulletin, various issues, and Khosropour, 1956. Dr. Khosropour, who cites no source, was a long-time employee of the Bank Melli and its Vice-Governor in 1950-51

construction, some of the financing for the development effort came from overseas in the form of negative balances in the payments agreements with the USSR and Germany.

The foreign exchange requirements for the development effort were heavy, as the new industries and the railroad required large-scale imports of capital equipment. The principal source for the necessary increase in foreign exchange came from greater exports, not from controls on consumer imports nor from foreign loans. The growth in export earnings, which went against the strong trend towards contracting world trade during the decade, came largely in the trade with the Soviet Union and Germany and seems to have been due to the bilateral payments agreements with those two countries. The principal encouragement to businessmen to increase exports and economize imports, both with regard to the hard currency countries and to the USSR and Germany, seems to have been the exchange rate, operating through the system of export certificates.

#### NOTES

1. The views expressed herein are purely personal and do not necessarily represent the positions of the institutions with which the authors are affiliated (the IMF and the World Bank, respectively)
2. See Floor, W.M. (1984) Industrialization in Iran 1900-1941, Durham: Centre for Middle Eastern & Islamic Studies, and its bibliography for other sources used for this paper
3. UK Public Records Office documents FO 371/20834 f 180 and FO 371/21900 f94-96
4. Bharier, J. (1969) Capital Formation in Iran 1900-1965, London University, Economics Dept. doctoral dissertation, 176
5. Gielhammer, L. (1940) "Zum Aufbau einer Industrie in Iran" Der Nahe Osten, 22-23. Gielhammer was a director of the Bank Melli from about 1929 to 1938
6. Gielhammer, L. (1941) "Wichtige iranische Industriezweige", Der Nahe Osten, 27-29
7. Gielhammer, L. (1939) "Der Aufbau einer Industrie in Iran" Orient Nachrichten, 263

8. Bank Melli Bulletin, November 1939, 536-537
9. Moghadem, G. (1956) Iran's Foreign Trade Policy and Economic Development in the Interwar Period, Stamford University, Economics Department doctoral dissertation
10. Bank Melli Bulletin, no.32, February, 1939, 802-814
11. Government borrowing from banks injects liquidity into the economy: the assets of banks rise by the amount lent to the government and so liabilities must rise by an equal amount. Liabilities are principally deposits, which are part of the money supply, but also include bank capital and some other items. Government expenditures financed by bank borrowing would be a pure "inflation tax" in a perfectly functioning market economy. However, to the extent that the expansion of the money supply contributes to an increase in real economic activity as well as an increase in prices, the expenditure financed by bank borrowing is a increase in prices, the expenditure financed by bank borrowing is a Keynesian free lunch: government spending rises and no one's income must fall to pay for it
12. Indeed, the function of the Mint was to melt coins for those who wished to realize their metal content or to stamp coins for those who provided the metal, as described in Yaganegi, E. (1935) Recent Financial and Monetary History of Persia, Columbia University, Economics Dept., doctoral dissertation, chapter 4
13. The percentage of metallic backing required rose in steps with the amount of currency issued, from a minimum of one-third to a maximum of 100 per cent. The amount issued - Rls 163.3 million at the start of 1930/31 - was generally below the level that required 100 per cent backing, owing to the conservative character of the Bank management, which was concerned about runs on the Bank (thanks to G.Jones for information on this subject)
14. The Law of 31 May 1930 ratified the accord of 13 May 1930 under which the Imperial Bank surrendered its right to issue bank notes in return for compensation of 200,000 pounds. Under the law of 13 March 1932, the Bank Melli was empowered to issue notes against 100 per cent cover, which

it began to do on 21 March 1933. The cover requirement was changed to 60 per cent on 11 September 1934. The amount of notes issued was also governed by a ceiling set by law, raised roughly annually. The best description of these legal developments is Pour Homayoun, A. (1937) La Banque Nationale de l'Iran et son Role sans la Développement du Pays, University of Paris, Law Faculty, doctoral dissertation. Part II. At the same time that the Bank Melli took over the note issue, the name of the currency was changed from the kran to the riyal; for simplicity, the new name is used throughout this article

15. The currency outstanding includes currency in commercial bank vaults which is not part of the money supply; the foreign exchange figure includes metal held outside the country, which evidently was excluded by law from the currency cover. Both figures are from the Bank Melli Bulletin
16. Note how heavily-capitalized was the Imperial Bank, an indication of cautious management. Similary conservative was the asset portfolio, which consisted largely of cash, foreign goods, and foreign securities. This was not the sort of bank that would willingly finance industrial expansion
17. International Monetary Fund, International Financial Statistics, February 1950
18. Moghadem, G. op. cit. 86, and Khosropour, A. (1956) Le Controle des Changes en Iran depuis 1930 jusqu' à la fin 1955, University of Paris, Law Faculty, doctoral diss. (1956) 65 suggest that the Customs Service may have changed its method of valuing imports after 1936/37 in such a manner as to understate imports thereafter. Exports and imports through 1936/37 were valued at Iranian domestic wholesale prices; imports after 1936/37 were, according to these two, valued at the foreign price converted at the official exchange rate excluding the cost of the exchange certificate. However, the alternative data offered by Khosropour from bank sales of foreign exchange show the same trend as the Customs data, as does the Customs series on the volume of imports (corrected for

price changes). Note that inflation, which may have become noticeable by the end of the decade, affects the data. All data on composition and direction of trade are for dutiable goods only, excluding imports for AIOC, the government, and some exempt companies. Some customs data are, for 1311-15, for a fiscal year beginning June 22; most data, however, are available for the Iranian calendar year (the solar Hejri year) beginning March 22.

19. Doevel, H. (1933) Persiens auswärtige Wirtschaftsbeziehungen, Hamburg: Friedrichsen, die Gruyter & Co.,
20. Adli, A. (1960) Aussenhandel und Aussenwirtschaftspolitik des Iran, Berlin: Druckner und Humblot, cites data from banks to suggest AIOC purchases of riyals in the five years 1335-39 were Rls 385 million. Moghadem, op.cit., uses data on the labour force and on the volume of petroleum sold locally to estimate AIOC's indirect contribution of foreign exchange as the equivalent of Rls 1213 million for 1930-39
21. Bank Melli Bulletin, June 1958, estimating caviar sales in 1311-17 as Rls 8.5 million per annum. Gray, F.A. (1938), Economic and Commercial Conditions in Iran Report: London: Department of Overseas Trade, 4, cites arms sales of 3 million pounds (about Rls 240 million) in 1934-36, which was evidently the main period of arms purchase
22. Mahrads, A. (1979) Die Wirtschafts- und Handelsbeziehungen zwischen Iran und dem nationalsozialistischen Dritten Reich, Anzali : Gilan Publikation 453, reprints a letter from the British Legation discussing inter alia the difficulty of sending money out of Iran
23. The foreign debt is discussed in League of Nations, Economic Intelligence Service (1938) Public Finance 1928-1937 Volume LVII : Iran, 43, and United Nations (1951) Public Finance Information Papers, No.4, 52; see also Simmonds, S. (1935) Economic and Commercial Conditions in Iran Report; London: Department of Overseas Trade, and Khosropour, op.cit. 7. The 1911 loan was from the Imperial Bank of Persia, but from the London office, and so it was a foreign loan. In addition, the Imperial Bank may have lent to the Iranian government in foreign exchange, which

- is similar to a foreign loan
24. Bank Melli Bulletin, March 1937
  25. Bank Melli Bulletin, various issues, and, for foreign exchange holdings in 1940, IMF, International Financial Statistics, February 1950
  26. World imports in constant prices went from 100 in 1929 to 57.4 in 1931 and 40.6 in 1938; League of Nations, Monthly Bulletin of Statistics, May 1940
  27. Prior to 1935, merchants had little incentive to pay much attention to the destination or origin listed on the customs forms, and some goods shipped between Iran and Germany through the USSR may have been listed as trade with that country; on the other hand, the German government was concerned that the Soviets were falsely claiming some Soviet exports were of Persian origin, evidently to receive payment in hard currency rather than under the Soviet-German payments agreement (Mahrads, op. cit. 44). Comparison of Iranian and German trade data is difficult for all the reasons that usually afflict such numbers: timing, classification, treatment of freight costs, etc. After 1935, it is not clear by what method the Customs Service valued goods in German-Iranian trade; use of the official exchange rate would have considerably overstated the trade
  28. From July 1934, non-oil trade with Iran largely had to be conducted through ASKIs (Auslandersonderkonten für Inlandzahlungen), a system under which each firm that exported to Iran received credits it could use to finance imports from Iran. The effect was to create great difficulties for Iranian exporters, in that those German firms which sold to Iran were not necessarily in a line of trade that would lead them to want Iranian goods. See Mahrads, op. cit. 54-55, and Glaesner, H. (1976) Das Dritte Reich und des Mitte Osten, University of Wurzburg doctoral dissertation, 213-28
  29. Mahrads, A. op. cit. 47
  30. Khosropour, A. op. cit. 30
  31. Fleury, A. (1977) La Politique Allemande au Moyen Orient 1919-1939, University of Geneva Institute of Advanced



- International Studies, doctoral dissertation, 243
32. The first proposal was for a loan of RM 10 million; later proposals were for larger sums. See Fleury, op. cit. 241-43, and Glaesner, op. cit. 265-85
  33. Glaesner, H. op. cit. 265-85. The payment was in two instalments: October 1938 and January 1939
  34. Mahrad, A. op. cit. 87-106. After the outbreak of the war, the British counter-offered with loans of up to 5 million pounds; nothing came of this proposal either
  35. Mahrad, A. op. cit. 111
  36. Moghadem, G. op. cit. 209-11. The trade data roughly agree, if the hard currency payment of Rls 168 million is added to the trade deficit for the decade of Rls 136 million
  37. Fleury, A. op. cit. 249
  38. Gielhammer, L. (1941) op. cit. 28; Bank Melli Bulletin, no.41 November 1939, 542-43, 549
  39. Gielhammer, L. (1941) op. cit. 27
  40. Gielhammer, L. (1940) op. cit. 24
  41. Gielhammer, L. (1939) op. cit. 263
  42. Fleury, A. op. cit. 213-14; Mahrad, 1979, op. cit. 284ff; and Glaesner, op. cit. 202
  43. Fleury, A. op. cit. 230. However, owing to the relative unfamiliarity with the German language, only 142 of the 1523 students in 1932 were in Germany, compared with 1,031 in France; Fleury, op. cit. 215
  44. Bank Melli Bulletin, February 1938, 1-45, and March 1938, 28-63; also Alami, E.K. (1939), Le redressement économique en Perse, University of Paris, Law Faculty doctoral dissertation
  45. E.g. the monopoly on dried fruit may have helped introduce modern packing methods and stricter quality control (Adli, op.cit. 63, and Bank Melli Bulletin, May and June 1939)
  46. Khosropour, A. op. cit. 55. While import licenses may not have been particularly significant, another form of direct controls may have been more important, namely, direct government orders to parastatals (especially government-owned firms with monopoly rights on imports of some goods) to limit imports

47. Khosropour, A. op. cit. 281, and FO 371 21889 f269
48. Bank Melli Bulletin, August 1936, 59
49. Yaganegi, . op. cit. 48
50. This period is described in Yaganegi, op. cit. Chapter 4
51. While the regulations are set out in successive issues of the Bank Melli Bulletin, the best summary is in Khosropour, op. cit. 9-29 and 36-73
52. After attempting to set the price of exchange certificates from July 1934 onwards, the government set up a system of exchange certificates in January 1938. Since certificates, which traded freely at a fluctuating rate, were required for imports, the new system mirrored the old (Khosropour, op. cit. 48-56)
53. The depressing effect of the less attractive exchange rate on traditional exports is set forth vigorously in Moghadem, op. cit. 165-67
54. The evidence for the relative overvaluation of the mark comes from the exchange rate of 20 riyals per mark which prevailed in 1929 when both currencies were freely convertible. By contrast, the exchange rate specified under the bilateral accords was between 6 and 7 riyals per mark. Such a rate could have been economically justifiable if inflation in Germany in the 1930s had been much higher than in Iran; however, there is no evidence this was the case.

Paul Luft

The construction of railways formed one of the main topics of internal and foreign politics in Iran before the outbreak of World War I. "Few countries need modern transport as desperately as Iran with its huge distances, its lack of navigable rivers and its short coastline" remarked one economic historian in his review of the economic situation in Iran during the 19th and the beginning of the 20th centuries<sup>1</sup>. What aggravated the situation even more were two facts: first, the close inter-relationship between power politics and the development of a modern transport system, which in those days meant primarily railways on land, and shipping lines at sea, but also the notions of development, capital export, production and sale of material for railway construction and, not least, easier access to internal markets in the Middle East; second, in saying in 1911 that Iran was "the only highly civilized country unserved by this absolute necessity of modern life", C.W. Wallace, the deputy chairman of the APOC, high-lighted the deficiency in that "civilization"<sup>2</sup>. What he was referring to is obvious: Iran's neighbour, the Ottoman Empire, which, despite its ailing political and economic system, had emerged as one of the areas to which European railway entrepreneurs had increasingly turned their attention. In Anatolia it had become the "chosen instrument of the Ottoman government for opening up areas around the coastal fringe..."<sup>3</sup>.

Until the end of the 19th century, all major Ottoman or previously Ottoman provinces had been served by various railway lines, admittedly quite often at the high price of a diminished political sovereignty. None of this happened in Iran, or rather what did happen, fell prey to the complex situation in that country and above all its sensitive geopolitical position. Attempts to start building a modern transport system had increasingly to face obstacles from various circles inside and outside the country. Since the 1860s it had gradually become clear that no Persian Government would ever be able to finance

and organise even a modest project from its own resources, if even the finances of the country could not be put on a sound basis. Neither big bazaar merchants nor wealthy landowning government officials had come forward offering enough capital. The technical backwardness of the country, and its notorious disunity, presented too many obstacles to be overcome by small groups of westernising Persian officials. A way out was sought by "handing out" large-scale all-encompassing concessions and handing over the responsibility for the country's development to a few or even to one foreign company<sup>4</sup>. But these attempts ran increasingly into fierce political opposition from either Great Britain or Czarist Russia. The two following decades were littered with either ill-conceived or rather over-ambitious projects to link up Iran with its neighbours in the West or India in the East, or to bring closer together the northern and southern parts of the country by a Trans-Iranian railroad from the Caspian Sea to the Persian Gulf<sup>5</sup>. The story is well-known. What became even more obvious was that all railway projects had less to do with the economic development or welfare of particular areas than with the political and commercial influence of either of the contending foreign powers in Iran. Finally, strategic rationales became so preponderant that in 1888 Naseroddin Shah was forced to concede in a letter to the British Minister in Tehran that "positively no southern railway will be granted to any foreign company without consultation with the English government"<sup>6</sup>.

The years following the letter of Naseroddin Shah saw a stream of proposals by representatives of the two imperial powers for building a Trans-Iranian railway or railway lines, confined to either north or south Iran. Interestingly enough, their Foreign Affairs departments were already pursuing policies aimed at preventing the construction of railways altogether in the foreseeable future. The result was a stalemate which left Iran without any railroads for some time to come, a deficiency which undermined the central government's policy of strengthening its position, in particular in relation to provinces further away like Fars and Khuzestan. The decision of the Czarist government in 1890 to prevent the Iranian government from either constructing a railway on Persian territory itself, or granting a

concession for the construction of railways to a company or other persons for a period of ten years after 12 November 1890, turned interest away from railway construction to road building<sup>7</sup>. The head of the Asian Department in the Czarist Ministry of Foreign Affairs, Zinoviev, emphasized this development by pointing out that the money would be better spent on improvements of roads from the region around the Caspian Sea to Tehran, Tabriz and Mashhad. The attention of the Czarist government was reserved however, for a future project of a Jolfa-Tabriz railroute. Between 1893 and 1914, nearly 755 Km. of good road connecting the north-west of Iran with the capital, Tehran, were constructed by private Russian entrepreneurs (Enzeli-Tehran; Qazvin-Hamadan, Jolfa-Tabriz-Tehran), of which only the Jolfa-Tabriz road proved a success<sup>8</sup>. The others for various reasons never showed an adequate return on their investments. Although clearly conceived within the context of an overall strategic and political concept of Czarist foreign policy, they were also geared to the trade interests of Russia with Iran. Their failure cannot very easily be attributed to the fact that Persians obstructed their proper running or that Persian officials were too corrupt. Poor planning is an even weaker argument as the majority of them were actually linking up with the more developed road and railway system in Caucasia and the Transcaspian. Inadequate port and shipping facilities on the Caspian Sea naturally hampered the running of proper business<sup>9</sup>, but it is hard to believe that the otherwise successful Russian roadbuilders were not able to construct proper roads beyond the Caspian Sea. The high cost of investments could not easily be recuperated through tolls, as maintaining<sup>10</sup> and improving these roads remained rather expensive.

British roadbuilders had similar experiences in the south of Iran, although the high cost of transport by pack animals and the time factor involved seemed to have more than justified the considerable capital expenditure. Several British institutions undertook road construction, above all Lynch Bros., and, in the 1890s the Imperial Bank of Persia who had a monopoly for building roads from Tehran to Ahvaz and Borujerd to Esfahan. One of the road concessions owned by the Imperial Bank of Persia was not successful at all: in fact the IBP did not possess the necessary

manpower and know-how; furthermore roadbuilding ran contrary to the character of their business activities in Iran, namely functioning primarily as an exchange bank while keeping clear of a long-term capital investment policy. This was a drawback which neither the Iranian government nor the board of the Bank in London tried to rectify after the Bank had become properly established in the last decade of the 19th century. When Lynch Bros. was transformed into the Persian Transport Company in 1904 with the backing of the British Government, road building seemed to have received a decisive boost<sup>11</sup>. Various toll roads connecting Ahvaz and Esfahan (Bakhtiyari Road), Bushehr and Shiraz, Bandar 'Abbas and Kerman led to an increase in traffic in southern Iran, but overall the road business still showed nothing but deficits similar<sup>12</sup> to the experiences of their Russian counterparts in the north.

While the road schemes seemed not to have fulfilled expectations, railway construction again became much more of a likely proposition when the "sterilising" agreement of 1890 approached the end of its term of extension in 1910. The concept of building railways to and within Iran was not only conditioned by strategic considerations, but also has to be seen against the rather impressive railway policy of the Czarist government during the preceding decades. The successful completion of two major lines, the Trans-Siberian and the Transcaspian, - the latter finally connected through the Tashkent-Orenburg line with the European network in 1905, - without doubt strengthened the conviction in Russian government circles that railways were the appropriate vehicle to consolidate influence and authority in border areas of the empire and its neighbouring zones<sup>13</sup>. But whereas the Transcaucasian and the Transcaspian railways can be seen as important parts in the "iron ring" (zheleznoe kol'tso), connecting the southern border areas with each other and also with the centre of Russia through radial links, any extension on either side of the Caspian Sea into Iran had to face many more problems. It was obvious that strategic political considerations would dominate any decision-making process, not least being the fact that Iran was still an independent state. With the increasing economic dependence of the northern provinces on Russia, in whose sphere of influence they were, the options for

establishing rail links through Azarbaijan and Gilan with the capital Tehran in the north western part of Iran became more feasible. It also seemed desirable to have a connection like a clasp buckle between the Transcaspian line and the capital of Khorasan, Mashhad. Further to the east an extension of the Central Asian network into Afghanistan appeared as the logical consequence of increasing Russian influence in that area. But neither of these would have been as cheap to construct as the Transcaspian railway<sup>13</sup>, nor would it have been possible to organise work and labour on mainly military principles. Soldiers and workers from the European part of Russia formed the core of the workforce in Central Asia although a cheaper Persian labour-force was used where the climatic conditions became intolerable for the Europeans<sup>14</sup>.

These projects and above all the much discussed East-West line in northern Iran - Jolfa-Tabriz-Tehran-Mashhad-Herat or Kushk - formed a kind of second ring which would have served to spread and consolidate Russian influence in that area. As for the long-dreamed-of concept of a Trans-Iranian railway connecting Russia with the Persian Gulf or giving it a foothold on the waters of the Indian Ocean, it worked on a different strategy, and plans went back to the 70s and 80s of the previous century<sup>15</sup>. It is exactly here that railway development seemed to have become completely submerged in the playing of the political-strategic game.

In previous decades, Czarist policy had been guided mainly by the principle of holding back enterprising capitalists, or at least not encouraging them. During the period of the economic offensive in the Witte era, the Russian state had ended up with a number of non-profitable investments by several Russian entrepreneurs from the 80s to the turn of the century<sup>16</sup>. However, it does not seem justified to look at the re-opening of a new chapter in the railway story just from the point of view of mere strategic considerations. Czarist Russia had become the major economic power in foreign trade in the northern provinces of Iran. Visible imports to Iran had at least doubled during the first decade of the 20th century; exports to Russia increased more than three times during the same period. This trend accelerated considerably after the changing of the customs tariff

system in 1903. At the end of that year, 63 per cent of Iran's total trade was already with Russia. British trade, on the other hand, did not decline in absolute terms either: the volume had gone up by 40 per cent. The situation was similar with Iranian exports: a rise of about 35 per cent in volume and 50 per cent in value. Of course the trade with Iran was not economically important in Russia's overall trade figures as it never went beyond four per cent. However, Iran's dependence on Russian markets became much more obvious. This dependence did not imply that Russian traders did not have to rely to a certain degree on supply from Iran, e.g. Iranian cotton was the cheapest which the expanding textile industry in south Russia could buy. Furthermore, Russian sugar found an easy outlet in Iran and Central Asia after the sugar convention of 1903 had shut off certain markets in Europe. Therefore, viable economic interests existed which could without doubt profit from an extension of the Russian rail network into Iran. The question was, who was prepared to bear the costs, political as well as financial. However strategic considerations seemed to have dominated the revival of Russian as well as British plans<sup>17</sup>.

At the end of 1903, the British Foreign Secretary, Lansdowne, still maintained that the best line to follow was to keep the Russian embargo on railway construction alive as long as possible. The prime element moving him from this position was the challenge posed by the German Reich, which threatened British dominance in the Gulf region through the future Baghdad railway. By 1905, the German-built Anatolian railway seemed likely to become a financial success for its investors, in spite of the fact that rather difficult financial negotiations between the Ottoman Government and the Baghdad Railway Company had slowed down the continuation of the construction work. The whole project could only be pursued if the financing of the venture became more linked with British and French banking circles interested in the area. The next small section from Bulgurlu-Ulukisla was not completed until July 1911. The railway remained truncated and incomplete until the outbreak of World War I<sup>18</sup>.

But it was the fear that Russian commercial dominance in the northern parts of Iran might come under pressure from German influence emanating from their activities to extend the Baghdad



Railway in the direction of Khanaqin that started the ballrolling.

As early as August 1905 the Russian Foreign Minister, Lamsdorff, realised that it might no longer be possible to keep railway building completely out of Iran. British ministers and officials had never completely stopped arguing for various railway schemes connecting either the capital Tehran with the Persian Gulf, or drawing the southern part of Iran closer into the defence perimeter of India by building a railway from Baluchestan into Sistan. Any serious steps to construct a trunk-line connecting the Russian and Indian railways, however, had met with considerable opposition from either the Indian Government or the India Office until the outbreak of World War I.

The position was quite different in the case of a line from the Persian Gulf crossing Iran, connecting it with Tehran or even the Russian network. A line starting from Mohammarah running towards Hamadan undoubtedly had advantages as a political token vis-à-vis any advancing Baghdad line as well as a checkmate in the rather complex power game with Czarist Russia and the German Reich. That and some other alternative British railway proposals were considered partly in order to force Germany to give Great Britain a satisfactory role to play in the Baghdad Railway scheme<sup>19</sup>.

The convention between Czarist Russia and Great Britain of August 1907 removed a major obstacle to the building of railways in Iran. Already during the negotiations for the agreement and shortly afterwards, the Russian Minister for Foreign Affairs, Izvols'ky had indicated willingness to discuss this rather complex and sensitive issue with his British counterparts, and the question of the Baghdad Railway with the German Reich besides. In April 1908, Izvols'ky and the Russian Finance Minister Kokovtsov finally agreed that "the veto policy must end"<sup>20</sup>. This followed exactly the line which the British Foreign Secretary, Grey, had already indicated to Nicolson, the British Ambassador in St. Petersburg, namely that "some British railway from the south could join Russian ones from the north"<sup>21</sup>. In June 1908 during the state visit of King Edward VII to Reval, Hardinge from the Foreign Office met Izvols'ky - a fact which underlined the necessity of having a "definite policy of railway

construction in Persia" after the railway embargo of 1890 had finally come to an end in 1910<sup>22</sup>. The Czarist Government raised no objections to a railway built from Mohammarah to Jolfa, but demanded that the British must find the capital.

At the same time, between 2 and 30 March 1908, a Sub-Committee of the Committee of Imperial Defence was dealing with the question relating to a future possible threat from a German-dominated Baghdad Railway and the consequences of the division of Iran into spheres of interest<sup>23</sup>. The majority of the strategic and military arguments mainly came out in favour of railway construction in the southwest and south of Iran, in other words in the neutral zone. The intention was to earmark certain lines for British interests. The Sub-Committee took evidence from Dane, a senior official of the Government of India, Yate, a former consul in Muscat, Douglas, a railway engineer in the service of the Government of India, and as the only representative of trade interests in the Gulf region, from H.F.B. Lynch, a senior partner in the Lynch Company. Their testimony was unanimous in stressing the commercial advantages which such a line would confer on British trade, but the Committee of Imperial Defence put the emphasis on its importance in a strategical context in its meeting of February 1909. The apprehension about the possible loss of a trade route in southwest Iran for British and Indian goods played a certain role in deciding on a railway in Khuzestan, but it was political aspects that were, undoubtedly, uppermost in the case of the Mohammarah line<sup>24</sup>. Both the Foreign Office and the India Office in London perceived any option for the construction of a railway as a way of denying the construction and operation of the Mohammarah line to any other power. The role of the Mohammarah scheme as an alternative to the Baghdad railway had started to lose importance "once the Young Turk revolution promised a possible revision of the Baghdad Railway concession" after 1908<sup>25</sup>. The handwritten assurance of Naseroddin Shah in 1888 that "if any concession for a railway in the north were given to Russia, then a line southwards from Tehran to the Gulf would be granted to a British Company" seemed to be enough protection for any British interest at stake<sup>26</sup>. But the 1907 Convention had essentially cut out the viability of any railway line built from the Gulf running

northwards, as it would have to stop somewhere in the mountains of Lorestan if there was not a joint venture with Czarist Russia which would carry it on from the northern border of the neutral zone through, or at least into, the Russian zone at Hamadan. However, the reactions of Russian foreign politicians had indicated that British supremacy in the neutral zone could not be taken for granted by any British Government, although each power had agreed in 1907 not to interfere with the concessions and other economic activities of the other side. Furthermore, the Constitutional Revolution in Iran had made any claim based upon previous underwritings more than doubtful. One of the results of changes in the political system was that any kind of development plans and concessions resulting from it only had a chance of succeeding if they were approved by the majlis, the parliament in Tehran. Its dismissal in 1911 did not help such particular cases as a concession for a railway line. In the last resort, political coercion played a more important role than legal claims.

In October 1908 the Foreign Office in London handed a memorandum on future British railway plans in Iran to the Czarist Government in which the following were outlined; the southern section of a future trunkline from Mohammarah to Jolfa, further lines from Bandar 'Abbas to Kerman, from Bandar 'Abbas via Shiraz to Ahvaz with an option to construct a port at Khor Musa<sup>27</sup>.

The earmarking of certain lines in the south by the British Government brought a temporary end to Izvols'ky's official moves concerning Persian railways<sup>28</sup>. The Czarist government under Izvols'ky's successor Sazonov, tried to stifle British plans and turned its interest again to an earlier conceived plan of a railway link between Europe and India through Iran. Although political pressure from Germany on the Czar might have contributed to the strong involvement of Russian government circles, it became a two-pronged move from state and private entrepreneurs as soon as the "embargo" had ended in April 1910<sup>29</sup>. It was probably not accidental that the proposal came from N.A. Khomyakov, a prominent landowner with close contacts with the ministerial bureaucracy. Whereas similar proposals in 1889, 1900 and 1905 had been rejected by the Russian government, in the middle of 1910 the need for an accommodation with the

German Baghdad Railway became obvious. These efforts were finally embodied in the Potsdam Agreement. Already by the end of 1910, a Russian consortium had been formed as an effective spearhead of a railway offensive. Although this powerful consortium of Russian industrialists and banks enjoyed wide support in the upper circles of the ministerial bureaucracy, it still had to face two major obstacles that were not so easy to overcome: firstly, to win the consent of the British government and secondly, to secure financing through cooperation on the international money market. As expected, the plan ran into vociferous opposition in India and Great Britain. The British Foreign Secretary seemed somehow prepared to consent in principle to a Russian Trans-Iranian railway if conditions laid down by the British Government were accepted. The alignment of the Trans-Iranian railway was a suitable weapon to prevent it from becoming reality. The British government's agreement to consider the project was therefore conditioned largely by the wish to have good relations with Russia and to preserve the understanding between the two powers in a wider political context. Nobody at the Foreign Office really seemed to have believed that the railway line would ever become a reality. Such a line would never have been allowed to cross the British zone except along the shores of the Indian Ocean under the canons of the British fleet<sup>30</sup>.

The financial problem was equally as formidable as the political-strategic one. In the face of the financial weakness of the Czarist state and the insufficient resources of Russian entrepreneurs, the participation of French and British capital became essential in financing a project involving such complicated engineering work.

In 1900 a mission headed by V.A. Sakhanski, after carefully studying and calculating the cost of the main and various alternative routes, had come to the conclusion that the construction of railways through Iran to its southern coast would only be advantageous if "Russia has the right to levy customs duties", a proposition which even the most ardent Russian imperialists could not contemplate<sup>31</sup>. The British government was fully aware of the fact that it would not be difficult to obstruct any such scheme aiming at a throughroute to India at the

stage "when the financial side of the question comes up for discussion"<sup>32</sup>

It was a waiting game. What the Société d'Etudes du Chemin de Fer Transpersan, formed in December 1910, hoped for was the much needed financial support from major French banks. Whereas this aim was realized at the end of 1911 by securing the support of the main French banks involved in financing Russian industry and railways, still the Trans-Iranian Railway could not be built without the support of the British government and the participation of British capital as a sign of its good intentions. After protracted negotiations between Russian, French and British bankers, Lord Revelstoke, the chairman of the merchant bank Baring Bros., which had Russian connections, was finally persuaded to support the foundation of the Société Internationale d'Etudes du Chemin de Fer Transpersan in June 1912<sup>33</sup>

Not surprisingly in the following years up to World War I, the consortium became a major pawn in the game between Sazonov and Grey to secure a closer alliance between their two countries. In February 1913 the Committee for Imperial Defence again made the British position clear: British participation could not mean more than merely supporting the principle, although it was agreed that the British group should remain in the Société "because withdrawal would seriously harm Anglo-Russian relations"<sup>34</sup>. What the British government was prepared eventually to consider was the proposal for constructing the line to Bandar 'Abbas and further along the coast to Karachi.

The price for any concession on the British side was high. Already in April 1911 Sazonov began to reconsider his opposition to the construction of the Mohammarah-Khorramabad line<sup>35</sup>, although it was not until the Balmoral discussion in 1912 with Grey, that Sazonov gave the assurance that "in view of its essential importance to British trade he will not oppose it"<sup>36</sup>. As quid pro quo the British government was prepared to raise no objection to the Russian government constructing a line to Tehran as a first section of the Trans-Iranian railway. Therefore, the British minister in Tehran was instructed to cooperate with his Russian colleague in seeking an option for the Société d'Etudes in Tehran. But it needed more threats and coercion by Sazonov in

January and February 1914, namely that the consortium would break up and Russia would form a new one to construct lines in the north, including those near the Afghan frontier, to wrest a further concession from the British government that the route to Bandar 'Abbas should run through Kerman instead of Esfahan-Shiraz. The way was free for the Société to apply for an option and a concession in the northern section, but World War I prevented the venture getting off the ground<sup>37</sup>.

Russian efforts to get their Trans-Persian Railway project finally on the move still remained unsuccessful. But how did their ally and counterpart, Great Britain, fare in her endeavours, and what was the reaction of the Iranian government? The negotiations between Czarist Russia and the German Reich about the Baghdad Railway and railway construction in Iran in 1910-1911, which finally led to the Potsdam Agreement in August 1911, made unpleasant music for the ears of British politicians and diplomats. The main issue was the linking of the completed Baghdad Railway with a future Russian rail network in north Iran, and consequently how far German political influence and commercial enterprise would be allowed to find its way into a hitherto well-protected area of British interests. What in particular created a feeling of uneasiness about it in British diplomatic circles, was the growing awareness that the financial weakness of the Russian State, as well as a shift in its political priorities in Iran, might allow international capital, including German capital, to gain a foothold in the neutral zone. The much disputed Khanaqin-Tehran rail connection could provide the centre for more enterprises coming in under the cloak of Russian companies. Up till then the Czarist government had more or less conceded to the British government playing a leading role in the neutral zone. Even if Russia could find the resources for building the Khanaqin line, it would even so not be long before a Turco-German hegemony would be established at Tehran because the railway connection from Istanbul to Tehran was under German-Turkish control<sup>38</sup>. How much some officials in the Foreign Office feared that, the front door having been firmly closed, rival interests might slip through the back door, is highlighted by the wish to lay hands on Khor Musa as another possible terminal for any future railway line heading towards the

Gulf. When at the end of January 1911, Sazonov, the Foreign Minister, indicated that Russia might not be able to build a future Khanaqin-Tehran line, but might allow Germany to construct it, Grey reacted by somehow indicating that British capital could probably be forthcoming. Another alternative would be to internationalize the line by the admission of French capital<sup>39</sup>.

Sazonov had for some time welcomed the possibility of participation by French and British capital in railway construction in the north of Iran, but no clearly defined policy existed. At some stage the Czarist government considered financing a line running between Enzeli and Tehran with the help of French and British capital, on condition that construction of a line from the Gulf to the north<sup>40</sup> was to be undertaken at the same time as the northern section.

On December 10, 1910, the Russian government had already provided their British counterparts with a draft<sup>41</sup> of the future agreement between the German Reich and Russia. The Foreign Office was quite concerned. It obviously did not share Sazonov's assumption that the Baghdad Railway would probably not reach Baghdad much before 1920 or even 1925<sup>42</sup>. Alarm bells had however started to ring much earlier, in the middle of October 1910, when the position of the neutral zone had been mentioned in the preparations of the Russian government for the negotiations in Potsdam<sup>43</sup>. However, officials in the Foreign Office felt at that time that British interests were still safeguarded by the note which Barclay and his Russian colleague had handed to the Iranian government on April 7th 1910. In it the two major powers had denied Iran the right "to grant concessions to other nations without consulting Great Britain and Russia". The then Iranian Foreign Minister, Hosein Qoli Khan Navvab, had only grudgingly agreed to the request<sup>44</sup>. The negotiations between the Russian and German governments, although sometimes moving slowly throughout the autumn and winter of 1910, nevertheless increased<sup>45</sup> uneasiness about the British position in the neutral zone.

In January 1911, the Foreign Office started extensive consultations with the India Office and the Board of Trade about the plan to construct a line from the Gulf northwards. Already at the end of January 1911, Grey decided to notify the Iranian government of British preferences for certain railways, if

railway concessions were given to foreigners<sup>46</sup>. What has been described by British officials as "Sazonov's foolish and harmful game with Germany" provided the British government with an opportunity to extend its sphere of interest right into the neutral zone. Remarks by Sazonov seemed to indicate a softening of his opposition to the whole scheme, although that turned out to be less the case as British plans became more concrete. The India Office supported any move to protect the perimeter of the Gulf<sup>47</sup>.

At the beginning of February, the Foreign Office and the India Office agreed to approach the Iranian government to discuss the question, emphasizing the necessity of such a railway to extend or re-establish the control of the Tehran government in the south of Iran. The Mohammarah-Khorramabad line, with a branch-line to Khor Musa, and a line from Kerman to Bandar 'Abbas had already been given priority among the four lines envisaged in the 1908 memorandum<sup>48</sup>.

The India Office also considered the large and valuable trade with west and north-west Persia worth fighting for, but British traders could not compete with German traders via Baghdad, and certainly not with the caravan trade via Mohammarah. Similarly with the Government of India, it favoured acquiring the Mohammarah - Hamadan (!) concession, but had no interest in actually constructing it. Officials like Hirtzel from the India Office were still thinking of such a line as a lever for negotiations regarding the Baghdad-Basra railway; the Mohammarah line could be abandoned for sufficiently favourable terms in the former<sup>49</sup>. Further moves had to depend to some extent upon the disposition of the Iranian Government. As in 1908, the discussions between the various departments in London and the Government of India were not only centred around the strategic considerations of such an undertaking, for although the importance for British trade and commerce in south-west Iran and the Gulf area was equally stressed, a future railway was to be designed to tap the trade running from southern Mesopotamia into western Iran<sup>50</sup>, and Hamadan was considered the major trading point. The transit trade from the Gulf, which mainly passed through Baghdad, was valued at over £1million in 1908. The construction of a railway would probably also divert a



considerable part<sup>51</sup> from the Tabriz route, which was estimated at about £150,000. These, of course, were only figures for the value of the export and import trade. What really mattered for a future railway was the volume of the goods traffic, as passengers never would pay the costs.

Whereas the economic argument for the necessity of a Khuzestan line to counterbalance a German-dominated Baghdad line was much more overshadowed by mere strategic-political considerations in the 1908 drive, the changes in 1910 and 1911 had slightly shifted the emphasis towards more of a trade orientation. The threat of a future German-built Baghdad-Basra line had lost much of its previous vigour in the eyes of British politicians by the middle of 1910<sup>52</sup>. It had been replaced by one no less menacing, emanating from the future Sadijeh-Khanaqin line. But it was more than that. If Russian influence in the north of Iran was spreading, the whole political-economic system there would become more adjusted to needs in the neighbouring Caspian areas: consequently, developments in infrastructure would follow which could deflect the trade in central and south-west Iran northwards. Whereas the Foreign Office were convinced that a future Khanaqin branch would form a real threat to British trade positions and should therefore be neutralised by earmarking the Khuzestan line as a British prerogative, it was much more ambivalent towards the investment of non-British, or even British, capital in northern Iran.

During the inter-departmental discussions about the viability of a future Khuzestan line and how essential it was for protecting British interests, a more precise assessment of costs and technical difficulties became necessary. Whereas officials of the Foreign Office were less concerned with the feasibility of building a railway - although the "trade" argument was always seen as an important part of the strategy - the Board of Trade and the Government of India were not convinced that such a railway would ever become a commercial success<sup>53</sup> as it could never compete with a future Baghdad-Basra railway line. Some officials even feared that a line running northwards in Khuzestan might actually damage the upward traffic of a future Basra-Baghdad railway in which Great Britain should have a stake. A survey between March and June 1911 from Dezful to Khorramabad

which was carried out by the Vice Consul of Mohammarah, A.T. Wilson, confirmed that a "Luristan line would not appreciably alter the proportion of British imports, though it should lead to a substantial increase in the quantity of goods passing through the hands of British firms". He found no competitive or political advantage in such a one-metre gauge line which could be constructed at a cost of between £2.3-2.4 million. Interest, sinking fund, charges and royalties to be paid by the Iranian government, would be not less than £200,000 p.a. In order to raise this amount, receipts from transit as well as internal traffic between the Gulf and Kermanshah would have to be increased by 100 per cent, of which nearly half would have to come from exports to Russia. However the railway could probably function as a stimulus for developing cotton and other industries in Khuzestan<sup>54</sup>. Wilson argued therefore for building a road for the motor traffic between Dezful and Borujerd, for which the Persian Transport Company already held a concession<sup>55</sup>. Wilson only had the route through the Kiyalan Valley surveyed as one of the three possible routes between Dezful and Khorramabad. The railway experts of the Government of India expressed considerable doubt about what they considered to be Wilson's too optimistic figures. Only the Mohammarah-Ahvaz section, which Wilson had already surveyed some years earlier, would hold out a fair prospect of proving remunerative, provided that a substantial proportion of the Kermanshah traffic could be secured<sup>56</sup>. These reservations however, could never have influenced the progress of decision-making as the major moves had already been made in spring of 1911.

British policymakers had been encouraged to take a more decisive step in the whole railway question by another group: British entrepreneurs who had already established major interests in Iran and the Persian Gulf, like the Anglo Persian Oil Company. At a time when the Foreign Office was still trying to win the Czarist government over to a more positive approach, the general manager of the APOC, Charles Greenway, had offered his help together with some other companies in constructing a railway from Ahvaz to Soltanabad. Probably knowing well how much British politicians and diplomats were concerned about the impact of a future German-built Khanaqin-Tehran railway, he stressed the

serious consequences of such a move for the British position in southern Iran. A railway was therefore the most effective and economical means of protecting interests in the Gulf and of blocking possible German aggression. He assured the Foreign Office that such a line would not be costly, "certainly not more than £2-3 million"<sup>57</sup>. The advantages for British trade and commerce were obvious as the whole trade between Iran and Baghdad would be tapped; the export trade of cereals from the districts of Kermanshah, Hamadan and Borujerd (until then underdeveloped due to prohibitive transport costs and expensive river freight in Mesopotamia) would be stimulated; it would ensure for the British the trade of central and northern Iran cornered at present by the open connections with Russia.

The Anglo-Persian Oil Company needed only a sound financial guarantee similar to that given by the Czarist Government for the Trans Persian Railway Syndicate (*Société d'Etudes*). Greenway had written to the Foreign Office from a ship on which he and another director of APOC were sailing to the Persian Gulf for an inspection. Although there is little evidence, it seems clear that he must have discussed the topic with a junior official in the Foreign Office, probably Norman. He proposed to take up the case in Tehran with the Iranian Government, which was not viewed so enthusiastically by the Foreign Office, which feared losing certain control over the whole venture if it were pursued independently by the entrepreneurs themselves, however trustworthy they might have been. Although Greenway could rightly claim that as a partner in the firm Lloyd, Scott & Co and as a director of the Imperial Bank of Persia, he represented a major group of British enterprises in Iran, he must have been aware that prior rights for building a railway in Khuzestan existed, owned by the Persian Transport Company, a venture<sup>58</sup> launched in April 1904 with strong support from the Foreign Office.

Greenway, however, had a strong ally in the Imperial Bank of Persia which, in August 1910, had already indicated to the government in Tehran their interest in acquiring railway concessions for the south of the country, pointing out its unique position in Iran<sup>59</sup>. Another indication that the whole question of building railways seems to have started to move decisively, was the impending return to Iran of the newly elected regent,

Naserolmolk, a politician who had expressed his readiness to cooperate with the two powers, in particular Great Britain<sup>60</sup>.

The Foreign Office therefore decided that the time had now come to approach the Iranian government for a railway concession.

At the beginning of February 1911, senior officials of the Foreign Office and the India Office agreed in an inter-departmental meeting on the priority of the Mohammarah-Khorramabad line with a branch line to Khor Musa, and then three more lines already envisaged in the Memo of 1908<sup>61</sup>. Major opposition was not anticipated from the Russian government, nor any difficulty in obtaining the funds in the city. The railway would be Persian in name, but under British management. Grey instructed the British Minister in Tehran, Sir G. Barclay, on 14th February 1911 to discuss the topic with the Iranian government "if it was ready to recognise the right of Her Majesty's Government to participate in the construction"<sup>62</sup>.

Barclay had always considered that the construction of such a railway line would be most useful for British trade as it would open a direct route to Hamadan where 40 per cent of the British imports were distributed. The success of the Khuzestan railway would finally depend on the developments of the Baghdad railway and Russian railway construction in the north. He thought, like the India Office, that the Khuzestan line would lose much of its importance for British trade if the Persian Gulf section of the Baghdad railway were to be somehow controlled by the British. A linking up with a future Russian line would be more useful, but the prospect for it seemed very unlikely<sup>63</sup> as a through line would be disadvantageous for Russian interests. The Foreign Office therefore decided first to come to an understanding with its uneasy ally before applying for a concession.

This move on the part of the Foreign Office soon ran into difficulties which were not made any easier when, seven days later, on February 21st 1911, Sazonov fell ill. Although the smooth flow of exchanges between the two governments was thus interrupted, the reluctance on the Russian side to agree to the British move was of a more general nature. They still remained opposed in principle to railway building in the south. On the other hand they used their demonstrative reluctance in order to win more support from British capital for their own future

railway enterprises in the north, in particular the planned Enzeli-Tehran line, the first stage in the Trans-Iranian Railway. The situation with the planned Jolfa-Tabriz railway line was similar although far more military and strategic value was assigned to it. French capital was considered as vital here. It had become obvious that neither the Duma nor the majority of Czarist ministers were prepared to support the construction of the Enzeli-Tehran railroad with funds from the Russian treasury. It was quite clearly indicated that the Jolfa-Tabriz line would be extended southwards to join a future British Gulf line at its northern terminal at Khorramabad. Some arrangement had to be made, however, to prevent the southern railway from injuriously affecting the economic interests of Russia in the northern parts of Iran<sup>64</sup>.

The Czarist government was well aware that on legal grounds it could not deter a British company from building a railway up to the boundary of the Russian sphere if it did not want to wreck the 1907 agreement, but it was relentlessly spelling out its misgivings that a British company might gain a concession from the Iranian government<sup>65</sup>. To avoid further irritation, the Foreign Office decided to apply only for the concession of the Mohammarah-Khorramabad line<sup>66</sup>.

The construction of railways had always had a certain attraction for the public in Iran which it never completely lost after the Czarist government had imposed its embargo in 1890, but it had never been seriously considered on account of the chronic financial weakness of the Qajar administration. Granting concessions to foreign powers had become anathema for large groups of the nation. The Constitutional Revolution did not basically change the situation. The question of political and financial survival had preoccupied all major political initiatives of the Iranian parliament, the majles. The members of the majles tried in vain to gain some control over finances by founding a national bank and appointing financial advisors. After the abdication of Mohammad 'Ali Shah in 1909, the problem of major reforms in order to strengthen the power and influence of the central government was given much more attention and moved decisively into the foreground. The first government under Sepahdar-e A'zam, in the second majles, presented a programme of

reform on 30 November 1909, proposing the establishment of a proper military and security apparatus, and the reorganization of the state's finances and institutions; these steps led finally to a request for a further advance of £400,000 from the British and Russians as a part of a larger loan. The doors were thus opened for more interventionist measures by the two major powers. "As soon as it became apparent that Britain and Russia would attach conditions even to considering a loan... the government began looking elsewhere"<sup>67</sup>. In a joint note, of February 16, 1910, to the acting Iranian Minister of Foreign Affairs, Seqatolmolk, both governments had demanded that plans for the way the advance was to be used would need the approval of the two legations and as one of a number of stipulations "Persia engages to give no concession for the construction of railways in Persia before offering the option to the British and Russian governments. This right of option shall not be exercised in the case of a concession to be granted to a Persian subject... with exclusively native capital"<sup>68</sup>. As a result of this strong intervention, a long exchange of notes between the three governments developed which finally led to the rejection of the loan offer<sup>69</sup>.

To grant further concessions to either power was an impossible task for an Iranian government. Efforts were therefore made by the majles in April 1910 to get out of that strait-jacket by raising an internal loan on the crown lands. Various merchants in Iran and Iraq had, during the previous February and March 1910, proposed that the government either double the taxes or increase its revenues through an internal loan (esteqraz-e dakheli). A committee of the majles appointed to examine the question recommended raising a loan of 5m toman or £1m at seven per cent for 20 years on the security of the crown domains. Although the loan had met with some success in the beginning, e.g. the merchants of Barforush offered 50,000 toman, the proposal never really got off the ground although the majles accepted the recommendation of the commission<sup>70</sup> in the face of the already existing political and economic control, and above all the fact that Russian troops were continuously stationed on Iranian soil.

Already in April 1908 the Iranian Finance Minister

Sani'oddouleh had unsuccessfully tried to raise import duties on sugar and tea in order to collect enough funds for reforms. The Russian and British ministers had then rejected outright any modification of the tariffs<sup>71</sup>. In 1910 the Finance Committee of the majles had not particularly earmarked the proceeds of a future loan, but had proposed that they should be devoted to reorganization and reform on lines to be approved by the House. Although railway construction must have been generally considered an important means of strengthening the power of the central government and supporting major economic development schemes, it did not really enter the discussions about the organisation and the administration of the country's finances. This might appear rather surprising as the 'sterilising railway agreement' was drawing closer to its end on November 10, 1910.

But the political programmes (maramnameh) of the two major political groups, the Democrats (ferqeh-ye demokrat) and the Moderates (ferqeh-ye e'tedal)<sup>72</sup> in the previous years, do not reflect opinions about railways. The thorny topic was occasionally discussed or at least touched upon in newspaper articles without developing a clear idea about the pros and cons except for the refusal to grant a railway concession to a foreign company after the agreement had come to an end<sup>73</sup>.

In Spring 1911 any British initiative to help the development of the infrastructure in Iran could expect to meet with more willingness in Tehran than in the previous two years. The Regent had appointed a new cabinet under Sepahdar-e A'zam, which, relying on the support of the Moderates in the majles, promised to restore internal order in the country. The policy of maintaining law and order would hopefully bring the unruly southern and western provinces of Iran more firmly under the control of the central government. But the fall of Sepahdar-e A'zam's cabinet, the landing of the ex-Shah Mohammad 'Ali Shah at Gomish Tappeh, in the middle of July 1911, and the growing split between the majles and the government threatened any major initiatives by a Persian government. The negotiations between Barclay and the government in Tehran endangered the fragile state of affairs, and soon revealed that the majles was not inclined to grant a concession for a railway line to either power and thereby indirectly acknowledging Iran's division. If the Persian cabinet

wanted to get the approval of the majles, it had to be a Trans-Iranian railway. Mostasharoddouleh, who was Minister of Interior in the Sepahdar-e A'zam cabinet till its fall on July 10, 1911 and Minister for Post and Telegraphs from 6th June 1912 till January 1913, reflects in his memoirs on the position of the Persian government. He argued that

One has to try to get a railway line between the two seas and any northern and any southern line would only be considered as part of a trunk line. Insisting on the construction of separate northern and southern lines is, from the Iranian point of view, a forlorn case (matruk)<sup>74</sup>.

When, through the formation of the Société d'Etudes, the construction of a Trans-Iranian Railway became more feasible, the Cabinet in Tehran informed the Persian Minister in Paris, Momtazossaltaneh, at the end of Ramazan 1330/beginning of September 1912 about the political priorities of the Persian Cabinet. The fourth point mentioned in the instructions was the Trans-Iranian Railway (rah ahan-e beinolbahrain). It becomes quite clear that the government in Tehran preferred to grant an option to the international consortium, and that would mean the end of plans to build separate railways in the north and south of Iran which would do nothing but damage to the interests of Iran<sup>75</sup>.

The Gulf line, planned by the British, in the eyes of the Tehran government served only foreign strategic interests. The same applied to a Russian line from Jolfa to Tabriz. The British Minister had advised the Foreign Office to approach a British company which might be prepared to apply for a concession. The Imperial Bank of Persia, whose chief manager in Tehran had already sounded out one of the frontbenchers in the second majles, Vakilorro'aya from Hamadan and found him encouraging, might be willing to apply for a concession, but would pass it on afterwards to a third party<sup>76</sup>. The question arose how to deal with the claims of the Persian Transport Company. There were more worries for the Foreign Office lying ahead. The regent tried to move the centre of negotiations to Tehran where he hoped to convince Poklewski, the Russian Minister, and Barclay, his



British counterpart, to consider any scheme on an international basis. In addition, the direct discussions between Greenway and Naserolmolk seemed to contain a positive danger that the Foreign Office might lose its leading role in the complicated negotiations as various other British companies could claim preferential rights<sup>77</sup>. The British Foreign Secretary decided therefore to authorize Barclay to apply for a concession in the name of the British government and not leave it to a syndicate. The construction of the line and its management could be arranged later<sup>78</sup>. Barclay asked on April 1st 1911 for an option on the Gulf line. Three weeks later he received a negative reply maintaining that, according to a principle of Naseroddin Shah "permission would never be granted to anyone to construct other than a purely commercial railway in Persia"<sup>79</sup>. This direct answer seemed to signal the end of any further British effort. But by arguing against the case on the basis of Naseroddin Shah's instructions, the Persian government had actually left the back door open for a second round. If Naseroddin Shah's principle could be used in this case, then of course his post-script of 1888 had its full validity too. The tactical mistake of the Foreign Office in applying directly for a concession seemed regrettable, but nobody in the British government had ever actually thought that the railway should be built with British taxpayers' money. In March 1911, after the return of Greenway from Iran, Mallet, Assistant Under-Secretary of State in the Foreign Office, discussed future railway projects with Col. Picot (a former Military Attaché in Tehran), Mr. Maxwell (a clerk from the Foreign Office), and Greenway<sup>80</sup>.

On July 15th, Greenway informed the Foreign Office that a syndicate would be formed with the intention of constructing four lines in the neutral zone which might later be extended into the Russian sphere: Mohammarah or Khor Musa to Khorramabad or Borujerd; Bandar 'Abbas to Kerman; Bandar 'Abbas to Shiraz and Bandar 'Abbas to Mohammarah. These were exactly the same lines which the British government had envisaged in its Memorandum to Isvols'ky of October 14th 1908.

The Company was a strong financial group which was formed by British oil interests in Persia, the Imperial Bank of Persia,

the Persian Transport Company, the British Indian Steam Navigation Company (Lord Inchcape), The British and Foreign General Securities and Investment Trust, The Weetman Pearson Group (Lord Cowdray, Sir Clarendon Hyde)... the Foreign Office willingly supported such a group which was plainly no speculative venture but an association of some of the most substantial British investments in the Middle East<sup>81</sup>.

A memorandum about railway construction in south-west Iran of June 15th 1911 signed by Greenway, was handed to 'Ala'ossaltaneh, the Minister of Education, Public Works and Mines "at their request"<sup>82</sup>.

If the political aspects of railway building in Iran were a minefield, the financial side and the organization of a company were no less difficult. Without any doubt the consortium was a powerful group representing various companies interested in the Middle East in general and the Gulf in particular. It could also rally substantial financial support in the City of London. In negotiations between the five major partners, the capital was fixed at £15,000 of which 50 per cent was subscribed by the Persian Transport Company controlled by the Lynch Group and the Imperial Bank of Persia. The remaining 50 per cent of the shares were taken up by members of the APOC (16.5 per cent), the Weetman Pearson Group (8.25 per cent) and others<sup>83</sup>. The relations between the Imperial Bank of Persia and H.F.B. Lynch were not running too smoothly, although the Euphrates & Tigris Steam Navigation Company had been allotted 2/3 of the 50 per cent which had been given to the Persian Transport Company making it for some time the main shareholder in the new syndicate. H.F.B. Lynch wanted the proportion of shares held by the IBP to be subject to the control of the Euphrates & Tigris Steam Navigation Company of which he was the chairman. There was also the question of who would be appointed as the officially designated agent of the Railway Syndicate<sup>84</sup>. These claims were however not acceptable to the IBP and the APOC, both of which did not want too much dependence upon the Lynch group, whose activities were mainly concentrated in the south-west of Iran, whereas the Imperial Bank of Persia, as State Bank of Iran based in the capital Tehran, had direct access to the Central Government. The

contacts between the IBP and representatives of the Czarist government and Russian institutions in Iran were continuing in a more or less businesslike way, which was, considering the reservations of Czarist officials, more than welcome. The negotiations between the Syndicate and the Iranian government were therefore entrusted to Brown in the Tehran head office of the British Bank, who acted at the same time as an agent for the APOC. After a break-up of relations between H.F.B.Lynch and the other parties had been avoided, the Persian Railway Syndicate was incorporated on 23 August 1911<sup>85</sup>.

The intention of the Syndicate was to raise capital for the construction of the Mohammarah-Khorramabad line by means of a State railway loan secured by such revenues of the Iranian government as might be available and additionally through future earnings of the railway. Raising or finding necessary funds in Iran for paying interest and the sinking fund was a much more difficult task than envisaged, although the Foreign Office had promised to support the venture wholeheartedly. It had by now become obvious that it was no longer a question of reserving a particular line for future British enterprises or even of shutting out rival groups from other countries, but of supporting the most experienced groups of British entrepreneurs who were keen to move railway construction off the drawing-boards of the strategists of government departments. If the politicians in Whitehall wanted to stay in the driving seat they had to control all future steps as carefully as possible and to provide the syndicate with all necessary advice. As all the communications between the Syndicate in London, its chairman Greenway, and its representatives in Tehran were carried by the telegraph service of the Foreign Office, its officials had no difficulty in monitoring all movements and discussing them with the directors of the board in London. The Foreign Office advised the Syndicate to build a broader gauge than the planned light railway of 2ft 6in. gauge. Whereas the question of the gauge was of some importance for strategic and military needs, British officials became even more involved in the question of how the bonds issued to provide capital for the enterprise should be secured. A special increase of four per cent in the customs duties of the southern ports of Iran was unacceptable as it would involve the

imposition of a further burden on the trade<sup>66</sup>. The customs of the country had been more or less earmarked as security for various state loans and advances provided by the Imperial Bank of Persia. Morgan Shuster, the Treasurer General of Iran during the summer and autumn of 1911, estimated that the total annual inland revenue amounted to 19m toman of which only less than 3m toman reached the central treasury<sup>87</sup>. What complicated the whole problem was the fact that revenues from the richer northern provinces were beyond the reach of any British enterprise. Therefore the arrival of Shuster, the new American Treasurer General, on 12 May 1911, must have been good news for the Syndicate. The majles soon empowered him with direct and effective control of all financial and fiscal operations in the country which meant that negotiations between the Syndicate and the Iranian government could take place through him; and that is what happened. The Syndicate was also aware of the fact that ultimately any concession had to be submitted to the majles for approval. It was not the government that mattered so much, but access to the Persian Parliament.

Shuster was not only interested in reorganizing the finances of the country, but hoped also to undertake a number of measures like organizing a cadastral survey, a survey of public domains, building barracks, improving the road system, constructing irrigation systems and building railroads<sup>88</sup>. He recommended to the Persian Cabinet the passing of a law in which the Persian government would announce its intention of building eight railway lines at the appropriate time and granting suitable concessions for their construction<sup>89</sup>. There can be no doubt that for Shuster a north-south trunk line from Jolfa to Mohammarah had priority as it would tap many of the richest sections of the country and would greatly hasten Persian economic development. He writes in his memoirs:

It was my intention to have the Persian government declare its intention of building this line in sections and authorise loans for its construction and operation. There can be little question but that such a line would be profitable if properly managed<sup>90</sup>.

It was not surprising that the Trans-Iranian Railway scheme was not among his proposals. Including the railway construction in his reform program without consultation was, however, bound to annoy the Czarist government as it touched a sensitive nerve in international power politics of which Shuster was supposed to steer clear.

The negotiations between the Syndicate and the Treasury General suited the latter as well. Although the Foreign Office intervened at various points, in particular, when bond issues, and southern customs duties as guarantees were discussed, Shuster found the Syndicate a useful channel to signal to the British government that he was interested in helping to increase Britain's standing and prestige in Iran. The negotiations between the middle of August and the end of October 1911 showed that the Iranian government and Shuster were prepared to grant a monopoly for railway construction between Mohammarah and Borujerd, which was in the Russian zone, and the three other lines proposed by the Syndicate. Both sides hoped in particular to make use of the £4m loan proposed by the Seligman Bros. which was intended to pay off the amalgamated debt of the Iranian government and of which the remainder was only to be applied to productive works<sup>91</sup>. In the middle of September 1911, after any loan other than one from the two major powers had become unrealistic for Shuster, the Syndicate decided to leave the question of security for the bond issue open, although the hope was that the Treasurer General would reserve certain revenues from the postal and telegraph service as well as royalties from the APOC as a collateral to maintain as security<sup>92</sup>. The remuneration of the services provided by the Syndicate were a much battled over subject as it insisted on a profit guarantee of twelve and a half per cent or £15,000 p.a. But this and other topics, like the provision of a reliable estimate before the actual survey could be started, were only minor problems, the main issue still being how the cooperation of the Russian government could be won. The Syndicate, although admitting that it could probably arrange cooperation with the Russian Société d'Etudes about future Russian-sponsored lines in north and south Iran, decided against it as it would entail a great delay getting both governments to give the necessary approval and might even

lead to the shelving indefinitely of all railway construction in Iran<sup>93</sup>. However, no later than the middle of October 1911, Shuster and the PRS came to realise that it might not be possible to overcome opposition to the Gulf line from the Russian side as well as from the majles. Therefore the Treasurer General decided not to submit the finalised draft of the contract to the Iranian Parliament but to ask for authorisation to conclude contracts for the construction of a line from Jolfa to Mohammarah on the basis of terms and conditions<sup>94</sup> arranged with the Syndicate for single lines or parts of it.

However, when the growing antagonistic feelings between the Czarist government and that 'ill-mannered and insensitive' American adviser were finally aired in a public statement by Shuster on October 18, 1911, any progress in the delicate negotiations henceforth became an illusion. Plans for railway construction got stuck in the diplomatic tangle between the majles, the Iranian government and the two major foreign powers. The Foreign Office had completely misread the signs of the day. Were Czarist politicians the only ones against railway construction? or did officials in the Foreign Office in London hope that a newly elected parliament in Tehran would probably be easier to deal with? Without a majles in session the task became even more difficult. An obstacle, which neither the Foreign Office nor the PRS envisaged, was that, in the absence of the parliament, an Iranian government would be rather reluctant to negotiate a concession, and if they did, it would be a gamble, something that the Foreign Office could probably afford, but in which the Syndicate would have to pay the costs of all the miscalculations.

After the majles had been dissolved in November 1911, the British diplomats in Tehran started to put pressure on the government in order to secure the Mohammarah-Khorramabad line concession<sup>95</sup>. The original idea of just earmarking a line for future British interests receded even further into the background.

The removal of the American Treasurer General, Shuster, and the subsequent dismissal of the second majles had by no means made the railway problem any easier. All endeavours to win a concession became increasingly involved in the move to rescue the

central government from complete financial collapse. In January 1912 the Iranian Government under Samsamossaltaneh approached Russia and Great Britain for an advance of £200,000 in expectation of a bigger loan, somewhere in the region of £5-6 million<sup>96</sup>. Finally, after protracted negotiations, Iran was able to obtain the much needed advance in April 1912, but the price was high: the recognition of the 1907 Agreement. Czarist Russia was from now on only prepared to continue discussions if they were combined with guarantees for further improvement in the relations between the Government in Tehran and the two Powers. Any loan from the financial consortium of the Société d'Etudes would have to be executed through the Russian Banque d'Escomptes and the Imperial Bank of Persia, and the expenditure was to be under British and Russian control<sup>97</sup>.

During the summer of 1912, in the face of protracted opposition by British officials, and due also to the improvement in the financial situation in Russia, the Czarist Government again switched its main attention to building railways confined to northern Iran, and decided to approach the Iranian Government for a railway concession from the Russian border to Tabriz. The Banque d'Escomptes already owned, through the Tabriz Road Company founded in July 1902, a concession for the exploitation of roads for wheeled traffic between Jolfa and Tabriz, and Tabriz and Qazvin. The Russian Government, which controlled the company through the Ministry of Finance, made any further credit to the Iranian Government dependent on the construction of a railway between Jolfa and Tabriz<sup>98</sup>. Such a shift in Czarist policy made sense, as the Trans-Iranian Railway project had still to face formidable obstacles, although it was pursued further through various administrative measures in Russia, as well as extensive negotiations with<sup>99</sup> the various parties involved in the international project<sup>99</sup>. Furthermore as the construction of the Jolfa-Tabriz line was completely confined to the Russian zone of influence, there was no interference to be feared. Internal critics of such a state-financed project could be easily fended off as it was financially secured through the French-owned Lyon Marseille Bank<sup>100</sup>.

The Persian Railway Syndicate and British Government had, of course, been aware that the Russian Government had threatened to

withhold its share in a further £100,000 advance unless the Jolfa to Tabriz concession (including an extension to Lake Urmia) was granted. Yet they were still taken by surprise by the harshness of Russian actions. The British Minister in Tehran, Townley, was prepared to fight for equal treatment and allow the Russian Minister to pave the way for British railway requests. The Iranian Government was reminded that the British request was associated with a bid for a concession for exploiting all minerals in the Kerman district and its neighbourhood, as mentioned in a letter from J.E. Preece in October 1910<sup>101</sup>.

Despite the moves made by both governments, the Syndicate was not eager to finalise its demands without knowing in more detail those of their Russian counterparts. On the other hand they did not want to be left behind. There was, however, not much hope that the Iranian cabinet would take any notice of the draft concession which Shuster had approved and had been prepared to recommend to the previous majles<sup>102</sup>. The Iranian Government had formed a special Commission to deal with the thorny problems of the railway. Showing a brave face in spite of the pressure put upon them they tried to insist upon a trunkline, suggesting that the Khuzestan line should be internationalised or at least opened to international capital. Members of the Commission, which included several government ministers and Belgian advisers<sup>103</sup> seemed to have supported the position of the Cabinet, which did not want to consider the two lines as anything other than parts of a larger Trans-Iranian trunkline.

Building a trunkline is one of the questions which the government should not postpone now that an international company is willing to go ahead... Russia wants a railway concession from Jolfa to Tabriz, from there to a point on the Urmia Lake, the English vehemently demand one from Khor Musa to Khorramabad. In the meantime they are debating the option of the great line. It is certain that if this option is given to them it will exclude the international company (Société d'Etudes) and then the two northern and southern lines with all the disadvantages will be constructed...<sup>104</sup>.

Quite understandably the Cabinet was also worried about how a



future majles, who would normally be responsible for such decisions, would view the outcome of their activities. The absence of the Regent did not make the task easier. A number of ministers wanted Naserolmolk, who had left Paris on 16 June, 1912, to return to Iran as soon as possible. There was increasing pressure to replace the ageing Regent by somebody strong-willed and able to act with more authority and determination<sup>105</sup>. The various issues connected with the railway question like the Kerman Mining Concession, mining rights along the future Jolfa to Tabriz line, and above all the pressing problem of a future loan for the Iranian Government, complicated the negotiations between the parties. In particular Greenway and his colleagues in London seemed none too keen on pressing for a concession in which they did not anticipate any kind of financial reward. Rather they considered it much more as a corollary for the mining concession. If the Syndicate hoped for a change in Samsamossaltaneh's Cabinet and its replacement by one headed by one of the staunch royalists, Sa'doddouleh, and former Prime Minister of Mohammad 'Ali Shah, then these hopes soon evaporated during December 1912. Sa'doddouleh, although supported by the Russian Government and the Regent, was not able to make much headway and had finally to give up his bid for power<sup>106</sup>.

Whereas politicians like Mostasharoddouleh and Mo'inol-vozara' were not generally against construction of railways by foreign companies, although more inclined to struggle for more favourable conditions, the Minister of Foreign Affairs, Ala'ossaltaneh, was not prepared any longer to deny the British Railway Syndicate a concession in the face of the acute financial situation. He hoped for a larger advance by granting the mining concession to a British group. The final collapse of Samsamossaltaneh's Cabinet, and his appointment as the new Prime Minister by the Regent on 18 January 1913 did not change the position decisively<sup>107</sup>. It was not, however, only the question of getting a large loan, but also the scarcity of information which the Syndicate could supply (as opposed to the well-established financial assessment of the Russians) about survey expenses, estimates of construction costs, and volume of the necessary capital railway bonds which delayed the negotiations. Since October 1912, the Iranian Government had been asking for

more data about the future railway, but in the end, the Syndicate was not in a position to satisfy this request<sup>108</sup>.

It was nearly another two months before the Iranian Government granted the Persian Railway Syndicate an option for the construction of a railway from Mohammarah or some nearby location to Khorramabad, either as a state railway through a loan for which the Persian Government should pay, or through a concession for its construction to the Syndicate. The Chief Manager of the Imperial Bank, Wood, accepted the option on behalf of the Syndicate on 4th March<sup>109</sup>. This result was by no means satisfactory. The Syndicate was still some way away from a concession as the agreement laid down that a survey had first to be made to enable the Government to decide, and only then would the conditions be arranged by mutual consent. The engineers' report and estimates had to be submitted to the Persian Government who would then, within a period of two years from 4 March 1913, have the right of decision<sup>110</sup>. A detailed survey was carried out by the Syndicate in cooperation with the Government between October 1913 and March 1914. However, owing to the "disturbed state" of Lorestan, the survey party was unable to go further than Dezful, thus leaving for the future the more difficult and important parts of the line further north through the rugged Lori mountains. Apart from the endemic insecurity in the southwestern region of Iran, the survey party had been hampered in its efforts by the fact that the experienced Major A.T. Wilson had to leave the group to serve on the Turkish - Iranian Border Commission in 1913<sup>111</sup>.

But a more serious psychological setback was the fact that the Russians had already got a concession, not just an option. Since the Autumn of 1912 it had become obvious that the Iranian Government had no choice but to grant a railway concession to the Jolfa-Tabriz Road Company. Besides the railway line from Jolfa to Tabriz, with a branch to Orumiyeh, this concession also included the right to exploit coal and oil deposits within a zone sixty miles wide on either side of the line<sup>112</sup>. The Foreign Office and the Syndicate were not completely free of blame for this setback as they had hoped to sail into the tricky zone of concession-hunting without greater efforts and without further alienating the already beleaguered Iranian Government. The

Foreign Office must have realised by August 1912 at the latest that merely 'earmarking' lines in the southwest of Iran for future use would no longer help to defend British interests.

An even greater disadvantage for them was that in the end and against all expectations, the Iranian Government had not agreed with the British view that "the acceptance of the railway option depended upon completion of the mining concession"<sup>113</sup>

The principles of D'Arcy's Concession on which the revised draft for this mining concession was based, and the principles agreed between Vosuqoddouleh and J.R. Preece in October 1910, were precisely those against which the Iranian Government wished to guard itself<sup>114</sup>. Although the Syndicate had been prepared to get things moving through financial incentives, Vosuqoddouleh, now Minister for Foreign Affairs, was no longer prepared to sell concessions in the neutral zone without a final settlement of the loan question once negotiations for the Jolfa-Tabriz concession had been concluded. Suddenly the Czarist Government was all too eager to back the Iranian Government in its endeavours, but instead of receiving the long-awaited loan, only two further advances of £200,000 each were forwarded at the end of May 1913.

Financial experts in the British Government and outside it had for some time considered a larger loan of £5-6 million which could be provided by the Société d'Etudes in order to consolidate Iran's debts. As a condition for such a loan, a Council of Debt would be established to control the manner in which the instalments of the debt guaranteed by the customs should be spent. The proposals did not, however, immediately find acceptance among the politicians in Great Britain and Russia. The disintegration of Iran was still not a forgone conclusion, although it was widely assumed that "Persia could not be propped up for much longer as an independent country"<sup>115</sup>. What has not always been adequately appreciated in this respect was that Iran's problems lay not so much in its powerlessness concerning concessions for railways, as in the reorganisation of its finances in which the railway schemes, protected by foreign states, particularly the southern ones, could become important. World War I put an end to these developments, but after it, Great Britain again took up the challenge as the major power emerging in the Middle East.

In the post-war period, the construction of railways played

an important part in a comprehensive programme for building an infrastructure in Iran. Public opinion in both Iran and Great Britain was pressing for an early decision on it. It became one of the central issues in the negotiations which finally led to the Anglo-Persian Agreement of August 9, 1919. Throughout the spring of 1919, the Prime Minister Vosuqoddouleh, negotiated with the British Foreign Office, principally the Foreign Secretary, Lord Curzon, and the British Minister in Tehran, Sir Percy Cox about the clause conceding that British capital would be forthcoming for major constructions of railways, roads and the infrastructure of cities<sup>116</sup>. Official minds in Great Britain however, were still not sure whether the railway projects would be in the general interest of Great Britain, while Cox understood only too well that it had to be pursued as vigorously as possible, and that, faced with a much<sup>117</sup> stronger nationalistic spirit, Iranians should be invited to participate in future projects<sup>117</sup>. During late spring and summer the suitability of either railways or roads became a major topic in inter-departmental discussions between the Foreign Office, the India Office, the War Office and the Department of Overseas Trade. The Department of Overseas Trade was asked to draw up a general plan for the advancement of British commercial interests in Iran with special consideration for railway-building which, in the opinion of the Foreign Secretary, Lord Curzon, "would be calculated to bring about an improvement in the general conditions of the country, and would greatly facilitate commercial relations"<sup>118</sup>.

At this early stage of the consultations the Foreign Office had already pointed out that it considered a continuation of the Mesopotamian network into Iran by means of a line from the border to Kermanshah, Hamadan and Tehran as the most suitable. In March 1919, the Chairman of the PRS, Greenway, had indicated to the DOT in an interview, that his company had a prescriptive right to construction of any railway from Mohammarah and that the Syndicate favoured the participation of Iranians in a future construction. Although the Foreign Office was prepared to support a comprehensive programme, to sponsor and assist British firms in Iran concentrating on railway construction, it was somehow opposed to the idea that the Anglo-Persian Oil Company might gain a monopoly position through the PRS in any future

negotiations.

Since the beginning of 1919, the Foreign Office and, in particular Lord Curzon, had become rather irritated by the independent moves of Greenway to negotiate a settlement for the disputes between APOC and the Iranian Government through his representative Col. C.W. Wallace in Tehran, and at the same time to gain railway concessions and mineral rights in south and southwest Iran. Wallace had probably only asked for concessions already negotiated in the pre-war period, but the discussions seemed to have gone beyond the scheme originally contemplated. Cox in Tehran was categorically instructed to discourage Wallace from proceeding with these instructions until further notice<sup>119</sup>.

As, in the view of the Foreign Office, the DOT had not shown sufficient competence in these earlier stages of the negotiations, the Foreign Office already in April had decided to study, mainly with the India Office, the vital issues involved in railway construction as it formed one of the major issues in the future agreement between Great Britain and Iran. It had become clear that the political as well as strategic aspects of such an important question could not be left to the negotiations of a private company, however necessary its financial potential was for major enterprises in Iran. In June 1919 an official of the Foreign Office wrote that the Persian Railways Syndicate might eventually be invited to discuss the matter with an Inter-Departmental Committee in order to establish the exact route to be chosen<sup>120</sup>.

Railway construction had become a major topic not only in the British Government, but even more in various circles of the political establishment in Iran, among them supporters and opponents of the Vosuqoddouleh government<sup>121</sup>. The major driving force in the Iranian cabinet for a programme of developing transport and industry in Iran was the Minister for Foreign Affairs, Firuz Mirza Nosratoddouleh. However, the negotiations about railways did not really start before the autumn of 1919, after the conclusion of the Anglo-Persian Agreement (9.8.1919). The Foreign Office, which was the leading voice in hammering out a proper policy for this complex problem, did not show much enthusiasm for any railway building. In an inter-departmental

conference on 9th October 1919, it was decided, after careful examination, that roads should be built, mainly in the east and south. Indeed if a railway line was to be constructed, it should be from some point on the Iraqi border through Hamadan to Tehran. The change from the former south-north line seemed to be justified, considering the major interests which Great Britain had to defend in Iraq and the Transcaucasus<sup>122</sup>. The Foreign Office was reluctant to contemplate using the anticipated growth of royalties from the APOC as a guarantee for developing Iran's infrastructure.

By the end of October 1919 Firuz Mirza had more or less agreed to a programme which envisaged the construction of the line from west to east, and the hitherto-favoured Mohammarah-Khorramabad project was considered to be of only secondary importance. For strategic reasons, the Foreign Office (following the advice of the War Office) opposed branch lines from Qazvin to the Caspian Sea and an extension of the main line to Mashhad which Firuz Mirza favoured. He even proposed a branch line to Loffabad through Astarabad<sup>123</sup>.

If the policymakers in London had hoped to maintain complete control over moves by the various companies who wanted to participate in the infrastructural development of Iran, these expectations were not fulfilled. Firuz Mirza, like the Foreign Office, tried to confine all discussions about the thorny subject to themselves, but it soon became obvious that neither the PRS nor members of the Iranian Government were prepared to sit back and wait for the outcome of the London negotiations.

At the end of October 1919, the British Minister in Tehran alarmed the Foreign Office with the news that Col. Wallace had been active again and had re-opened in Tehran the negotiations with the Finance Minister Saremoddouleh, a member of the triumvirate, which had been suspended earlier in the year. Undoubtedly, the Cabinet in Tehran and Vosuqoddouleh himself had favourably received Wallace's proposal "for a line joining Mohammarah, Khorramabad, Kermanshah, Hamadan and Enzeli"<sup>124</sup>. Lord Curzon was infuriated by this daylight robbery - "I did not conclude the Anglo-Persian Agreement in order to be humbugged either by the Persian Government or the Minister for Foreign Affairs or Col. Wallace", he wrote in a minute demanding the

immediate suspension of these negotiations. The Persian Foreign Minister, who seems not always to have kept his colleagues informed, signalled the Cabinet in Tehran that the discussion of any future railway construction had to be done in London where "the broad principles for it were laid down"<sup>125</sup>.

The speed with which Firuz Mirza moved to approach various British companies had taken circumspect politicians in Whitehall by surprise. Lord Curzon wanted very much to prevent any kind of monopoly position being built up by APOC, but the PRS was financially so powerful, that it seemed only a matter of time before its participation would be requested. Firuz Mirza probably also had in view the strong position which the Syndicate had gained in its negotiations with the Iranian Government, when he approached Greenway in the middle of November, as well as Sir Ernst Moir from Pearson & Son, a member of the Syndicate. This led swiftly to a general agreement about surveying for and constructing railways in Iran, in the first place the Khanaqin-Tehran line, with a branch to Enzeli. It was assumed that the railway would be constructed on a contractual basis, financed through bonds of the Iranian Government secured by customs or other guarantees. The estimates per kilometre for a one-metre gauge were £19,000. In spite of adverse experiences with concessions in which pure railway construction was interlinked with other projects, the Syndicate tried to win in addition, water rights for supplying hydro-electrical installations in Kordestan<sup>126</sup>. The Syndicate was able to maintain its dominant position in competition with other powerful contenders by merging with two other prominent British companies, Vickers Ltd. and Armstrong, Whitworth & Co. Ltd. which had vigorously competed for any future railway construction in Iran. Not surprisingly, Pearson & Son, represented by Sir Clarendon Hyde, who was also a director of the Syndicate, and Moir became the driving force in the negotiations. On 19th December the Secretaries of the PRS, R.G. Shaw & Co. confirmed the arrangement defined in a memorandum by Hyde, dated 2nd December. Eight days later, the board decided to increase the capital of the Syndicate to £300,000 by the creation of a further 270,000 ordinary shares "to meet the expenses to be incurred in connection with the surveys" e.g. Khanaqin to Tehran via Qazvin, a branch from Qazvin to Enzeli,

and later of a proposed extension from Tehran to Mashhad and from Mohammarah to Borujerd with an extension to the first line<sup>127</sup>.

Although the Foreign Office was obviously surprised by these rapid developments, it was quite satisfied that all the big British companies interested in the project had been brought together. However Curzon seemed still to be slightly worried that the Foreign Office might lose control, when he wrote that "we must be at the watch about these people, particularly the oil-men"<sup>128</sup>. Caution seemed to be necessary in all financial deals where guarantees might create new demands upon resources like customs. The Syndicate itself was much interested in getting approval from the British Government for its deal as various other interested parties in Europe or the USA might try to win over Firuz Mirza to their own schemes. Therefore on 7th January 1920, a meeting between Foreign Officials, Greenway, Moir, the recently-appointed Financial Adviser to the Iranian Government, S.A. Armitage-Smith and representatives of various other Government Departments discussed the proposed contract between the PRS and the Iranian Foreign Minister. Curzon and Oliphant from the Foreign Office tried to regain control over the negotiations which had so much characterised, but also hampered, British pre-war railway policy in Iran. It was therefore made quite clear that, whatever idea Firuz Mirza may have on the subject of railway construction, neither he nor anybody else in Iran was in a position to decide this matter without consulting the British Government. With its insistence on Para 5 of the Anglo-Persian Agreement that "The British Government ...are prepared to co-operate with the Persian Government for the encouragement of Anglo-Persian enterprise in this direction, both by means of railway construction and other forms of transport, subject always to the examination of the problems by experts and to agreement between the two Governments as to the particular projects which may be necessary, practicable, and profitable" the doors for independent negotiations between private companies and the Government in Tehran were closed. Again the matter of gauges, alignment, extent and branch lines and, above all, securities for future loans became the prerogative of the Foreign Office officials<sup>129</sup>. Three days after the meeting on 10th January 1920, Firuz Mirza granted the Syndicate an option for the



projected line, running from the Iraqi border to Tehran with a branchline to Enzeli via Qazvin, and second, a connection between Hamadan and a future Khuzestan line for which the previous rights of the PRS were recognised. The Syndicate was requested "to undertake immediately a survey the cost of which was to be borne in the first place by the PRS" requiring no more time than eighteen months. Within one year, thereafter, the Iranian Government had to decide whether to build the railway as a State Railway according to the proposal of the Syndicate or to grant it a concession<sup>130</sup>.

Although Firuz Mirza seemed to have advanced the whole question beyond the mere planning stage, it soon became clear that the project could in no way be separated from the ill-fated Curzon-Vosuqoddouleh agreement of the previous August. The more unlikely the acceptance of the latter by the Iranian parliament became, the less hope was left that a British company would ever be invited to build a railway line in Iran.

In the middle of 1920 the Foreign Office was still concerned about the proper route, for the War Office was strongly opposed to any plans for railway construction in Iran extending to Enzeli and from Tehran to Mashhad as envisaged by Firuz Mirza. The Government of India and the India Office shared the views of the Foreign Office. The Syndicate defended its position against officially raised criticism that as a private company they should not be asked "to convey the wishes of Her Majesty's Government to the Persian Foreign Minister or to alter the pronounced view of the Persian Minister as to the route to be surveyed"<sup>131</sup>. The problems involved in the relationship between a commercial company and the political establishment are further highlighted by the difficulties which the former had to face when it tried to organize a survey of the link with the railway system in Iraq. The Civil Commissioner Col. A.T. Wilson, considered railway-construction a waste of money for the foreseeable future probably as a result of the problems which he had experienced as a political officer in the south-west of Iran. But it was more than that. In general the establishment of a transport monopoly in the Middle East by any combination of interests would be opposed to the policy of HMG, and the Foreign Office could see no prospect for tackling the problems underlying it at this critical

moment in the position of Great Britain in the Caucasus and Iran<sup>132</sup>. Greenway and his colleagues had probably felt that they needed to move quickly in order to escape the disaster which was threatening the structure of Curzon's Middle East policy.

The deteriorating internal situation in Iran, which was leading towards a major political crisis, created more doubts about the decision made in January. By the time the Syndicate was well into the survey, Cox in Tehran began to question the prudence of railway construction in the north and west of Iran in which a recovered Russia would become a dominant factor again one day. British economic as well as strategic interests would still be better served by construction starting from the Gulf in direction of the centre of Iran and simultaneously building several branchlines<sup>133</sup>. The Foreign Office, however, was not prepared to retreat any more on a pre-war position, although it was well aware that the War Office was already preparing the withdrawal of all British forces. Any further discussion had to be delayed until the political situation in Iran had become more stabilised. Only on July 9 1921 did the Syndicate forward the provisional plans and estimates for the construction of the railway from the Iranian frontier near Khanaqin to Tehran. For the branch lines, extension of the Mohammarah - Khorramabad line and the Qazvin - Enzeli line, the Syndicate claimed extension of the time according to the force majeure clause<sup>134</sup>. More than £154,000 had been spent on two surveys in the name of the Iranian Government, including seven per cent interest chargeable for the expenses incurred, when the coup d'état of Reza Khan on 22nd February 1921 finally buried the agreement of 1919<sup>135</sup>. The reawakened nationalism of Iran rejected any cooperation with ventures undertaken in the name of Great Britain in the pre-war period and the years after it. All agreements reached in the post-war period were left in abeyance.

Their newly won room for manoeuvre in foreign policy was used by the Iranian Government to develop a closer political and economic relationship with the USA. The Prime Minister, Qavamossaltaneh, tried to replace the unrealised British loan of £2mill. by one from America. From November 1921 onwards, the Iranian representative in Washington, Hosein 'Ala' established contacts with several bankers, oil and mining companies, among

them Sinclair Oil Corporation and Standard Oil N.J.<sup>136</sup> Their main interest was in the exploitation of the oil resources in north Iran. Up till the end of World War I, the concessionary rights were held by Khostaria, a Russian subject. After the war, the Anglo-Persian Oil Company had bought the concession from him, but the deal was never ratified by the Iranian parliament. Future oilfields in the north of Iran therefore remained a much contested zone of international economic rivalry, in particular between US oil companies and APOC<sup>137</sup>. The idea behind the moves of Iranian diplomats was to combine the granting of concessions for the exploitation of mineral resources with a loan to be used for the development of Iran's infrastructure and agriculture.

But euphoria about future loans soon gave place to a much more realistic approach as neither the State Department nor the Morgan Bank were prepared to organise and underwrite a planned loan of \$10-15mill. The newly appointed US financial adviser, Millspaugh, revised his previous opinion about the necessity for a large loan and opted for a balanced budget as his future policy, after his proposal to raise a loan independently from the north Iranian oil concession against securities of tobacco and opium taxes as well as oil royalties. In spring 1923, hopes for a loan were rising again when several American banks tried to win the backing of the State Department to offer Iran a \$10 mill. loan to build roads and to repay advances made by the Imperial Bank of Persia<sup>138</sup>. This time the State Department was prepared to support the construction company Ulen & Co, which was interested in constructing railways for the Iranian Government and even to provide the necessary \$15 mill. It soon became clear that a joint British-American venture in Iran had not lost its attraction. Its supporters, among them the US Minister in Tehran, argued that Iran needed at least \$25-30 mill. to repay all its debts and to restore its financial stability<sup>139</sup>. This, of course, was only possible when the royalties of the APOC could be mortgaged, but for that, an understanding with the British Government had first to be reached.

Thus, while American politicians and financiers were only discussing whether British interests should be proportionately represented or not, the main departments in the British Government involved in Middle Eastern politics were still pre-

occupied with the strategic advantages and disadvantages of certain proposals. Though probably differing in detail about the future role of the USA in Iran, British policy makers in Whitehall and in India became finally convinced that only cooperation with US policies in Iran would allow them to protect their own interests sufficiently<sup>140</sup>.

In the face of such a traditional way of looking at developments in the Middle East, the PRS tried to rescue as much as possible of its claims in Iran. After direct contacts between Greenway and the new US Minister in Tehran, Kornfeld, in January 1922 to discuss possible cooperation between the Syndicate and interested American groups in Iran, the Syndicate talked again about going it alone with a loan of £20 mill. of which £13 mill. should be spent for the construction of the Khanaqin - Tehran line in April 1922, and the rest used to pay off outstanding debts. This loan was supposed to be secured against customs and royalties not already mortgaged<sup>141</sup> - a proposition which was dismissed by the Foreign Office.

The only advice which the Foreign Office could give was to come to an arrangement with Standard Oil, but it was not prepared to agree to any alienation of any of the Iranian Government revenues, such as oil royalties, for the purpose of a further loan. It demanded therefore that the PRS should not make any loan to Iran without the prior consent of the British Government. Basically, the Foreign Office did not move from this position even when the PRS came under some pressure to make a new offer as two henchmen of the Vali'ahd applied for a railway concession from Bandar 'Abbas through Tehran to Enzeli. Neither that nor the argument of the Syndicate that no British Government could in the end prevent the Government in Tehran from offering oil royalties as a security to US companies which were prepared to assist Iran financially, made any difference<sup>142</sup>. The fears of the Syndicate were not completely unfounded. It had become clear that the Iranian Government would probably take more energetic steps to tackle the question of how to use the surplus revenues if negotiations with US oil companies and with railway builders came to a positive conclusion. As the Foreign Office was still not prepared to move its position the Treasury intervened on behalf of the Syndicate in April 1923,

you are practically prohibiting the Syndicate from making arrangements with Persia for railway construction and finances so long as the Persian Government is in contumacy about its indebtedness. FO policy was not so much to get a settlement with Persia over their indebtedness as to keep a political hold over them by perpetual dunning<sup>143</sup>.

Again fears were spelt out that APOC might become Persia's sole creditor by paying off Iranian debts to the British and Indian exchequer and the Railway Syndicate would take the place of APOC. Already in August 1922, one of the directors of APOC had tried to dispel the fears of the Foreign Office that the Syndicate was used by the oil company as a tool to win overall control in Iran<sup>144</sup>.

In this rather hopeless confusion, the British Minister in Tehran, Sir Percy Loraine, tried to emphasise Iran's need for a railway system to export its agricultural products and to use the construction as a material as well as moral stimulus for the further development of the country. But he still strongly advocated an east-west line connecting the eastern Mediterranean with India, from which a branch line could connect the capital with the main line. The proposal for a north-south axis, which had so often dominated most recent schemes was a fallacy; it would lead to the loss of Iran's independence. The advantages of Loraine's proposal seemed obvious. The line would terminate at the port of Basra; the greatest volume of trade gathered along this route; pilgrims and corpses could be easily and cheaply transported to the Holy places<sup>145</sup>. The initiative of the British Minister had been stimulated too by the offer of Ulen and Co. to help Iran with expertise and money to build a railway. However, the Syndicate had at this point already lost interest in continuing to lobby both the Iranian and British Governments. On 28.6.1923, therefore the Syndicate addressed the Iranian Ministry for Foreign Affairs requesting a definite decision on whether a railway would be constructed and equipped by the PRS, otherwise it demanded the reimbursement of its expenses, £186,973.26, interest included, out of the first loan. The Foreign Office which obviously considered the claim as going rather too far, was not prepared to support it as strongly as the Syndicate would

have liked<sup>146</sup>,

At the same time a number of articles by a Member of Parliament, Oveisi, appeared in several newspapers and journals. He had been supplied with material from various sources, in particular the Ministry of Public Works, where a careful study of the complex problem had been started. Oveisi proposed and discussed a line from Bandar Gaz through Tehran-Qom-Borujerd-Shushtar to the Persian Gulf. To finance the venture, the imposition of a surtax of 2 kran on sugar was proposed. The consumer would soon be reimbursed for any extra expenditure, as the transport of products like wool and dried fruit would become cheaper. The only major difference between this and the railway eventually built in the 1930s was the proposal to construct the line as a rail-road, a kind of a combined motorcar-railcar scheme<sup>147</sup>.

On 23rd October 1923, Reza Khan was elected as the new Prime Minister of Iran. At the end of that year he was studying the question of railway construction intensively. As a result, a north-south line was chosen in spite of its deficiencies. Ulen & Co. was invited to discussions and sent out technical representation, followed by its president. Although the Foreign Office considered the time had come to send out representatives too, the Syndicate was not prepared to follow this advice unless the British Government "could obtain definite assurances of ability and desire of Persian Government to grant a concession to a British group"<sup>148</sup>. Although the Syndicate had for a short time considered the possibility of getting in touch with the American group, and offering them co-operation on a 50/50 per cent basis, "subject to their undertaking to reimburse the Syndicate one half of their outlay up to date" any moves in this direction were soon again abandoned to the annoyance of the Foreign Office, probably in complete misjudgement of the potential of Ulen & Co.<sup>149</sup>. The collapse of Iranian-American relations with the murder of the American consul Robert Imbrie on 18th June 1924 seemed to have confirmed the judgement of the British railway-builder.

Reza Khan and his ministers were not discouraged, however, by the temporary retreat of the American companies, on the contrary they decided to go alone for a 'grandiose development'. Reza Khan was just the right person to pick up all the loose ends

and to push through the construction of the Trans-Iranian railway, whose necessity had been only rarely contested.

In May 1925, after the realisation of the Sinclair loan had disappeared, the British Minister in Tehran seemed suddenly to have detected another chance for the Syndicate finally to be brought back as a serious contender for railway construction, if it joined forces with Standard Oil for a loan and would give up its sole claim. Loraine had also changed his earlier viewpoint that only an east-west line would serve British interests. The north-south line seemed acceptable now even with participation of Iranian capital and personnel. Simultaneously the Baghdad-Tehran line should be built<sup>150</sup>. The ambitious chairman of the Syndicate however, saw a possibility to take over the whole railway programme and if possible to win oil rights in the north of Iran. This ran contrary to the proposal of Loraine who considered the cooperation with Standard Oil as essential. The Indian Government vigorously supported Loraine's proposal although it opted more for the earlier launched east-west scheme. Greenway suggested that the Syndicate would arrange Railway and State loans aggregating £10 mill. : £7 mill. as State Railway bonds to build the first section of line from Mohammarah to Tehran, e.g. Mohammarah to Ahvaz; and £3 mill. for the State Administration.

The bonds should be guaranteed against Anglo-Persian Oil royalties, surplus southern customs and the receipts from the Sugar and Tea monopoly<sup>151</sup>. Neither the Foreign Office nor Co-Directors of the APOC liked Greenway's scheme particularly. The negotiations with Standard Oil did not bring a positive result either. With the foundering of that project, the chances for the PRS to play a major part in Iran's railway construction had finally gone.

In June 1925 a commission was appointed by the Iranian Government to enquire into the validity of the Syndicate's claim. Although the report of the commission admitted the validity of the claims which were generally acknowledged, no decision was taken with regard to the amount claimed by the Syndicate. In the following years representations were made continuously through the Foreign Office until in October 1929 the Iranian Minister in London repudiated any liability on behalf of his Government as both the contracts of 1913 and 1920 had never received the

approval of the majles, as required by the Constitution<sup>152</sup>.  
Although the Foreign Office urged the Syndicate to submit tenders for constructing sections of the Trans-Iranian Railway, it never followed the advice until on 18th March 1938 the PRS went into voluntary liquidation. But the old imperial institution needed another one-and-a-half years before it was finally dissolved on 15th December 1939, nine days before the first through train left Tehran for Ahvaz on the just completed Trans-Iranian Railway<sup>153</sup>.

#### NOTES

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- 1 Issawi, C. (1971) Economic History of Iran, 1800-1914, London, 152
- 2 PRO, FO 371/1186
- 3 Owen, R. (1981) The Middle East in the World Economy 1800-1914, Oxford, 121
- 4 Bakhash, S. (1978) Iran : Monarchy, Bureaucracy and Reform under the Qajars, 1858-1986, London, 113
- 5 Kazemzadeh, F. (1968) Russia and Britain in Persia, 1864-1914, New Haven/London, 148ff; Luft, P. (1975) "Strategische Interessen und Anleihenpolitik Russlands in Iran" Geschichte und Gesellschaft vol. 1(4), 524-526; Popov, A. (1924) "Stranitsa iz Russkoj politiki v Persii" Mezhdunarodnaya Zhizn, 1-4, 134ff
- 6 See PRO,FO 371/7823
- 7 Kazemzadeh, op.cit., 238-39
- 8 According to Entner, M.L. (1965) Russo-Persian Relations, 1828-1914, Gainesville, Florida, 51, after 1910 the road showed a profit and was soon attached to the Caucasus rail system; see also Anan'ich, B.V. (1975) Rossijskoe samoderzhavie i vyvos kapitalov, 1895-1914, Leningrad, 48-78, 180-182



- 9 Entner, op. cit., 53
- 10 Jamalzadeh, S. Mohammed 'Ali (1935) Ganj-e Shayegan, Berlin, 46-51. Internal freight was still carried by pack animals which avoided the charges, Bharier, J. (1971) Economic Development in Iran 1900-1970, London, 195 assumes that up to 1924, freight rates by camel or mule were up to 30 per cent cheaper than those for fourgons or even trucks. A list of transport costs around 1903 in MacLean, H.W. (1904) Report on the Conditions & Prospects of British Trade in Persia, 95, quoted by Issawi, op. cit., 196-199, underlines this fact
- 11 For the merging of the road concessions owned by the Lynch Company and the Imperial Bank of Persia into the Persian Transport Company, see McLean, D. (1979) Britain and her Buffer State. The Collapse of the Persian Empire, 1890-1914, London, 64-70
- 12 Issawi, op. cit., 200-202
- 13 Although Kazemzadeh op. cit., 170-171, points out that the Transcaucasian railway did not improve Russia's competitive position in Persia in the eyes of officials of the Czarist Ministry of Foreign Affairs and in particular I.A. Zinoviev, the Director of the Asian Department, there is no doubt, on the other hand, that building railways in the border areas would have improved the long-term prospects of Russian trade
- 14 See Stadelbauer, J. (1973) Bahnbau und kulturgeographischer Wandel in Turkmenien, Berlin, 108-9, 113
- 15 Kazemzadeh, op. cit., 134-45; Entner, op. cit., 18-20
- 16 See Kazemzadeh, op. cit., chapter 5; Luft, op. cit., 529-535; Entner, op. cit., chapter 3, 39-53
- 17 See the discussion of the various strategic implications in McLean, op. cit., 112-114
- 18 Mejcher, H. (1975) "Die Bagdadbahn als Instrument deutschen wirtschaftlichen Einflusses" "Geschichte und Gesellschaft" vol. 1(4), 459; Cohen, S.A. (1976) British Policy in Mesopotamia 1903-1914, London, chapter 3, 68ff
- 19 For a discussion of various aspects of British railway policy in the southern part of Mesopotamia, in particular the ill-fated Tigris Valley project, see Cohen, op. cit., 108-122, also 104-105; McLean op. cit., 113-115

- 20 Spring, D.H. (1976) "The Trans-Persian Railway project and the Anglo-Russian relations 1909-14", SEER, LIV/1, 61
- 21 Gooch, G.P. & Temperley, H. ed. (1928) British Documents on the Origins of the War, 1898-1914, London, V, no 192, 235, henceforth BD
- 22 BD, V, no 195, 241
- 23 PRO, CAB 16/10; BD, VI, 358-359; See also Treue, W. (1939) "Russland und die persischen Eisenbahnbauten vor dem Weltkrieg" Archiv für Eisenbahnwesen, LXII, 478-89
- 24 Cohen, op. cit., 105
- 25 Cohen, op. cit., 112
- 26 McLean, op. cit., 113; Kazemzadeh, op. cit., 217-218
- 27 PRO, FO 371/503; see also BD, VI, 452, footnote 3; Treue, op. cit., 479
- 28 Spring, op. cit., 62
- 29 McLean, op. cit., 121-122
- 30 idem., 122-123; for a full discussion of the problem on the basis of Western European & Russian archival material see Spring, op. cit., 65-80
- 31 Rittikh, P.A. (1901) Otchet o poezdke v Persyu, St. Petersburg. See also translated excerpt in Issawi (1971) op. cit., 185-189, where the approximate cost of the proposed line Alyat-Tehran-Bushehr (179m. roubles), Alyat-Bandar 'Abbas (183m. roubles) and Alyat-Chahbahar (187m. roubles) are listed and commented on. These estimates were based on the assumption that the lines would be built with government funds. In case of private funding, a further 30 million roubles would have to be added for raising the capital and interest during the period of construction. A memorandum on Persian Railways of 20 June 1911 put the estimates at least 30-50 per cent higher - see PRO, FO 371/1186
- 32 Buchanan to Grey 22/7/1912, FO 371/1434 quoted in McLean op. cit., 123
- 33 Spring, op. cit., 64-71
- 34 PRO, Cab 16/26; Spring, op. cit., 74
- 35 BD, X(1) no 714, 691
- 36 idem., IX, no 809, 768
- 37 Spring, op. cit., 80-81

- 38 Minute, Parker, BD, X(1) no 664, 637; see also Cohen, op. cit., 201
- 39 BD, X(1) no 669, 642
- 40 See BD, X(1) no 686, 662-63
- 41 BD, X(1) no 618, 574-575; no 619, 576-577; Kazemzadeh, op. cit., 593. For the agreement itself, see BD, X(1) no 741, enclosure p.719-720, in particular article 2
- 42 Martin, B.G. (1959) German-Persian diplomatic relations 1873-1912, 'S-Gravenhage, 182 based on "K istorii Potsdamskogo oglashenia 1911 g.", Krasnyi Archiv 3 (58), 1933, 54-55
- 43 BD, X(1), no 599, 550-551
- 44 idem, X(1), no 599, 551; see also Kazemzadeh, op. cit., 553-555, where the incident is characterised as a major move in the whole chain of steps in the coercion practised by the two powers
- 45 BD, X(1), no 645, 614; no 646, 615
- 46 Minute Grey 20.1.1911, PRO, FO 371/1237
- 47 BD, X(1), no 659, 632; see also a minute by Mallet from the FO about a meeting with Hirtzel (IO) PRO, FO 371/1237
- 48 Minute 9.2.1911, PRO, FO 371/3606
- 49 See Minute Hirtzel on Government of India to India Office 23/2/11 in PRO, FO 371/7628
- 50 Cohen, op. cit., 104
- 51 See McLean, op. cit., 114. According to a report by G. Lloyd, a special trade commissioner for Turkey, Mesopotamia and the Gulf, in 1907 the transit trade to Persia was worth almost £2 million. See Cohen, op. cit., 128
- 52 See Cohen, op. cit., 200-201
- 53 See also BoT to FO 25.3.1912 IO L/P&S/10/246. The Board of Trade also questioned the reliability of trade figures for Khuzestan in 1909-10 in order to assess the volume of transit and internal trade. The latter was considered unimportant as the population of the whole province was estimated to be not more than 300,000 - PRO, FO 371/1185
- 54 Report Wilson, A.T. Enclosure P.Cox to Government of India 25.7.1910, IO L/P&S/10/177
- 55 See also Wilson, A.T. (1941) South-West Persia. A Political Officer's Diary, 1907-14, Oxford, 170

- 56 Govt. of India to India Office 12.2.1912 IO L/P&S/10/246
- 57 See Greenway to Mallet 7.1.1911, PRO, FO 371/1185
- 58 McLean, op. cit., 69
- 59 IBP X 7/4, App. V; see also Memo C122, IO P&S/10/246, 60
- 60 Further correspondence, Persia no 1(1911) Cd 5656, Barclay-Grey 15.12.1910, no 205, 114
- 61 Minute of 9.2.1911, PRO, FO 371/3606
- 62 BD, op. cit., X(1), no 689<sup>3</sup>, 666; Grey to Barclay February 14. 1911 no 52, PRO,FO 371/1185
- 63 Barclay to Grey 27.2.1911, PRO, FO 371/1185
- 64 About the reticent position of Sazonov backed by the Ministers of Commerce & Finance, see the exchange of telegrams between the British Ambassador in St. Petersburg, Sir G... Buchanan and the Foreign Office, in particular PRO, FO 371/1185
- 65 BD, X(1), no 712; 689-690; McLean, op. cit., 117
- 66 See Grey to Barclay 29.3.1911, PRO, FO 371/1113; BD, op. cit., X(1), No 713, 690
- 67 McDaniel, R.A. (1974) The Shuster Mission & the Persian Constitutional Revolution, Minneapolis, 196; Kazemzadeh, op. cit., 550-552
- 68 Barclay to Grey 16.10.1911, enclosure, Further correspondence, Persia no 1(1911) Cd. 5656, no 45, 27
- 69 See in particular the note of Hosein Qoli Khan Navvab to Barclay 3.9.1910 in which the Iranian Foreign Minister reiterated the position of his government that concessions for communications will not be granted to foreigners and that his government prefers to retain them for itself, but was forced to give in concerning the option clause, Further correspondence, Persia no 1(1911) Cd. 5656, no 172, 93, enclosure 1. See also Kazemzadeh, op. cit., 554-55
- 70 Marling to Grey 15.5.1910, Further correspondence, Persia no 1(1911) Cd. 5656, no 103, 49-50; Mozakerat-e Majles, doureh-ye dovyom, 207, 209
- 71 Marling to Grey 30.4.1908, Further correspondence, Persia no 1(1911) Cd. 4581, no 113, 117-118
- 72 See e.g. Qava'ed va nezamnameh-ye ferqeh-ye siyasi-ye demokrat-e Iran ('amiyun) 1329<sup>2</sup> or Maramnameh-ye hezb-e ejtema'iyun-ye e'tedaliyun, Dar eqtesad, 119-120 in Mansureh

- Ettehadiyeh Nezam-Mafi, Maramnameh-ha va nezamnameh-ha-ye ehzab-e siyasi-ye Iran dar dovdomin doureh-ye Majles-e Shura-ye Melli, Tehran, 1361 sh/1402 h
- 73 See e.g. the article "Rah-ahan dar Iran" in Iran-e Nou of 23 Rabi'olavval 1328/4.4.1910 in which the construction of railways for the modernisation of Iran and its progress are considered as essential but no more proposals are made about a government policy except a warning never to give concessions to foreigners
- 74 Yaddasht-ha-ye Mostasharoddouleh Sadeq, ed. Afshar, I. (1361) Tehran, vol 1, 197
- 75 See Yaddasht-ha-ye, op. cit., 205
- 76 Barclay to Grey 6.3.1911, PRO, FO 371/1185
- 77 Barclay to Grey 27.3.1911, PRO, FO 371/1185. See also minute by Parker who wanted to slow down the whole process
- 78 Grey to Barclay 27.3.1911; 29.3.1911; Barclay to Grey 1.4.1911, PRO, FO 371/1185
- 79 PRO, FO 371/1185
- 80 See Grey to Barclay 6.3.1911, PRO, FO 371/8296
- 81 McLean, op. cit., 119
- 82 Issawi, op. cit., 193-194
- 83 IBP R7/X 1-2
- 84 Greenway had threatened to proceed with the formulation of the syndicate if Lynch insisted on his proposal. Greenway to Lynch 28.1911; Hawkins (IBP) to Lynch 28.1911; Lynch to Greenway 4.8.1911; Greenway to Lynch 4.8.1911; IBP R 7/1-2
- 85 See Memorandum & Articles of Association of Persian Railways Syndicate Limited, IBP R6/1, App.
- 86 Mallet to Greenway 11.7.1911, IBP R7/1-2. See also McLean, op. cit., 120
- 87 Brown to Greenway 20.7.1911, IBP R7/1-2. The external debt of Iran in 1911 was £6,111,965 (33,004,501 toman) with £320,000 interest and roughly one per cent sinking fund on additional £61,000. See Memo Harris 20.4.1913 to Foreign Office, PRO, FO 371/7866
- 88 Shuster, W. Morgan (1968) The Strangling of Persia, New York, 307
- 89 The lines were: Mohammarah to Khorramabad or Hamadan; Khanaqin-Hamadan; Hamadan-Qazvin; Bandar 'Abbas-Tehran, with

- a branch line to Esfahan; Bushehr to Shiraz and on to Esfahan; Jolfa-Tabriz-Tehran with branch lines from Qazvin to the Caspian ports; Zanjan-Hamadan; Bandar 'Abbas-Shiraz
- 90 Shuster, op. cit., 138; see also McDaniel, op. cit., 163
- 91 Brown to Secretary PRS 30.8.1911 and enclosure; IBP R7/1-2
- 92 PRS to Hawkins (IBP) 15.9.1911, IBP R7/1-2
- 93 PRS to Brown 3.10.1911; Brown to PRS 30.9.1911; PRS to Brown 5.10.1911; PRS to Brown 12.10.1911. The Foreign Office had several times reminded the Syndicate that it should be more co-operative with the Russian representative in Tehran. See Mallet to Greenway 24.10.1911 after Barclay had alarmed the Foreign Office in a telegram on 20.10.1911; PRS to FO 26.10.1911 in which they agreed to keep Russian officials informed, IBP R7/1-2
- 94 Brown to PRS 16.10.1911, IBP R7/1-2
- 95 McLean, op. cit., 119
- 96 Kazemzadeh, op. cit., 658; Anan'ich, op. cit., 172
- 97 Spring, op. cit., 71
- 98 Anan'ich, op. cit., 180-82
- 99 Spring, op. cit., 72-73. As a result of the discussions between Grey and Sazonov in Balmoral in September 1912, the Russian and British Ministers in Tehran were instructed to secure an option for the whole line on the condition that construction would not go beyond Tehran without British consent. See also PRO, FO 371/1434
- 100 A. Wood, Chief manager of the Imperial Bank of Persia in Tehran, who had acted after Brown's return to England as representative of the PRS, handed a draft contract to the Iranian Foreign Minister 'Ala'ossaltaneh on 25.7.1912. Private Wood to Greenway 29.7.1912, IBP R7/3
- 101 The concession was envisaged for the period of 60 years. APOC had promised to lend the Iranian Government £100,000 to build a railway line ('tramway') from the sea in the south in the direction of Kerman. A further £500,000 was to be lent to the Iranian Government at 5 per cent p.a. Wood to PRS 29.7.1912, enclosure Preece to Vosuqoddouleh, IBP R7/3. J.R. Preece, a former British Consul in Esfahan, was the representative of the APOC. It seems that the Iranian Government had made no binding commitment owing to the

- staunch opposition of two ministers in the central government. See Yaddast-ha-ye, op. cit., vol I, 249
- 102 Wood to Townley 4.9.1912, IBP R7/3
- 103 'Ala'ossaltaneh, Minister for Foreign Affairs; his deputy, Mo'inolvozara'; Mostasharoddouleh, Minister for Post, Telegraphs and Public Works and, as foreign advisers the Belgians Wibier, Director General of the Customs, and de Brucq, an engineer, who worked as Director for roads and bridges
- 104 See Dasturo'l'amal-e hei'at-e doulat beh Momtazossaltaneh 22 Ramazan(?) (1330), point four, Yaddasht-ha-ye, op.cit.,
- 105 See in particular a telegram of the Iranian Cabinet to Naserolmolk 15th Ramazan 1330, Yaddasht-ha-ye op. cit., I, 200-201. The Cabinet, although it assured him that it was quite unconstitutional to replace him, drew the attention of the regent to the increasing pressure exercised from Tehran and London
- 106 Townley to Wood 26.8.1912, IBP R7/3. Sa'doddouleh returned to Iran on a Russian gunboat during November 1912
- 107 Townley to Grey 22.1.1913, Enclosure Summary of events, Further correspondence, Persia no 1(1913), Cd.6807, no 561. Townley considered the two brothers Mo'tamenolmolk and Moshiroddouleh the two most reliable and influential members of the Iranian Cabinet. The former had entered the Cabinet under the assurance that, after the railway questions were settled, a considerable advance would follow. He left when only £400,000 had been forwarded and went to Europe, followed soon after by his brother. Annual Report Persia 1913, PRO, FO 371
- 108 Hosein Khan Mo'inolvozara' to Wood 20.10.1912, IBP R7/3
- 109 Wood to Vosuqoddouleh 4.3.1913, IBP R7/3; Townley to Grey 5.3.1913, Further correspondence, Persia no 1(1914), Cd. 7280, no 25
- 110 Persian Railway Syndicate Ltd., Report of Directors, 2nd Ordinary General Meeting 30.12.1913, IBP R6/1-2
- 111 In March 1914 the PRS was forced to ask the Iranian Government under the force majeure clause for an extension of the period for surveying as the disturbed state of Lorestan made any proper working there impossible. In July 1914

- reports and estimates for the future line between Mohammarah and Dezful were submitted, but the rest till Khorramabad was never surveyed due to World War I. The government in Tehran refused to pay the expenses for the preliminary survey until after the necessary investigations had been finished and it had decided in which way the railway should be constructed whether by a concession or as a contract. In the former case the Syndicate had to bear all the expenses for surveying. This unresolved problem became a major bone of contention between the two parties after the war. PRS Report of Directors 23rd Annual, General Meeting 18.1.1935, IBP R6/1-2
- 112 Vosuqoddouleh signed the agreement with the Chief Engineer of the Jolfa-Tabriz Transport Company on 6.2.1913 for the period of 75 years. The newly-founded Tabriz Railway Company took out a loan of 14.44 mill. roubles at 5 per cent. On 21.2.1916 the first train reached Tabriz. Anan'ich, op.cit., 183; see also Kazemzadeh, op. cit., 674-75
- 113 Wood to Greenway 17.2.1913, IBP R7/3
- 114 Wood to Greenway 8.3.1913, IBP R7/3
- 115 McLean op. cit., 125 - About the proposals of the financial adviser of the Société d'Etudes, F.C. Harrison, and the ensuing discussion between the different departments of the British Government during summer and autumn 1913 see Memo F.C. Harrison to Foreign Office, PRO, FO 371/1727. The proposal was for the establishment of an international administration for loans and debts of Iran analogous to the Debt Ottoman
- 116 Already in February 1918 the Admiralty had formulated a programme which was obviously connected with the interests of the APOC. It contained, among others, four railway lines in the south to be built by British companies. Admiralty 24.2.1918, PRO, FO 371/3265 Admiralty 24.2.1918 quoted by W.Zürcher (1978). Persien zwischen England and Russland, 1918-1925, Bern/Franfurt a.M/Las Vegas, 49. For the Anglo-Persian Agreement of 1919 and the negotiations between the Iranian Government and the British Government see Olson, W.J. (1984) Anglo-Iranian relations during World War I,



