

buttress Zahidi's new Government by granting it \$45 million of emergency aid on 5 September 1953. Later that month, Herbert Hoover Junior, son of the former US President, was appointed as special adviser to Dulles on the Iranian oil problem.² His appointment marked the commencement of a new round of negotiations between the three countries.

At the beginning of October the idea was put forward that Hoover should visit Tehran. Eden, wary of Hoover acting as an intermediary, telegraphed Dulles expressing his strong feeling that the immediate objective should be to restore diplomatic relations between Britain and Iran. Negotiations through intermediaries could not, Eden went on, be a wholly satisfactory substitute for direct contact. Although he accepted the suggestion that Hoover should go to Tehran, Eden requested that he should concern himself only with: making it clear that Britain wished to resume diplomatic relations as soon as possible; assessing the political situation in Iran as it affected the oil dispute; explaining the problems involved in bringing Iranian oil back into world markets; and eliciting ideas from the Iranians about a possible oil settlement.³ Hoover was not, in other words, to put forward proposals for a settlement.

On his way to Tehran in mid-October, Hoover stopped in Amsterdam, where he met Gass and Jackson. They gave him the Company's view that 'Having been the party most hurt, we should like to play if possible the biggest part in operating the oil industry in Persia and in disposing of Persian oil'.⁴ In short, they wished the Company to be restored to its former pre-eminence in the Iranian oil industry as far as that was possible. That, as will be seen, remained the view of the board, dominated by Fraser, throughout the negotiations that followed.

The Company's views were not, however, shared by the Iranian Government, as Hoover discovered after he arrived in Tehran on 17 October. Over the next few days he and Henderson had discussions with the Shah, Zahidi, other ministers and a technical commission which Zahidi had set up to advise his Government on the oil problem. In those discussions the US representatives urged the Iranians to resume diplomatic relations with Britain. They also presented a memorandum which set out the difficulties of disposing of Iranian oil in the world's oil markets now that the shortage of oil caused by the stoppage of the Iranian oil industry had been made good from other sources. Emphasising that there was a world surplus of oil, the memorandum stated that the oil companies could not be expected to pay more for

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The consortium, August 1953–October 1954

HOOVER STEPS IN

Although Musaddiq was out of office, he was not yet out of the limelight. Indicted on charges of treason, he continued to uphold his political beliefs at his trial before a military court until he was sentenced to three years' imprisonment on 21 December 1953.¹ In the meantime, with Musaddiq still commanding widespread support and nationalist sentiment running high in Iran, there was no possibility of Zahidi's Government simply repealing the oil nationalisation laws and returning to the *status quo ante*. Nor, however, were the western powers prepared to continue holding out the concessions which had been offered to Musaddiq in the proposals of 20 February 1953. Between these limits, a settlement would have to be found which preserved at least the form of nationalisation, if not its substance.

In the search for a settlement the pattern of international diplomacy assumed the familiar form of a triangular relationship between Britain, the USA and Iran, with the USA acting as an intermediary, trying to form a bridge between the other two countries. This arrangement was not to the liking of the British Government and the Company, who repeatedly stated that their first aim was to restore diplomatic relations with Iran so that negotiations for a settlement could be held directly between the parties to the dispute. Britain's insistence on that point reflected the feeling of unease, shared by the Government and the Company, that an intermediary, which meant in effect the USA, might take an initiative in negotiating a settlement on terms which did not fully uphold British interests.

For its part, the US Government's main foreign policy concern remained the containment of communism, to which end it sought to

Iranian oil than they paid for oil from other Middle East countries. Moreover, the memorandum went on, in other oil producing countries the oil companies were allowed to be in charge of production and refining.

Zahidi, however, had to think not only of the economic aspects of a settlement, but also of public sentiment and political considerations in Iran. He thought it would be difficult for Iran to accept a settlement in which the oil industry in Iran was under foreign control. He also saw no reason why Iran should have to pay compensation if agreement was reached on a 50:50 division of profits. As for the future role of the Company, he made it clear that 'it would be too much for his Government or any other to agree to a settlement that included AIOC's re-entry into Iran, either openly or in disguised form'. Nor, he said, should the Company be allowed a dominant position in any consortium formed to purchase Iranian oil and dispose of it in world markets.⁵ Before leaving, Hoover was presented with an unsigned memorandum giving the Iranians' views.⁶

Meanwhile, on 29 October Fraser and Gass met with Sir Pierson Dixon of the Foreign Office to discuss the line they should take with Hoover, who was to come to London after he left Tehran. They agreed on the stance, consistent with the earlier British view, that the first step should be to re-establish diplomatic relations between Britain and Iran, whereupon direct negotiations between the two countries could commence. Negotiations through intermediaries were, it was still felt, unsatisfactory. On the nature of a future settlement, Fraser thought that the attitude of the Iranians should be ascertained by direct contact before a decision was taken on whether to try for a settlement which involved the Company returning to Iran on its own, or as a participant in a consortium. He thought it was essential that the Company should issue the invitations to other oil companies in the event of it being decided to take the idea of a consortium further.⁷ He was determined, in other words, that the Company should play the leading role.

Hoover arrived in London on 4 November. Beginning that afternoon, and continuing over the next few days, he held a series of meetings with senior Government officials and representatives of the Company. Fraser stuck to the line that the Company wished to have complete first-hand information on the situation in Iran before it would agree to negotiations on any basis other than the Company going back to Iran on its own.⁸ Hoover was not averse to the principle of the Company's restoration in Iran. Indeed, he reported that the US Government and the US oil companies thought that the best solution

to the oil dispute would be for the Company to go back into Iran as sole operator of the oil industry there.⁹ However, he did not believe that the Iranians would accept a settlement on those lines.¹⁰ He could see no prospect of the Company's unpopularity in Iran being eradicated for a long time and said that the Iranians felt 'as a first principle, that the AIOC should not control the oil industry'.¹¹ Hoover also presented the unsigned memorandum which the Iranians had given to him in Tehran. Apart from the usual dose of rhetoric against the Company, it suggested that the NIOC should be responsible for the management of oil operations in Iran and that an international consortium, in which the Company would have only a minority interest, should be formed to purchase Iranian oil and market it internationally. Compensation to the Company should, the memorandum continued, be paid by the other members of the consortium.¹²

By way of response to the Iranian memorandum it was decided, with Hoover's agreement, that Henderson should be asked to inform the Iranian Government that the British could not accept the Iranian proposals and that it was essential to restore diplomatic relations so that direct negotiations could take place between the two countries.¹³ Hoover then departed for New York, where he stayed for little more than a fortnight before the next round in his shuttle diplomacy.

On 27 November, he returned to London for further discussions. The day before his arrival, the Persia (Official) Committee met, with Fraser and Gass present, to discuss the line which should be taken with Hoover. They agreed to reiterate the views which they had expressed before, i.e. that they favoured a resumption of diplomatic relations followed by direct negotiations between Britain and Iran. On the idea of forming a consortium to manage the oil industry in Iran, Fraser said that he did not wish to discuss such a scheme with anyone outside the British Government until it was clear that no other form of settlement was possible.¹⁴ The next day, Hoover met the Persia (Official) Committee and put forward the US assessment of the position. He was pessimistic about the prospects of an early resumption of diplomatic relations between Britain and Iran, doubting whether the Iranian Government could risk such a step while Musaddiq was still on trial and attracting public attention. Time, he believed, was short as the emergency aid which the USA had granted to Iran would not last much longer and the negotiation of a settlement would not be instant. For these reasons Hoover wanted to move speedily and open negotiations with the Iranians on the basis of a settlement involving a consortium on his next visit to Tehran.¹⁵ That was, of course, exactly what the

British wished to avoid, for it amounted to an immediate opening of negotiations through an intermediary while British diplomatic relations with Iran remained broken; and, moreover, it meant accepting the idea of a consortium, which the British were not yet convinced was necessary. Eden, concerned, met Hoover on 30 November. He said that his objective was to resume diplomatic relations with Iran. Once that had been achieved, he would wait for a report from the British representative in Iran before asking the Cabinet to take a decision on how to settle the oil dispute. Hoover agreed not to go to Tehran for the time being, but asked Eden what the British Government would do if, after the resumption of diplomatic relations, its representative in Iran reported that the Iranians would not accept the return of the Company. He thought that the British should prepare for such an event by considering alternatives to the restoration of the Company in Iran. To that end, he wished to have discussions, of a purely hypothetical nature, with the major oil companies on the sort of settlement that might be acceptable if it became clear that the Iranians would reject the return of the Company on its own.¹⁶

Later that same day, the Persia (Official) Committee met to consider Hoover's request. Fraser insisted, as ever, that he could not abandon the idea of restoring the Company's exclusive position in Iran until he had a first hand report on the situation there from a representative of the Company or, failing that, from a representative of the British Government. He pointed out that 'British prestige in the Middle East was at stake and we could not afford to have a consortium forced on us'. Giving nothing of substance away, he agreed to talk to Hoover about the formation of a consortium, but only on the basis that 'he could not commit himself in any way until he knew the facts at first hand about the situation in Persia'. He also agreed to hold informal talks on the idea of a consortium with the other major oil companies.¹⁷

On 3 December Fraser accordingly wrote to the six other major international oil companies which, together with the Company, made up the 'Seven Sisters' of the oil industry, inviting them to come to London at their earliest convenience for discussions of a hypothetical nature on the formation of a consortium. The companies concerned were Royal Dutch-Shell and the five US oil majors: Standard Oil (NJ), Socony, Socal, the Texas Company and Gulf. A few days later an invitation was also sent to the French company, Compagnie Française des Pétroles (CFP). In his letters, Fraser made it plain that in his opinion, and Hoover's, the ideal solution to the oil dispute would be for the Company to return to Iran alone. With a characteristic lack of

decorum, he made it clear that he was only issuing the invitations to discuss a consortium on the insistence of Hoover. He would have preferred, he wrote, to wait for the resumption of diplomatic relations between Britain and Iran and then to open direct negotiations with the Iranian Government.¹⁸

While Fraser showed evident displeasure at being pushed into talks about a consortium by the US Government, he could at least draw cheer from another development in the dispute: the announcement on 5 December of a resumption in diplomatic relations between Britain and Iran. The way was at last clear for Britain to send her own representatives to Iran to assess the situation there at first hand and to prepare the way for negotiations to settle the oil dispute.

THE FORMATION OF THE CONSORTIUM

Pending a decision on the choice of Ambassador to send to Iran, the Foreign Office announced on 7 December that Denis Wright, who had been head of the Economic Relations Department of the Foreign Office since 1951, would be the new *Chargé d'Affaires* in Tehran, where he would be the top-ranking British official until a new Ambassador was appointed.

While Wright prepared to go to Tehran, the oil companies which Fraser had invited to discuss the formation of a consortium sent representatives to London where they held a series of meetings, with Hoover present, in mid-December. In the words of Winthrop Aldrich, the US Ambassador to London, it was the 'largest and most influential group of private companies and respective executives ever gathered together' - no overstatement, considering the combined economic might of the major international oil companies.¹⁹

As chairman of the meetings, Fraser played a leading role, reiterating the point that talks about a settlement had to be on a strictly hypothetical basis until Wright reached Tehran and reported on the prospects of the Company returning to Iran on its own. The Company, he made clear, wished to be restored to its former position in Iran. If this were found to be impossible it should, said Fraser, have the largest possible share of a consortium. He also said that the Company should receive compensation from the Iranian Government as well as payment from the other participants in a consortium, who would, in effect, be buying their shares from the Company.²⁰ It was decided that a working group should be set up to continue the discussions in London early in the new year and that a technical mission should visit Abadan to

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examine the condition of the installations there.²¹ In deciding what course to take next much, however, depended on Wright's report on the situation in Iran.

Wright arrived in Tehran on 21 December, charged with the task of assessing the attitudes of the Iranian Government and people to a settlement of the oil dispute. The instructions which he received before leaving London set out in detail the lines of argument which he was to present in trying to steer the Iranians towards making a direct settlement with the Company, which, his briefing stated, 'would be the most satisfactory outcome'.²² Any British hopes that the Company might be able to recover its exclusive position in the Iranian oil industry were soon, however, shaken. On 29 December Wright had his first meeting with Abdollah Intizam, the Iranian Foreign Minister, and asked whether it would be possible for the Company to go back to Iran. Intizam replied that: 'he was certain that public opinion in Persia would not tolerate the return of the Company and any attempt by the Persian Government to bring them back would greatly embarrass the Government and poison Anglo-Persian relations again'.²³ That view was confirmed by Zahidi, who saw Wright on 6 January 1954 and said that the restoration of the Company in Iran 'would be impossible. The Government could not face being accused of preparing the way for the return of the AIOC'.²⁴ The next day, Wright reported to the Foreign Office that he had taken every possible opportunity of sounding out opinion on the possibility of the Company returning to Iran. With the sole exception of the Pakistani Chargé d'Affaires, whom Wright thought was 'not particularly bright', everyone with whom he had discussed the subject was convinced that any attempt to restore the Company to Iran on its own would be 'doomed to failure'. There still seemed, Wright thought, to be 'much latent support for Musaddiq throughout the country. No Persian Government in the foreseeable future can afford to ignore the nationalism which he stirred up'. It was Wright's 'firm conviction' that if the Iranian Government tried to bring back the Company, it would be 'courting disaster'. He therefore recommended that the British Government should give up the idea of the Company returning in sole charge of the Iranian oil industry and inform the Iranian Government that Britain would be prepared to accept a settlement based on the formation of a consortium which would be responsible for the production and marketing of Iranian oil, provided the Company had a major share in it.²⁵

Wright's report and recommendations marked a turning point in British policy, influencing the Government to abandon hopes of restoring the Company's exclusive position in Iran and to work instead

towards the formation of a multinational consortium to manage oil operations in Iran. This change of policy was agreed by the Cabinet on receipt of Wright's report.²⁶ It had yet, however, to be endorsed by the Company, and Fraser was not easily swayed. On 8 January he saw Eden, who explained the position and asked Fraser to resume discussions about the formation of a consortium with the other oil companies.²⁷ Fraser, unyielding as ever, said that he thought it was too early to conclude that it was impossible for the Company to be restored to its former position in Iran. He suggested that the Iranian Government should be asked to agree to a visit from representatives of the Company, who would form their own judgement about the prospects of the Company's return. Wright was asked for his views on Fraser's suggestion and replied that he thought it would be 'most undesirable' to put Fraser's proposition to the Iranian Government.²⁸

The Persia (Official) Committee, meeting on the morning of 11 January, heeded Wright's advice and decided that the Foreign Office should draft a message for Wright to communicate to the Iranian Government, stating that as the Iranians did not appear to favour a settlement based on the return of the Company alone, inter-company discussions on the formation of a consortium, in which the Company would have an 'appropriate share', were to be resumed.²⁹ However, before that message was given to the Iranians there were two matters which came first: one was to gain the Company's agreement to give up the idea of its 100 per cent return to Iran; and the other was to wait for Hoover to get clearance from the US authorities for the US oil companies to participate in talks on a consortium without running foul of the US anti-trust laws. Concurrently, another matter of key importance was: what share should the Company have in a consortium?

That question was considered at a second meeting of the Persia (Official) Committee on 11 January when it was made clear, with Gass, Snow and Addison present for the Company, that a consortium in which the Company's share was materially less than 50 per cent would be unacceptable to both the British Government and the Company.³⁰ Three days later the Company held a special board meeting at which the directors accepted the idea of a settlement based on a consortium in which the Company would have a 50 per cent interest.³¹ The board's decision was at once communicated to Eden, who requested Makins to show the State Department the text of the statement which had been drafted for Wright to make to the Iranian Government and to explain that the British Government thought the 'appropriate share' for the Company to have in a consortium was 50 per cent.³²

A week later, on 21 January, the anti-trust obstacle to the resumption of talks on a consortium was removed by the US National Security Council, which authorised the US oil companies to go ahead.³³ That hurdle having been cleared, Wright was able, on 23 January, to give Intizam the British Government's message that it had, in effect, given up the idea of the Company's 100 per cent return to Iran and that inter-company talks on a consortium were to be resumed. The message was deliberately vague about the extent of the Company's participation in a consortium, sticking to the wording, agreed earlier, that the Company would have an 'appropriate share'.³⁴ The Company and the three Governments of Britain, the USA and Iran were now all on the same wavelength about one fundamental aspect of a settlement: it would be based on a consortium and not on the Company recovering its exclusive position in Iran.

Action to resume inter-company discussions on a consortium was taken in the last week of January, when Hoover paid another visit to London, where he met the Middle East Oil Committee, successor to the Persia (Official) Committee, on 25 January.³⁵ The next day he lunched at Britannic House and agreed with Fraser the wording of a letter inviting the seven other international oil majors, including CFP, to resume talks on a consortium in London. All of the companies replied, agreeing with Fraser's suggestions that an inter-company working group should meet in London; that a technical committee should be set up and send a technical mission to Iran to inspect the oil installations; and, at a higher level, that the principal representatives of the companies should also meet for further discussions on the consortium.³⁶

During February, a series of meetings of the inter-company working group was duly held and a technical mission was sent to Iran to examine the state of the oil installations.³⁷ It found that the Iranians had maintained the oilfields and Abadan refinery to a high standard and that operations could be restarted with little difficulty at an early date.³⁸

In the meantime, high-level discussions on the consortium were dominated by an issue which was of fundamental importance to the Company: what share would it have in the consortium? As has been seen, the British Government and the Company had agreed that a share materially less than 50 per cent would not be acceptable. That view had been communicated to the US Government, but not in as many words to the Iranians, who had been given the more vague wording that the Company ought to have an 'appropriate share'. The

Americans, however, did not believe that the Iranian Government would agree to a settlement in which the Company's share was as much as 50 per cent.³⁹ This was confirmed by Hoover, who criticised Fraser's attitude at a meeting of the Middle East Oil Committee on 29 January. Hoover said that both the US Government and the US oil companies thought it was 'completely unrealistic' to seek a 50 per cent share for the Company.⁴⁰ He also reported that the US Government was disturbed by British inflexibility in this matter, fearing that the generally favourable prospects of a settlement might be spoilt because of an 'unreasonably rigid attitude' about the Company's share in the consortium. Moreover, although the Americans accepted that the Company ought to receive a consideration from the other oil companies buying shares in the consortium, Hoover did not think that the Iranian Government should have to pay compensation to the Company.⁴¹

After the weekend of 30/31 January, Fraser, Jackson and Gass attended a meeting of the Middle East Oil Committee on Monday, 1 February when Fraser refuted Hoover's statements, saying that none of the US oil companies had made any suggestion to him that the Company's share in the consortium should be less than 50 per cent. Fraser told the Committee that, in the Company's view, 'it was a matter of the greatest importance to British prestige in the Middle East that their share in the consortium should be as high as possible short of control. They could not countenance any suggestion that their share should be reduced because of alleged misdeeds in the past. They were taking the lead in forming the consortium, although it might be commercially more advantageous to sell their interests, but they were willing to give up control and to accept a share of 49 per cent.'⁴² With Hoover and Fraser in disagreement, Sir Harold Caccia, who had succeeded Dixon as Deputy Under-Secretary at the Foreign Office, reported that Hoover had told him earlier that day that 'someone' – unspecified – had suggested a split of 40 per cent for the Company, 40 per cent for the US companies and 20 per cent for Royal Dutch-Shell.⁴³

After Hoover returned to the USA on 7 February, the US Government continued to argue that it would not be possible to reach a settlement in which the Company held 50 per cent of the consortium. In a State Department *aide-mémoire* handed to Makins on 19 February it was suggested that the Company might have 35 per cent, the US companies 35 per cent and Royal Dutch-Shell 30 per cent. The *aide-mémoire* also made it clear that the State Department would not advise the US companies to go to London for further talks until

agreement had been reached on the apportionment of shares in the consortium.⁴⁴

In London, Fraser, Jackson and Gass discussed the problem with Caccia on 22 February. Later that day Eden telegraphed Makins, saying that he would agree to a Company share of 44 per cent in the consortium, with the remainder being split equally between the seven other companies which had taken part in the London talks. Eden wrote that the British Government would 'in no circumstances' agree to the split proposed by the State Department.⁴⁵ On 23 February Makins met Dulles, with Hoover and Byroade present, and handed over a note based on Eden's instructions.⁴⁶ Two days later the US Government put forward new proposals, suggesting that the shares in the consortium should be 40 per cent for the Company, 40 per cent for the US companies, 18 per cent for Royal Dutch-Shell and 2 per cent for CFP. The State Department made it clear that this offer of a 40 per cent share for the Company was 'final and had been confirmed at the highest level'.⁴⁷ The British Government was satisfied that it would not be able to get better terms for the Company, which had no option but to accept the US proposal. As Fraser explained at a Company board meeting on 1 March:

The State Department had said categorically that any proposal to give AIOC more than 40 per cent interest would be unacceptable and that that decision had been confirmed at the highest level. The Foreign Secretary had stated that there was no likelihood in these circumstances of securing a modification of this decision and had indicated – at the same time making it clear that there was no thought of putting pressure on the AIOC Board – that Her Majesty's Government were very anxious to see the Persian situation cleared up if it were at all possible in view of present international conditions.⁴⁸

After considerable discussion, the directors agreed that although they were 'exceedingly disappointed' by the terms they were 'prepared reluctantly' to accept a 40 per cent share in the consortium for the Company.⁴⁹ The Foreign Office informed the State Department of the board's decision, emphasising that the British Government was not prepared to see the Company's share reduced further. In reply the State Department agreed that the Company's 40 per cent share was not a matter for further negotiation.⁵⁰

The Company's share in the consortium having been settled, the way was open for the principals of the participating companies to gather again in London for further discussions. Between 9 and 14 March a series of meetings took place in the course of which it

became apparent that the Company and the US oil majors were far apart, first on the sum which was to be paid to the Company by the other members of the consortium in consideration for their shares and, secondly, on the amount of compensation which the Company was to claim from the Iranian Government. As regards the consideration to be paid by the other companies, Fraser asked for an initial payment of £120 million followed by further payments per ton of oil produced which, at prevailing exchange rates and production forecasts, would have amounted to some £140 million over twenty years. The Company also expected the other members of the consortium to pay about £20 million for their shares of stores and oil stocks. In all, therefore, the Company wanted a consideration, much of which would be payable in future years, of £280 million.⁵¹ The US companies, on the other hand, suggested a payment of £32.4 million in the first year of operations, followed by payments per ton of oil exported in future years until a further £138.6 million had been paid. There should, they argued, be no payment for stores and stocks.⁵² The total consideration suggested by the US companies was thus £171 million, most of it to be paid from production in future years. On compensation from the Iranian Government, Fraser suggested that the Company should receive 110 million tons of free oil over twenty years, which at current prices (but not costs) would add up to about £530 million over the period.⁵³ The differences between the Company and the US majors were thought by Royal Dutch-Shell to be of an 'alarming magnitude' and there was no sign of compromise from either side as strongly worded memoranda were exchanged in an atmosphere of obvious acrimony.⁵⁴

In Washington, Dulles, hearing of the deadlock between the companies, sent for Makins urgently on 17 March and spoke to him 'most earnestly' about the crisis which had developed in the inter-company talks. Dulles placed the blame squarely on the Company, whose financial claims were, he said, 'utterly unrealistic'. They were, he went on, not only considered unreasonable by the US oil companies, but would be 'completely unacceptable' to the Iranian Government. Dulles warned that the US Government was not prepared to urge the US companies to refrain from breaking off negotiations, as was their intention, unless there was a 'drastic change' in the Company's attitude.⁵⁵ His stern message, passed on to Eden by Makins, was:

The United States had been trying to do two things in Persia: to establish a stable, friendly and reasonably strong country capable of resisting Communist penetration, and to preserve the rights of the

foreign investor and concessionaire against expropriation. Now, if it was impossible to secure both objectives, it might be necessary 'to concentrate on the former, and salvage what was possible'.

More generally, it had been Mr. Dulles' policy to work closely with us in the Middle East; to leave us in the lead and, in general, to defer to our judgement. But the outstanding problems did not seem to get settled, and the United States Administration observed a tendency on our part to 'overstay the market'... if we could not agree about the oil problem, he believed the United States Administration would have more often to take their own line and rely on their own judgement in dealing with Middle Eastern countries and problems. He did not want to do this, more especially as he realized the ill-effects that this would have over the whole field of our relations... But the position taken by the AIOC was completely unrealistic, and he felt that a turning point had been reached, not only in the oil dispute, but in the policy of Anglo-American solidarity in Middle Eastern affairs.⁵⁶

As this message makes clear, Fraser had taken Anglo-American harmony to the brink of destruction by his hard bargaining. The oil dispute had taken him far beyond the normal bounds of commerce to the point where his actions quite literally threatened to upset Britain's most important foreign alliance. Makins thought that if the negotiations broke down there would be 'no sympathy or support in any American heart for what will universally be regarded as the obstinacy and unreasonableness of the AIOC... nobody here believes that Her Majesty's Government could not bring her influence to bear on the Company'.⁵⁷

Eden intervened to retrieve the situation. In reply to Dulles, he presented calculations to show that when future payments to the Company were discounted to give their present value (by a technique known as discounted cash flow which has become the accepted method for rigorous financial analysis), the real financial worth of the amounts claimed by the Company was much less than that indicated by a simple aggregation of future payments. Moreover, distinguishing between prices and costs, he pointed out that the Company could obtain 110 million tons of oil from Kuwait at a cost of very much less than £530 million.⁵⁸ Although Eden was on sound economic ground in presenting these arguments, he also tried to placate the Americans by the expedient which came to him more naturally than it did to Fraser: he made concessions. With regard to the consideration which the other participants in the consortium were to pay to the Company, he told Fraser to come to a compromise.⁵⁹ As for the compensation to be paid by the Iranian Government, Eden said that this would be negotiated by

the British Government and not by the Company. The amount proposed by the British Government was a payment of about £100 million spread over twenty years.⁶⁰ In other words, Eden took the negotiation of compensation out of the Company's hands and greatly reduced the amount which was claimed.

On 19 March Fraser explained the situation at a Company board meeting, at which the directors agreed to try to reach a compromise on the consideration to be paid by the other companies for their shares in the consortium.⁶¹ At meetings later that day the other companies put forward revised proposals under which the Commencement of Iranian oil £32.4 million in the first year after the re-commencement of Iranian oil exports, plus payments per ton of oil exported from Iran by the other consortium participants until £182 million had been paid. The total consideration would therefore be £214.4 million.⁶² On 20 March the Company's board met again to consider the revised proposals. Fraser explained that both Eden and R. A. Butler, the Chancellor of the Exchequer, had indicated that although they thought the offer was unsatisfactory, it represented the best that the Company was likely to get. The board decided to accept the proposals subject to a satisfactory settlement being reached on the other issues.⁶³ Further disappointment was, however, to follow on the amount of compensation to be sought from the Iranian Government.

After the board had reached its decision Eden telegraphed Makins, pointing out that the Company, having already agreed to a share of only 40 per cent in the consortium, had now accepted the 'extremely low' offer of consideration from the other participants in the consortium. In the circumstances, anything less than net compensation of about £100 million from the Iranian Government would, wrote Eden, be 'derisory'. In instructing Makins to convey these points to the State Department, Eden requested him to emphasise that the Company had made heavy sacrifices to meet the US Government's views. The British, he went on, now felt entitled to ask the US Government for support on the crucial matter of compensation. If that support was not forthcoming: 'it will not be clear to any ordinary person what is the difference between a policy of Anglo-United States solidarity and the United States administration taking its own line.'⁶⁴ The State Department, however, continued to try and make the terms more palatable to the Iranians. Instead of agreeing that the Company should receive compensation of about £100 million, the Department suggested that this figure should be the *maximum* to be paid.⁶⁵ That principle was incorporated in an understanding on compensation which was reached

between the US and British Governments.⁶⁶ At a Company board meeting on 30 March Fraser reported that the inter-governmental understanding provided for the Company to receive net compensation (after allowing for Iranian counter-claims) between a minimum of zero and a maximum of £100 million. The amount would include payment by Iran for the Naft-i-Shah oilfield, the Kirmanshah refinery and the Company's distribution facilities in Iran, all of which were to be taken over and run by the Iranians. However, the Company's loss of future profits and the value of its other assets in southern Iran – which though formally nationalised would in fact be operated for profit by the consortium – were to be excluded from claims for compensation on the grounds that they were covered by the consideration which the other participants were to pay to the Company for their shares in the consortium. Fraser said he was 'extremely disappointed by the final terms of the understanding', but could think of no alternative which would be acceptable to the Governments. The directors, with no other option before them, agreed that the sum to be paid for compensation should be in accordance with the inter-governmental understanding.⁶⁷

That settled, the inter-company talks in London came to a close with the signing of a memorandum of understanding on 9 April. The memorandum provided for the formation of a consortium in which the shares would be: 40 per cent for the Company; 14 per cent for Royal Dutch-Shell; 8 per cent each for the five US companies of Standard Oil (NJ), Socony, Socal, Texas and Gulf; and 6 per cent for CFP.⁶⁸ This arrangement was later modified in April 1955 when each of the US companies gave up one-eighth of its holding so that a 5 per cent share could be made available for nine smaller US oil companies to hold through the joint organisation which they formed for the purpose, the Iricon Agency.⁶⁹

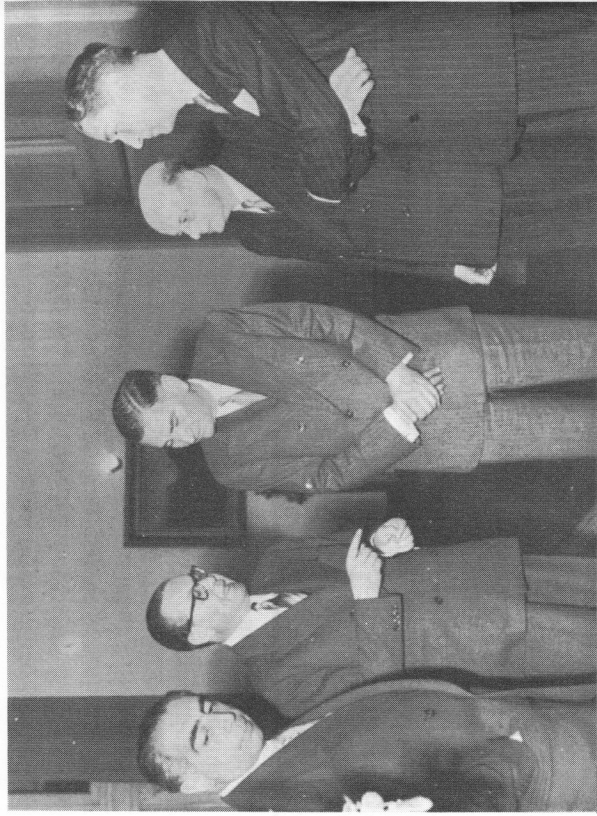
FINAL NEGOTIATIONS IN TEHRAN

After agreement had been reached in London on the formation of the consortium, negotiations moved to Tehran, where discussions were held between representatives of the consortium and the Iranian Government on arrangements for the future operation of the Iranian oil industry. At the same time, the matter of compensation was dealt with at inter-governmental level, the main British negotiator being Sir Roger Stevens, who had been appointed Ambassador to Tehran.

The consortium negotiating team, consisting of Orville Harden of Standard Oil (NJ), John Loudon of Royal Dutch-Shell and Snow of

the Company, arrived in Tehran on 11 April. Snow was accompanied by his Company colleagues, J. Addison, D. Anderson, P. T. Cox, K. Le Page and J. M. Pattinson. Hoover had arrived earlier and with Henderson had already seen Zahidi, Intizam and Ali Amini, the Finance Minister, who was to be the head of the Iranian negotiating team. Other members of that team were Murtiza Bayat, chairman of the NIOC and a former Prime Minister, and Nuri Isfandiari, who had previously been an Imperial Delegate in London. The main consultant to the Iranian Government was Torkild Rieber, who had advised the World Bank in its negotiations with Musaddiq in 1952. In addition to these leading figures there was a large supporting cast of assistants, interpreters and secretaries and an audience of onlookers including representatives of the consortium companies who came to Iran as observers.

The next five weeks were taken up with intensive discussions on the issues to be settled in terminating the dispute. Between 20 April and 10 May a series of five meetings took place on compensation, in which the British side, led by Stevens, and the Iranians, led by Amini, exchanged claims and counter-claims without agreement being reached.⁷⁰ Parallel with the talks on compensation, between 14 April and 18 May sixteen meetings were held between the consortium negotiators, headed by Harden, and Amini's team on the myriad of matters, too numerous to catalogue, to be settled in reaching agreement on the future operation of the Iranian oil industry.⁷¹ Two matters, in particular, stood out as problems. The most important was the question of who was to have effective managerial control over oil operations. The consortium negotiators insisted that the consortium must have effective control, but the Iranians felt that they could not be seen to agree to an arrangement which smacked of a return to the pre-nationalisation concessionary days. They suggested as a possible solution that the consortium might carry out producing and refining operations as an agent of the NIOC. The consortium negotiators agreed to put that idea to the participating companies.⁷² Secondly, there were differences about the nationality of the operating companies which the consortium proposed to establish to conduct operations in Iran. The Iranians felt unable to accept the suggestion that the companies should be British for fear, once again, of seeming to acquiesce in the revival of the pre-nationalisation concession. They wanted the operating companies to have Iranian nationality, to which the consortium negotiators had objections.⁷³ These matters, together with the question of compensation, had not been settled by 19 May, when the consortium negotiators left Tehran for London.



86 Consortium negotiators talking with Iranian ministers in Tehran, 12 April 1954. From right to left: John Loudon, Harold Snow, Orville Harden, Abdullh Intizam and Ali Amini

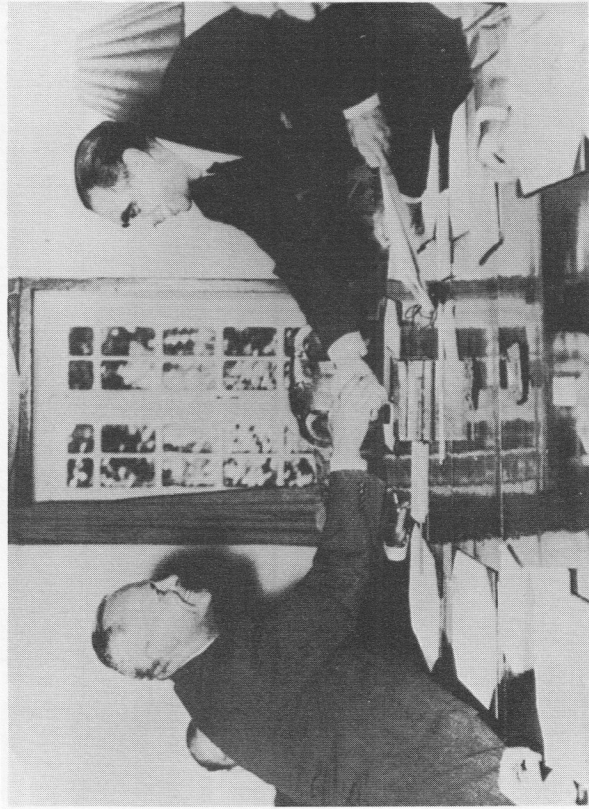
Their arrival in London was followed by a new round of inter-company meetings which resulted in the negotiators being authorised to agree with the Iranians that the consortium might operate the Iranian oil industry as, in effect, an agent of the Iranian Government, which would be the owner of the assets operated by the consortium.⁷⁴ This arrangement was designed to preserve the principle of nationalisation whilst giving the consortium effective control of oil operations. As regards organisational structure and the nationality of the operating companies, it was agreed that the consortium should establish three principal companies: a holding company incorporated in England and owned directly by the members of the consortium; and two operating companies of neutral (Dutch) nationality, which would conduct the operations of production and refining respectively. In addition, a service company was to be formed in Britain to procure supplies for the operating companies.⁷⁵

On 16 June Hoover left London for Tehran, to be followed three days later by the consortium negotiators, now led by Howard Page of Standard Oil (NJ) in place of Harden, who was not well.⁷⁶ On 21 June

Page, with Loudon and Snow, presented Intizam with the proposals that had been agreed in London.⁷⁷ Beginning the next day and ending on 24 August, a series of thirty-three meetings was held between the two sides led by Page and Amini respectively.⁷⁸ Concurrently, between 30 June and 3 August, seventeen meetings were held on compensation, with Stevens taking the lead for the British.⁷⁹ The outcome of the compensation meetings was a settlement, initialled by the two sides on 4 August, under which the Company was to receive net compensation of £25 million payable over ten years beginning on 1 January 1957.⁸⁰ These terms were publicly announced on 5 August.⁸¹ On that same day, Page and Amini issued a joint statement outlining the agreed basis on which oil operations were to be restarted in Iran.⁸²

Over the next few weeks Page and Snow shuttled back and forth between Tehran and London for discussions with the numerous interests and advisers involved in bringing the agreement on principles to a final conclusion.⁸³ Eventually, the oil agreement was signed in Iran at 2.00 am on 19 September and flown by chartered plane to The Hague, where it was signed by Royal Dutch-Shell, CFP and the two operating companies later that day. Between 1.30 and 3.00 am the next day, it was signed by Fraser at the Berkeley Arms, an hotel near London Heathrow Airport. On the 21st, the US oil companies signed and Amini submitted the agreement to the Majlis. A month later to the day, the Majlis gave its approval by a vote of 113 in favour, 5 against and 1 abstention. On 28 October, the Iranian Senate followed suit by 41 votes in favour, 4 against and 4 abstentions. On the 29th the Shah gave his royal assent.⁸⁴

In its essential features, the agreement provided for a consortium holding company, Iranian Oil Participants Ltd (IOP), to be incorporated in England and have its headquarters there. The IOP was to be the parent of two wholly owned operating companies, incorporated under the laws of the Netherlands, which would operate the oil industry in southern Iran. They were the Iraanse Aardolie Exploratie en Productie Maatschappij (Iranian Oil Exploration and Production Company), which was to undertake exploration and production; and the Iraanse Aardolie Raffinage Maatschappij (Iranian Oil Refining Company), which was to undertake refining. The operating companies were to be registered in Iran, to have their headquarters there, and to include two Iranian directors on their boards. They were to be the sole operators of the oilfields and Abadan refinery, which they were, in effect, to manage on behalf of the NIOC, which was to be the owner of the assets. Another consortium company, Iranian Oil Services Ltd, was



87 Howard Page and Ali Amini at the conclusion of the oil agreement, September 1954

to be incorporated in England with its headquarters in London. Its function was to provide the operating companies with supplies, engineering services and non-Iranian staff.

Apart from being the owner of the oil industry in southern Iran, the NIOC was also to be responsible for providing infrastructure such as industrial training, public transport, road maintenance, housing, medical care and social amenities. In addition it was not only to own, but also to manage the Naft-i-Shah oilfield, Kirmanshah refinery and internal distribution facilities, all of which were concerned with supplying Iran's home market. Profits made from the oil operations under the consortium's control were to be divided equally between the consortium and the Iranian Government, preserving the principle of 50:50 profit sharing which had become the norm in the Middle East.

As to duration, the agreement was to last for twenty-five years, with provision for three five-year extensions, giving a maximum duration of forty years. However, each of the extensions was conditional on a reduction in the area covered by the agreement (initially about 100,000 square miles), so that in the last five-year period it would be about half the size of the original area.

On the matter of compensation, as has been seen, the Company was to receive a net sum of £25 million from the Iranian Government in ten equal instalments starting on 1 January 1957. The Company was also to receive a sum of £32.4 million from the other consortium participants in the first year of operations, plus a further payment per ton of crude oil produced until \$510 million (£182 million at prevailing exchange rates) had been paid. Finally, the Company's share in the consortium was the 40 per cent which had been negotiated earlier in 1954.⁸⁵

No sooner had these terms received the Shah's assent than the Company tanker, the *British Advocate*, berthed at Abadan on 29 October and began loading the first cargo of Iranian oil under the consortium agreement.⁸⁶ The Iranian oil industry was back in operation.

CONCLUSION

The terms which had been offered to Musaddiq in February 1953 had gone a long way to meet his demands and would have excluded the Company from taking part in oil operations in Iran, leaving it with only a share in a consortium formed to purchase and distribute Iranian oil exports. However, with the fall of Musaddiq and the accession to power of Zahidi, the British and Americans were at last able to negotiate with an Iranian Government which was much more prepared to come to a compromise than Musaddiq had been. Having gone to their limits in making concessions to Musaddiq, the western powers now looked upon the proposals of February 1953 as a once-only offer which, having been rejected, was no longer available.

Fraser, seeing the opportunity to re-assert the Company's interests, hoped that the Company could be restored to its former position of having sole charge of the oil industry in southern Iran. However, the US and British Governments, influenced by the reports of Hoover and Wright respectively, did not believe that it would be politically possible for Zahidi's Government to agree to the Company's return to Iran as the exclusive operator of the oil installations. It was, of course, impossible for Fraser to flout the combined authority of the US and British Governments, and he and the rest of the Company's board had no alternative but to agree to participate in a consortium, which would operate the Iranian oil industry. At that stage, the British Government and the board shared the view that the Company's share in the consortium ought to be 50 per cent, or marginally less if that was necessary. As had happened so often throughout the oil dispute, the US