Government took a different view, being prepared to sacrifice the Company's interests in order to make the terms of a settlement more acceptable to the Iranians. On this occasion, the Company was, in effect, forced by pressure from the USA to agree to a share of 40 per cent in the consortium.

Fraser, contesting every inch of ground, then sought a consideration from the other members of the consortium and compensation from the Iranian Government on terms which were considered so unreasonable by the Americans that the US Government threatened to break away from the Anglo-American alliance in its policies in the Middle East. In seeking to uphold the Company's interests, Fraser was on the verge of causing a split between the two closest western allies. Eden intervened to mend the damage, taking the negotiation of compensation out of the Company's hands and subsequently agreeing to a sum which left Fraser and the board again feeling disappointed. It might seem that the Company, having suffered this series of disappointments, did badly out of the final settlement. Yet most writers on the oil dispute have tended to regard its outcome as a defeat for Iran.[87] Why should that be so?

In the end, the Iranian Government had gained very little of substance out of the dispute. The NIOC was, it is true, the owner of the oil industry in the south of the country, but with the consortium exercising effective managerial control over operations, the vesting of ownership with the NIOC was really no more than a token gesture of nationalisation. Moreover, with the profits from Iranian oil exports being split 50:50 between the Iranian Government and the consortium, Iran gained nothing more than other Middle East oil producing countries had obtained without going through more than three years of hiatus. In fact, having to pay compensation as well as divide the profits made from Iranian oil equally with the consortium, Iran retained less of the profits made from its oil than other producing countries did from theirs. In short, Iran won little from the crisis.

On the other side, the Company also appeared to have lost from the dispute. It had, in effect, given up 60 per cent of its interests in Iran in return for a consideration from the other members of the consortium which dissatisfied Fraser and the board, plus compensation from the Iranian Government which was also regarded as inadequate. How could such a result be regarded as a victory? The answer is twofold.

First, the Company was so successful in making good the loss of its Iranian oil supplies by turning to other sources that a 40 per cent share in the Iranian oil industry was at least as much as it needed for its business. Indeed, the Company's 100 per cent return to Iran would probably have been a commercial embarrassment in that it would have added greatly to the surplus of supply over demand which had been a persistent and growing problem in the Company's business for some time, as was seen in earlier chapters. A 40 per cent share in the consortium was, therefore, very satisfactory for the Company on commercial grounds.

Secondly, there was the matter of the Company's wider position in the international oil industry. Fraser and the board were, of course, aware that the Company did not desperately need Iranian oil and, as has been mentioned, they had come to look upon the dispute primarily as a matter of prestige, which the Company could not afford to lose in case its position in other oil producing countries was thereby undermined. On that score, the Company's honour was satisfied not merely by its 40 per cent share in the consortium, but, more importantly, by the manner in which the seemingly inexorable advance towards its complete exclusion from Iran had been put into reverse during the crisis. For that, the Company paradoxically owed a large debt of gratitude to Musaddiq who, having played with great effect on US fears of communism to wring concession after concession out of the British, was offered terms in February 1953 which would have left the Iranians in charge of their own oil industry and the Company with no more than a share in a consortium responsible for the international marketing of Iranian oil exports. At that point Musaddiq made the great mistake of failing to realise that he had extracted all the concessions he could get. Having driven the USA and Britain to their limits, he asked for still more and precipitated his downfall, opening the way for new negotiations with Zahidi's Government. Fraser seized on the opportunity to recover lost ground and upheld the Company's interests with characteristic vigour. He could not, as he hoped, secure the complete reinstatement of the Company in Iran. However, the final terms of the settlement represented a great recovery from a situation which in early 1953 had looked a virtually lost cause for the Company. From the Company's point of view, Fraser, so often criticised by Government ministers and officials for his stiff resistance to the exclusion of the Company from Iran, was vindicated.

20
Conclusion

By any measure, the Company achieved a tremendous expansion in the scale of its operations in the 1930s and 1940s. Its crude oil production rose from some 6 million tons in 1930 to more than 40 million tons in 1950, an annual compound rate of growth of about 10 per cent. Most of that crude oil was processed at Company refineries, whose combined throughputs increased from about 6 million tons in 1930 to over 30 million tons in 1950, a rate of expansion which, high as it was, could not match the burgeoning production of the Company's prolific oilfields. As was seen in chapter 11, the Company therefore turned increasingly to crude oil sales to dispose of its output in the postwar years.

Most, but not all, of the growth in crude oil production and refining took place in Iran, which remained, throughout the period up to 1951, overwhelmingly the most important centre of operations. In 1930 the Company's oil exports from Iran came from just two oilfields, at Masjid i-Suleiman and Haft Kel. By 1950, however, the Company had seven producing oilfields in Iran. These accounted for about three-quarters of the Company's crude oil production, the remainder coming from the Company's producing interests in Iraq, Kuwait, Qatar and Britain, all of which came onstream in the period covered by this volume. In crude oil refining, the Company acquired or constructed, as whole- or part-owner, seven new refineries in the 1930s and 1940s. They were at Lavera and Dunkirk in France, Kirmanshah in Iran, Haifa in Palestine, Venice in Italy, the Eurotank refinery in Germany and a refinery in Kuwait. Adding these refineries to those which had come into operation earlier, the Company wholly or partly owned twelve refineries by the end of 1950, with others already planned or soon to be acquired at Antwerp, the Isle of Grain in Kent and

Hamburg. Abadan, far and away the most important, was the largest refinery in the world and Britain's greatest single overseas investment. Conversely, the Company was easily the largest foreign investor in Iran, where the number of its employees and contractors rose from about 31,000 in 1930 to 80,000 in the late 1940s; and capital expenditure increased from some £2.3 million in 1930 to £17.6 million in 1949.

The financial rewards which the Company earned looked to be growing even faster than its physical operations. Between 1930 and 1950 consolidated pre-tax profits grew from approximately £6.5 million to nearly £86 million, a remarkable average annual growth rate of close to 14 per cent. Figures such as these would seem to give substance to the impression, popularised by Anthony Sampson in his book *The Seven Sisters*, that the international oil majors, of which the Company was one, were able to reap huge rewards from the oil industry over which they exercised virtually untrammelled dominion through joint production companies such as the IPC, restrictive contracts such as the Red Line Agreement and marketing cartels, most notably the famous Achnacarry accord.[1] Accredited with virtually mystical powers, the major oil companies were, according to Sampson, 'invulnerable to the laws of supply and demand' and seemed 'often enough like private governments, to which the Western nations had deliberately abdicated part of their diplomacy'.[2]

The picture of smooth, unruffled dominance over market forces and nation states is not, however, altogether convincing on closer inspection of the Company's fortunes in the period, starting with its profits. With perfect data, much light could be thrown on the Company's performance by examining the real worth and sources of its profits. In this case, unfortunately, the data are seriously deficient for such a purpose, not least because the Company did not produce consolidated accounts, aggregating the results of all its subsidiaries in a single statement, until later in its history. A *post hoc* consolidation of the accounts, done for the purposes of this volume, cannot possibly compensate fully for the shortcomings of the original data, but it does at least help to elucidate the financial results of the Company and its subsidiaries as a group. Allowing for the inaccuracies which inevitably accompany such an exercise, some conclusions may be drawn.

To that end, some summary financial data are presented in table 20.1, covering the period 1929–50 except for the abnormal years of World War II. Column (a) confirms the growth in pre-tax profits from £6.2 million in 1929 to £85.7 million in 1950, giving the impression, noted above, of dazzling financial results. An adjustment for price inflation is, however, required to gain a more realistic measure of the Company's profits. The adjusted data, displayed in column (b) of table 20.1, show a considerably less spectacular peak in pre-tax profits of £33.8 million in 1950. That figure, it should be noted, was more than double the pre-tax profit made in 1949. The reason was, very largely, the devaluation of sterling from US \$4.03:£1 to US \$2.80:£1 in September 1949. At a constant dollar/sterling exchange rate the real pre-tax profit in 1950 would have been more like £23.5 million. Thus, by adjusting for price inflation and currency devaluation, the Company's pre-tax profit in 1950 is cut from a heady figure of £85.7 million to a more sober £23.5 million.

The rise in pre-tax profits from £6.2 million in 1929 to the adjusted figure of £23.5 million in 1950 was still, it should be said, very substantial, representing an average annual rate of growth of about 6.5 per cent. How was that achieved? A large part of the answer is again given in table 20.1, which shows in column (c) the great increase in the Company's physical sales of oil from 5.8 million tons in 1929 to 39.8 million tons in 1950. The pre-tax profit per ton, unadjusted for price inflation and currency devaluation, is shown as an index in column (d) and gives the flattering impression that profit margins doubled between 1929 and 1950. However, the data in column (e), which are adjusted for inflation and devaluation, give a different picture. As can be seen, between 1929 and 1950 the Company's adjusted pre-tax profit margins per ton of sales fell by nearly half, from an index of 100 in 1929 to 55 in 1950. The main cause was a fall in real crude oil prices, shown in columns (f) and (g).

This brief statistical excursion has not been without purpose: it has given a broad measure of the growth in the Company's pre-tax profits after making appropriate adjustments; and it has indicated roughly how those profits were made. Despite the development of the alkylation process for the manufacture of aviation spirit, the installation of cracking plant to produce larger volumes and higher grades of motor spirit and the entry into petrochemicals (described in the next volume), the Company's growing profits were not fundamentally based on the development and commercial exploitation of a new product or products. Nor, despite continuing improvements in production techniques, were they founded on one or more cost-reducing technological breakthroughs. Mergers and acquisitions took place in, for example, the Company's postwar expansion into European markets, but they were relatively few in number and minor in scale. None of these possible sources of increased profits accounted for very much com-

Table 20.1 *The Company's profit margins, 1929–1938 and 1946–1950*

	(a) Pre-tax profits at current prices (£millions)	(b) Pre-tax profits at constant (1929) prices (£millions)	(c) Sales tonnage (million long tons)	(d) Index of pre-tax profit per ton at current prices (1929 = 100)	(e) Index of pre-tax profit per ton at constant prices (1929 = 100)	(f) Crude oil at current prices (US \$ per barrel)	(g) Index of crude oil at constant prices (1929 = 100)
1929	6.2	6.2	5.8	100	100	1.27	100
1930	6.5	7.1	6.0	101	111	1.29	103
1931	3.6	4.2	5.7	59	69	0.65	60
1932	3.5	4.1	6.2	53	62	0.87	81
1933	3.1	3.8	6.6	44	54	0.67	65
1934	5.3	6.1	7.4	67	76	1.00	91
1935	5.3	6.0	8.0	62	70	0.97	86
1936	7.8	8.2	8.8	83	87	1.09	91
1937	9.8	9.0	10.4	88	81	1.18	86
1938	8.7	8.0	10.1	81	73	1.13	82
1946	28.9	15.3	20.4	133	70	1.06	44
1947	37.3	17.1	24.0	145	66	1.55	56
1948	51.0	21.0	29.2	163	67	2.11	69
1949	41.2	16.7	33.2	116	47	1.84	59
1950	85.7	33.8(23.5)*	39.8	201	79(55)*	1.71	53

* Figures in parentheses are at constant sterling/dollar exchange rate.

Sources: BP consolidated balance sheets (see Appendix 1); G. Jenkins, *Oil Economists' Handbook* (5th edn London, 1989), p. 3. The price index used in calculating profits at constant prices is that for plant and machinery in C. H. Feinstein, *National Income, Expenditure and Output in the United Kingdom, 1855–1965* (Cambridge, 1972), table 63.

pared with the dominant thrust behind the Company's expansion: the production and sale of ever greater quantities of oil, albeit at falling margins.

The rapid growth of the Company's sales and its rising profits were made possible by economic conditions which were fundamentally extremely favourable. The underlying trend was one of steeply rising demand for oil, which increasingly displaced coal as an energy source and was an essential fuel for a new generation of consumers for whom road transport became the norm.[3] Although world oil supply grew still more rapidly than demand, resulting in falling prices and pressure on margins, the growth in oil consumption provided the Company with great opportunities to increase its sales of the very low-cost Middle East oil which it possessed in such abundant quantities.

While favourable underlying economic conditions enabled the Company to expand, there was another, more compelling factor forcing the pace: the Company's overriding desire to retain its concessions in producing countries, especially Iran. As was seen in chapter 11, Fraser laid it down as the basis of the Company's postwar policy that the rate of growth of production in Iran should at least keep pace with the growth in world production. That policy was founded on the realisation that failure to preserve Iran's position in the international oil industry would cause the Iranian Government to become dissatisfied with the Company, whose concession would then be at risk. A rapid rate of growth was, therefore, seen as a prerequisite for the retention of the concession. For the same reason, it was explicitly laid down by Fraser that the Company should aim to achieve steady, constant growth, free of large fluctuations. For concessionary reasons, the Company therefore sought not only to expand its sales rapidly, not minding falling margins, but also to avoid the turbulence of peaks and troughs. The goal, in short, was one of smooth, stable growth.

In setting that aim, Fraser would no doubt have been aware that the Company had repeatedly found that it was unable to influence its economic and political environment sufficiently to achieve the goal of stability. The Achnacarry Agreement setting out the basis of the 'As Is' principles was a case in point, failing to insulate the Company from the great economic depression of the early 1930s. In fact, when the 'As Is' principles were at their zenith, the Company was making less return on its capital than at any other time between 1929 and 1951. In a clear demonstration of the linkage between economic conditions and concessionary relations, the slide in profits brought about by the great depression resulted in a fall in the amount of royalties payable to Iran,

which in turn triggered the cancellation of the D'Arcy concession by Riza Shah in 1932. After the negotiation of the 1933 concession the same pattern of events was repeated in the late 1930s, when the economic downturn of 1938–9 made Riza Shah dissatisfied with the Company's performance. On that occasion, the possibility of the concession being cancelled was averted by Cadman on his visit to Tehran in 1939. However, it was not long before the wartime fall in Iranian oil exports, and hence revenues, again prompted the Shah to threaten action against the concession, an event which was avoided by the 'make-up' payments agreement of 1940. The pattern was unmistakable: economic fluctuations, whatever their causes, resulted in concessionary instability.

It was not, of course, only the Iranian Government that suffered a loss of revenues when the Company went through economic downturns. So too did the Company. On such occasions it administered the well-tried remedies of severe cost-cutting. Between 1930 and 1932, during the great depression, the number of Company employees and contractors in Iran was cut by more than half, from some 31,000 to about 15,000. Between the same dates, capital expenditure in Iran was reduced from more than £2.3 million to a mere £74,000. Meanwhile, the sum paid out as dividends to shareholders was brought down from approximately £3.6 million to £1.7 million. A decade later, in the early 1940s, the same measures had to be taken. The number of employees and contractors in Iran, having risen to 49,000 in 1938, was reduced to 29,000 in 1940 as Iranian oil exports were cut back after the outbreak of war. At the same time, capital expenditure in Iran, having climbed to £10.4 million in 1938, was pruned to £3 million in 1940. The shareholders once again saw their dividends fall as the sum paid out was reduced from £6.1 million in 1937 to £2.1 million in each of 1939 and 1940. These movements, and the subsequent recovery during and after the war, are plotted in figure 20.1, which stops short of the greatest upheaval of all: the Iranian crisis of 1951–4.

These fluctuations call into question the glib assumption that the Company and the other oil majors were masters of the environment in which they operated, using their vast size and resources to control events to their own advantage. It would seem that the Company's main success lay less in achieving the stability which it would have liked than in coping with its unstable and uncertain environment. In that situation, there were three characteristics of the Company which most obviously helped it to weather the various shocks to which it was subjected. One, already described, was the flexibility which the

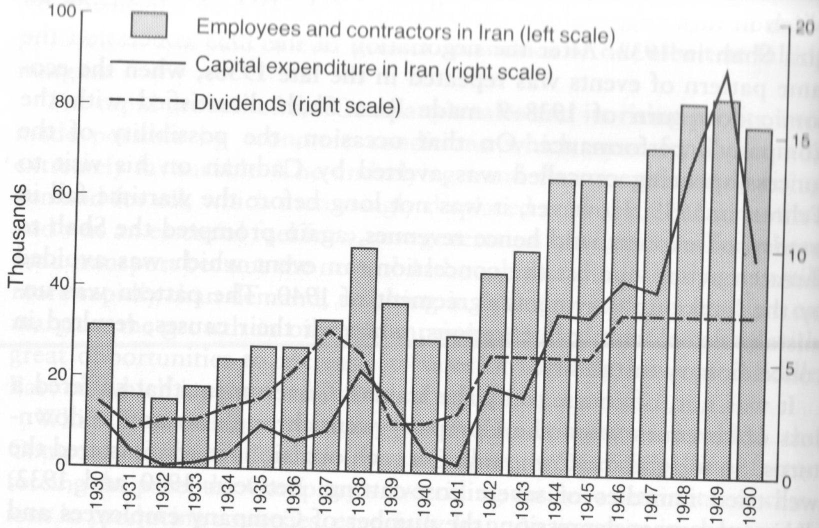

Figure 20.1 Fluctuations in the Company's investment, employment and dividends, 1930–1950

Company showed in retrenching deeply and rapidly when conditions were adverse. A second was the Company's large scale and diversity of interests, the advantage of which was most clearly demonstrated in the crisis of 1951–4, when the Company, having been deprived of its Iranian oil supplies, was able to turn to other sources to sustain its business. A third factor which contributed importantly to the Company's resilience was its financial robustness, the product of a consistent policy of maintaining an exceptionally strong balance sheet. This may have looked very conservative and unadventurous in expansive phases of the cycle, but when downturns came, the Company's high liquidity and virtual absence of debt ensured that it would not be plunged straight away into financial difficulties.

In financial policy, as in other economic matters, there was, on the whole, a smooth transition from Cadman to Fraser. The same could not, however, be said about the spheres of government relations and international affairs, in which the Company was involved to a most unusual degree, even by the standards of international oil companies, during this period. Why did matters of state and diplomacy require so much attention, diverting management from concentrating on the economic functioning of the business? To some degree, this was the consequence of the growth in state intervention in the British economy,

which, as was seen in chapter 12, reached new peacetime levels in the postwar years. In that respect, the Company's experience of government regulation and interference would have been shared by other businesses. However, the interest of the Government in the Company's affairs went much further than that. From its formation in 1909 the Company had, in effect, been marked out as a special case, largely because it was dealing with a strategic commodity which was of great importance to the defence of the realm. It was primarily for that reason that the British Government had acquired its majority shareholding in 1914. Although the Government undertook not to interfere with the commercial operations of the Company, its position as a majority shareholder inevitably tended to politicise the Company, which, whether it was true or not, was widely seen as an arm of the British Government. On balance, it was not in the Company's interest to be closely associated with a declining imperial power in an age of rising nationalism. It might have helped in the negotiations for the concession in Kuwait, but on the other hand the Government's shareholding had the effect of excluding the Company from oil-rich Venezuela. As for the diplomatic support which the Company had from the British Government in the two major concessionary crises of 1932–3 and 1951–4, that surely would have been given as a matter of national interest, regardless of the Government's shareholding.

Most importantly, the Government's shareholding contributed to the Iranian impression that the Company was a state within a state in Iran, where the Company was repeatedly accused of interfering in the country's internal affairs. That damaging image was exacerbated by the Company's involvement in matters which extended beyond narrowly commercial activities. There was very little in the way of amenities and infrastructure in the southern part of the country, where the Company's oilfields and the Abadan refinery were located. As a result, the Company had to be self-sufficient, importing virtually all of its needs and establishing its own facilities. Townships grew up, utilities were provided, education promoted, communications and transport links inaugurated and housing constructed under Company auspices. The result was the creation of an enclave community, which appeared to the Iranians as a form of private government. Moreover, in the Company's early years the area in which it operated was under the control of local chieftains such as the Bakhtiari Khans and the Shaykh of Muhammara, with whom the Company had to make its own arrangements for security and other matters. One of the consequences was that the Company was accused of having interfered in local affairs, over which the central government in Tehran had little authority.

The Company was so closely involved in government relations and international affairs that its chairmen were required to deal with issues which were far outside the realms of activity normally associated with business. Cadman found this no hardship. By background and temperament he moved easily between the worlds of business and government, displaying consummate diplomatic skills in his dealings with representatives of governments, whether they were British officials and ministers or the autocratic Riza Shah. After successfully negotiating the 1933 concession, Cadman even volunteered to act as a kind of special envoy to Iran in negotiating a general Anglo-Iranian treaty, an idea which, in the event, the British Government turned down.

Fraser was a different character altogether. A complete oilman, he had proved himself under Cadman to be generally capable of dealing with the running of the Company's business. However, after Cadman died and Fraser became chairman, he had to spend more time on political and diplomatic matters, in which he lacked the skills of his predecessor. Moreover, he had the ill luck that his chairmanship happened to coincide with a high watermark of government involvement in the affairs of the Company. A forthright personality, his autocratic, abrasive and uncompromising temperament made him unpopular with British officials and ministers from the very beginning of his chairmanship.

Fraser's relations with the British Government, already strained, were tested virtually to breaking point during the nationalisation crisis of 1951–4. In the eyes of civil servants and politicians, he took a narrow view of the Company's interests and held to it so determinedly that he seemed at times to be an obstacle to the reaching of a settlement. To his critics, both then and later, this has been regarded as a failing of Fraser's, who might, it has been argued, have headed off the nationalisation crisis if he had been more willing to make concessions to Iran. For example, Acheson thought that the confrontation with Iran might have been avoided if more heed had been paid to the example of Aramco in Saudi Arabia, 'graciously granting what it no longer had the power to withhold'.[4] On the other hand, it could be said that without Fraser's fearlessly staunch defence of the Company's interests, the Company would have been 'sold out' by the western powers for the sake of bringing the dispute to a swift conclusion, assuaging US fears that a protracted crisis might open the door to communist control of Iran. Seen in such a light, the Iranian dispute

was not a case of western governments abdicating matters of international diplomacy to the Company: it was exactly the opposite – a case of the Company being treated as a pawn, to be sacrificed if necessary for the sake of the USA's overriding concern with the global containment of communism.

Each view of Fraser contains elements of truth. The Supplemental Agreement did indeed look like a measure which offered too little too late after Aramco and Saudi Arabia reached their 50:50 profit sharing agreement at the end of 1950. However, once the Supplemental Agreement had been rejected and Musaddiq had come to power what concessions could anyone have made which would have satisifed him, short of giving in completely to all of his demands? As it was, he extracted concession after concession in the many rounds of negotiations before the western powers eventually concluded that it was impossible to reach agreement with him. In short, if Fraser was uncompromising so too, in at least equal measure, was Musaddiq. That, of course, was the essence of the problem: the parties to the dispute were so far apart that there was no compromise settlement which would have been regarded as satisfactory by the opposite sides.

The same difficulty besets assessment of such a controversial figure as Fraser – there is no middle ground on which to rest a final judgement which would be universally accepted by such disparate groups as US politicians and officials, their British counterparts, Company shareholders (other than the British Government) and Iranian nationalists: not to mention historians of various persuasions. It can, however, be said with certainty that Fraser acted in what he perceived to be the interests of the *Company*. If those interests did not conform with the international strategic concerns of the USA, or other powers, that did not alter Fraser's conception of the Company's cause, to which he remained utterly committed.

Although Fraser and the board were disappointed with some of the terms of the final settlement, the conclusion of the nationalisation dispute was unmistakably a watershed in the Company's development. The Company may have held a 40 per cent interest in the consortium, but Iran was no longer the dominant centre of its operations, investment and employment, or the main plank of its forward planning. Having been forced to diversify its sources of oil supply during the crisis, the Company had developed a wider, more balanced spread of international interests, which gave it a much more multinational character than before. To these changes of substance was added a change of name when, on 16 December 1954, an extraordinary general

88 Changing the plaque at the entrance to Britannic House, Finsbury Circus, London to show the name The British Petroleum Company instead of Anglo-Iranian Oil Company, December 1954

meeting of shareholders agreed that the Company should be known not as the Anglo-Iranian Oil Company, but as British Petroleum. That decision symbolised the passing of the Anglo-Iranian years and the opening of a new era: an epoch in the Company's history.

APPENDIX I
A note on statistics and their sources

FINANCIAL STATISTICS: THE CONSOLIDATION OF ACCOUNTS

In this volume the term 'the Company' has been used with a certain amount of latitude to describe a group of companies consisting of a parent company, the Anglo-Persian Oil Company (APOC) – renamed the Anglo-Iranian Oil Company (AIOC) in 1935 – which was not only a holding company, but also traded in its own right; and numerous subsidiaries and associates such as the D'Arcy Exploration Company (engaged in exploration and production), the British Tanker Company (engaged in shipping) and various overseas marketing subsidiaries and associates.

In such a group, no assessment of the financial results and position of the group as a whole is possible without consolidated accounts which combine the assets and liabilities, revenues and expenditures of the constituent companies into a single annual balance sheet and profit and loss account. However, in the case of the group collectively described as the Company, the accounts of the parent, APOC/AIOC, were published separately from its subsidiaries until 1947, when consolidated balance sheets began to be published, but excluding most of the marketing subsidiaries and the Tanker Insurance Company. In order to give a consistent overall picture of the Company's finances for the purpose of this history, the annual balance sheets of the constituent companies were consolidated for each year. In a few minor cases the balance sheets of subsidiaries were not available and one or two of the overseas subsidiaries drew up their accounts in a form which was not ideal for the purposes of consolidation. The statistics cannot, therefore, be taken as exact, but it is considered that they are sufficiently accurate to give a useful indication of the Company's financial results and position.

In compiling them, and in extracting data on, for example, capital expenditure, use was made of the series of schedules which were used as the basis for the contemporary preparation of the accounts. They can be found in the file series BP CRO 4P 6001–7086 and contain far greater detail than appears in the published accounts.