

pipeline, no refinery and no production, Greenway in his last years had a group of subsidiary companies providing the markets of Europe with products, refineries in England, Scotland, France and Australia, bunkering stations around the world and exploration activities in the Middle East, South America, Africa and Europe. It had not been achieved easily but the administrative structure needed to sustain the development and implementation of agreed policy had replaced individual initiatives and the inappropriate system of the managing agents in Persia.

The experience which Cadman brought to the Company was different. Cadman's training was technical not commercial. He had first proved his ability as a mining inspector in coalfields, in the Colonial Service as adviser on mineral affairs in the West Indies and as a Professor of Engineering at Birmingham University in lecturing on the importance of the practical application of scientific principles. His experience of human affairs broadened during his appointment as the head of the specially formed Petroleum Executive in the latter years of the First World War. To the detachment and impartiality of the scientist he joined the administrative discipline of the civil servant and the tact of the diplomat.

A warm approachable person, he was decisive in action. His major contributions to the Company were the recognition of the importance of properly coordinated administration based on a carefully differentiated structural organisation, the rigorous application of scientific principles to operational requirements, the definition of objectives with reference to related financial criteria, cost accounting and budgetary control, and the desirability of formulating policy by collaborative action between fully responsible managing directors reporting collectively to the Board. Beyond these practical considerations was his vision of international cooperation and understanding, his dislike of inefficiency and waste, his emphasis on research to utilise all the constituents of oil, his missionary sense of the need to conserve a primary resource of energy for the use of mankind and not squander it for the selfish advantage of a single generation.

After a precarious childhood and an unpromising adolescence, the Company grew up in the twenties to become, by 1928, one of the major international oil companies in a period of intense competition, technical change and national concern. The early stages of these developments constitute the first part of this corporate biography of BP.

I

THE ACQUISITION OF THE D'ARCY CONCESSION 1901

I THE STATE OF PERSIA IN 1900

The land of Iran has frequently resembled a crossroads of peoples on the move, or, in more settled times, a caravanserai for the exchange of goods and ideas. With the arrival of the Medes and the Persians at the end of the second Millennium a cultural distinctiveness began to emerge. This found its earliest and most notable expression in the Achaemenian Empire, established by Cyrus the Great (559–530 B.C.), until its collapse in 323, a victim of its own decadence and the energy of Alexander the Great. Two major dynasties succeeded, the Parthians (250 B.C. – A.D. 224) and the Sassanians (A.D. 224–642), before the forces of the Prophet in 642 brought Iran within the Islamic orbit.¹ The centuries that followed were marked by an assimilation of Islamic cultural influences, a revival of the Iranian consciousness and the absorption of incursions from Central Asia, such as the Saljuqs in the beginning of the eleventh century, the hordes of Chinghiz Khān two centuries later and the raiders of Timūr in the latter part of the fourteenth century.²

In a sense modern Iran is identifiable with the founding of the Safavid dynasty in 1501, contemporary with the Mughals, Ottomans and Elizabethans. Based on Shī'ite precepts, in spiritual and secular affairs, a recognisable state was created with a centralising administration completely subservient to the Shah and his court. With Shāh 'Abbās, (1587–1629) trade was royally patronised, Armenian merchants were encouraged and commercial contacts with Europe expanded. Unfortunately the political ineptitude, persecution of minorities, court intrigue and the lack of military vigilance of later Safavid rulers resulted in an ignominious defeat in 1722 by marauding Afghans. Apart from the ephemeral glory of capturing Delhi in 1739, achieved by the military adventurer, Nādir Shāh, and the enlightened but brief rule of Karīm Khān Zand and his son Lutf 'Alī (1750–94) over the southern regions around Shirāz, for much of the eighteenth century Iran was in a chaotic state.³ Then in 1786 the ruthless eunuch Aqā Muhammad Khān taking Tehrān,

seized control over the country as the leader of the Qājār northern tribal confederacy, and inaugurated a new dynasty.⁴

This extremely brief survey does not do justice to the great variety of events and influences which have interacted and shaped the chequered pattern of Iranian history, but it does perhaps indicate, and to some extent explain, the phenomenon that 'both national and individual insecurity is perhaps the dominant characteristic of modern Persian history'.⁵ This was particularly true of the Qājārs, a weak dynasty in a weakened country, who in spite of surviving for over a century as rulers of Iran never fully succeeded in holding the allegiance and respect of their people. In internal affairs they adopted a conservative bureaucratic policy of minimal interference in established social and economic conditions, which caused an increasing internal stagnation. Aware of modern developments, most of the Qājār rulers generally lacked the power or the determination to reject or accept them and prevaricated by trying to ignore them. Meanwhile Fath 'Alī Shāh (1791–1834), uxorious in his pursuits and luxurious in his pleasures, deliberately revived pretensions to an earlier pre-Islamic age of imperial grandeur by imitating Achaemenian rock reliefs and patronising the arts, especially architecture and painting. The Qājārs exercised only a nominal control over the provinces apart from Āzarbāyjān, where the heir-apparent resided. This further contributed to a gradual weakening of authority in the country and revenue failed to keep pace with expenditure, straining the economy. Fath 'Alī Shāh welcomed the renewed European interest in his country occasioned by the Napoleonic Wars. Such pride, quite natural in itself, was disastrous when it coincided with attempts to recover lost territories such as Georgia without proper consideration of national resources or military capabilities, especially during the unsuccessful wars with Russia, which led to the humiliating Treaty of Turkomānchay in 1828. The memories of such defeats contributed to the latent sense of xenophobia which often arose in moments of crisis.

After the accession to power in 1848 of Nāsir al-Dīn Shāh, however, there were signs of a new vision appearing, both of the desirability of a more representative form of government and for industrial development.⁶ There was a feeling that the institutions of state were inadequate and that a programme of foreign assistance was required. Between 1850 and 1860 the first Persian official newspaper appeared, published weekly, and authorised by the Prime Minister, Mīrzā Taqī Khān.⁷ Under the auspices of the same minister an establishment of higher education, Dār al-Funūn, was founded in 1851, to supplement the traditional clerical training, with courses in geometry, medicine, surgery, pharmacy, mineralogy, military strategy and languages staffed by Austrian instructors. Unfortunately the minister fell from favour and was murdered and it was not until the

appointment of Mīrzā Husayn Khān as Prime Minister in 1871 that a more serious and sustained effort to inaugurate reforms was undertaken.⁸ The Prime Minister had served as ambassador in Constantinople and was acquainted with Persian reformers, including Malkam Khān Nāzīm al-Dawla, whose writings, such as *Usūl-i Tamaddūn*, the Principles of Civilization, on constitutional and administrative affairs, no less than his position as Minister in London were of fundamental importance to the movement for reform.⁹

Convinced of the appropriateness of the measures he was proposing, impatient at the delays in implementing them, Malkam Khān advocated rapid action, 'for the sake of the prosperity of Iran, it is necessary to introduce companies from abroad'. Persia could not remain in isolation, splendid or squalid, its guarantee of survival was economic not military so 'the leaders of the state must, without delay, turn over the construction of railways, the operation of mines, the establishment of a bank, and all public works and structures to foreign companies... the Government of Iran must grant as many concessions to foreign companies as possible'.¹⁰ It was a radical and controversial programme inimical to traditional religious authority.

Many Iranians were exasperated at administrative inefficiency, military ineffectiveness and widespread corruption. Some, like the Prime Minister, were hopeful that 'men can by correct policies in time make small nations great and powerful', but he realised also that 'men can also, through negligence and indifference, obliterate a great nation'.¹¹ Others were more pessimistic, even fatalistic, such as Amīn al-Dawla, a later Prime Minister, who despairingly remarked in 1878 that, 'there is nothing we can do. Day by day we become more desperate... We want to become world famous for excellent outstanding deeds but we have no plan, no organisation, no money.' The reason was that, 'Alas! All were busy looking after themselves and reaching out for personal gain; yet they claimed the Shah opposed reforms. To repeat: the Shah had lost confidence in his officials and they in him.'¹² Indeed the tragedy of the modernising movement was that, far from leading to an increasingly cohesive society with commonly recognised objectives, it aggravated internal political contradictions and roused religious opposition.¹³ Thus, by the time a constitution was ultimately conceded by a reluctant ailing Shah, its importance was undermined by a lack of fundamental social and economic changes or improvements in the administration of justice. Many modern ideas proved to be incompatible with the traditional forces of society. It curbed the power of the monarchy, but it was a revolution *manqué*. Iran in comparison with similar countries such as Egypt or Turkey had developed little in the course of the nineteenth century.¹⁴

The limited programme of industrialisation failed to materialise through a series of misfortunes attributable to ambitious, unrealistic, ill-conceived schemes; lack of basic infrastructural support; sharp practices; resource failures and insufficient understanding. The unfortunate *de Reuter Concession* of 1872 and the *Tobacco Régie* of 1891 were the most blatant of the failures, but not necessarily the most reprehensible in the frenzied concessionary activity towards the end of the century, which responded more to the avaricious character of the royal Court than to the economic requirements of the country. Foreign investment in Iran which was insignificant in 1900 and was less than £30m in 1914, was not generally welcomed because it offended the religious susceptibilities, antagonised the merchant class and played into the hands of political opponents, who criticised its anti-national implications. It also provoked increasing distrust of the Qājār dynasty and its form of government, which was thereby further weakened at a time of the growing impact upon Iran of Anglo-Russian rivalry in Asian affairs. Professor A.K.S. Lambton, the distinguished historian of Persia, has remarked of the earlier part of the century, 'the Persian Government was not primarily interested in trade, which played little or no part in determining government policy . . . It had no specific trade policy nor did it have any consistent policy for the development of the internal resources of the country; and insecurity and maladministration militated against their development by private individuals.'¹⁵

This was equally true at the end of the century. Manufacturing hardly existed, whilst there was no change in the organisation of the guild system, so that artisans remained dependent on the bazaar and its association with the mosques.¹⁶ For example, the revival of carpet-making as a form of cottage industry owed more to the initial enterprise of a Swiss firm, Ziegler and Co., than Persian appreciation of its commercial possibilities.¹⁷ Education and social attitudes were not inclined towards an understanding of modern technical requirements and commercial practices. So, for this and other reasons, the administration of the customs services was entrusted to Belgian officials in 1898 who were considered to have no political axe to grind in the country.¹⁸ Thus, at the opening of the twentieth century, Persia was insecure and unstable, full of opposing tensions, socially disturbed, politically troubled, economically deprived and religiously agitated.

When William Knox D'Arcy was granted his oil concession in 1901, Iran had a population of about nine million people distributed over an area of 628 000 square miles, much of it barren desert and mountainous. The climatic conditions and scenery are extraordinarily varied.¹⁹ Agriculture and related activities occupied 90 per cent of the working population and contributed to 80–90 per cent of GNP, estimated at £70 million. Literacy

was minimal, over 95 per cent of the population being illiterate. A quarter of the population was tribal in character and small villages predominated in the countryside. Only Tehrān, Tabrīz and Isfahān had populations of over 100 000. Communications were rudimentary with only 8 miles of railway and some 800 miles of roads, the remainder being little more than mule tracks, as there was hardly any wheeled traffic. The total government revenue for 1900–1 was estimated at approximately 67 million krans (£1.3 million), and foreign trade in 1895–6 amounted to imports of £4.86 million and exports of £2.8 million. Julian Bharier concluded in his study of Iranian economic history that, in 1900 Iran was an 'almost isolated state, barely distinguishable as an economic entity. There were signs that the economy was developing but at the turn of the century it still remained one of the most backward countries in the world'.²⁰

2 BRITISH INTEREST IN PERSIA

The earliest British contacts with Iran of any importance were those made by Anthony Jenkinson on behalf of the Russia Company in 1562 at Qazvīn when he presented to Shāh Tahmāsp a letter from Queen Elizabeth I requesting permission to trade and open friendly relations. The Shah, reluctant at first to offend the Ottoman ambassador, with whom he was then negotiating, and the Armenian merchants, who virtually controlled the overland foreign trade, subsequently authorised the trade. Six trading expeditions of varying success were launched, through Russia, over the Caspian Sea and into northern Persia, principally exchanging cloth for silk. They were abandoned in 1580, following the anarchy which afflicted the country after the death of Shāh Tahmāsp.²¹ Following the establishment of the Levant Company in 1581, one of their merchants, Ralph Fitch, and some companions journeyed from Aleppo to Hormuz, an island emporium at the entrance to the Persian Gulf, in 1583 to ascertain prospects for trade in that direction before being arrested by the Portuguese.²²

The arrival in 1598 of the adventurous Sir Anthony Sherley and his brother, Robert, at the newly established capital of Shāh 'Abbās, Isfahān, seeking fame for himself and proposing a European alliance to combat the Ottomans, was a bizarre event.²³ It, nonetheless, caught the imagination of the Shah, who throughout his reign envisaged mounting a trading boycott with European assistance against his Ottoman enemies. Thus, when agents of the East India Company arrived with their first cargo of goods at the little port of Jāsk in December 1616, they were welcomed by the Shah with promises of ample returns in silk so as to divert the trade from Turkey and curb Portuguese power in the Persian Gulf based on

Hormuz.²⁴ The expectations of the merchants were optimistic, for, as they picturesquely expressed it, 'we ayme not at gnatts and small flyes, but at commerce honourable and equal to two so mighty nations', but they had misgivings about the stability of the country for 'If God should call this Kinge it would bee a question whoe should suckceed'.²⁵

The trade, mostly in cloth and silk, that followed in the seventeenth and early eighteenth centuries between Persia and England either sea-borne by the merchants of the East India Company or carried overland by the merchants of the Levant Company, was not spectacular or extensive. It was, nevertheless, fairly regular and contributed to some of the prosperity which marked the later Safavid period. There was little complementary political involvement. An embassy under Sir Dodmore Cotton in response to a Persian one of 1625 reached Persia in 1628 towards the end of the reign of Shāh 'Abbās but its reception was perfunctory – and it made no lasting impression.²⁶ Occasional royal letters were exchanged. Trade suffered in the aftermath of the Safavid collapse and a belated attempt of the Russia Company to revive its trade to northern Persia by Jonas Hanway in the 1740s was unsuccessful.²⁷ The unsettled conditions and general insecurity of the countryside forced the East India Company to withdraw its representation from Isfahān, Shirāz and Kirman and abandon in 1763 its base at Bandar 'Abbās in favour of Bushire further up the coast. By 1778 trade had almost dried up except in local commodities.

Major British interest in Iran did not arise until the nineteenth century, as a result of the threat posed to the imperial possessions in India by Napoleon's expedition to Egypt in 1798. The Governor-General of India, Lord Wellesley, fearful lest the French should instigate the Afghans under Zaman Shāh to attack British frontier posts or march further inland, sent an elaborate mission to Persia under Captain John Malcolm. In January 1801, Fath 'Alī Shāh and Malcolm concluded political and commercial treaties.²⁸ Inevitably the changing alliances and fortunes of the European powers had their effect on the Persian court. Fath 'Alī Shāh, who was upset because the British were not prepared to protect him from attacks by the Russians, with whom they were allied, on his Caucasian provinces, reached an agreement with Napoleon, then at the height of his power, at the Treaty of Finkenstein, May 1807. He pledged himself to declare war on the British, break off all diplomatic and commercial connections, allow French troops right of passage through the country and receive a French mission to organise his army and establish commercial relations. His purpose was to safeguard Persian territory from Russian encroachment and ensure the restoration of Georgia to Persia by Russia. Yet less than three months later Napoleon and Czar Alexander I made peace at Tilsit, after General Gardanne, the French envoy, had left for Persia, where he

arrived in November 1807 and had the Treaty ratified. It was a pyrrhic victory for, although Gardanne was personally energetic and respected, the failure of the French to support Fath 'Alī Shāh against Russian attacks on Erivan in October 1808 was resented. So the Shah was pleased at the arrival of a British embassy despatched by the Foreign Secretary in the charge of Sir Harford Jones with full powers to negotiate.²⁹ It was the first occasion since the embassy of Sir Dodmore Cotton that London had taken such an initiative and it presaged a closer interest in Persian affairs by successive British Governments. In March 1809, he concluded a further Treaty with Fath 'Alī Shāh, the provisions of which were not ratified till 1814, by which time Russia had imposed the Treaty of Gulistān in 1813, effectively advancing the Russian frontiers at the expense of Persia. The flurry of diplomatic activity had resulted in many commitments but little action. Henceforth, however, the Persian arena was seldom free of European players participating in the 'Great Game'.

Permanent British diplomatic representation in Tehrān was established. Nevertheless, although the Minister in Tehrān was nominated through the Foreign Office, there remained a division of responsibility for Persia between the Foreign Office and the Government of India, which controlled the consulates. This frequently led to different and often conflicting assessments of the internal situation in Persia and the policies to be adopted. A revival of trade took place primarily through the Persian Gulf ports from India. In the 1830s limited attempts to open up routes along the Black Sea through Trebizond into the northern part of Iran met with some success. The main channels of British trade came up from the South, especially from the 1860s with the entry into eastern service of steam-driven shipping and the later opening of the Suez Canal. 'Abbās Mirzā, Fath 'Alī Shāh's heir-apparent, employed some British advisers and technicians, but his early death prevented this initiative from having any lasting influence. During the mid nineteenth century, apart from the unfortunate, if provoked, conduct of the Minister at the Tehrān Legation, Charles Murray and the Persian occupation of Herat during the Crimean War between Russia and Britain, which caused hostilities between Persia and Britain, 1856-7,³⁰ there were very few issues of specific concern, though the strategic importance of Persia was well appreciated. The consequences of the Indian Mutiny of 1857 and other considerations led to the need for improved communications. The construction took place in 1862 of a telegraphic line linking London with India through Persia. This line was augmented and improved during 1867-70 with the formation of the Indo-European Telegraph Company.³¹ It considerably improved the Persian Government's communications with its provincial officials who were brought closer into touch with the capital.

It is, however, from the 1870s that the British began again to take a serious interest in Persia apart from the remarkable studies of antiquities, archaeology and literature. This was prompted by two main causes. Firstly, the Foreign Office was perturbed at Russian advances into Central Asia to subdue the Turcoman and other tribal confederacies, which began with the capture of Tashkent in June 1865 despite assurances to the contrary given by the Russian Foreign Minister, Prince Gorchakov, to the English ambassador in Moscow, five days previously. The Foreign Secretary, Lord John Russell, hoped that 'both Powers would respect the independence of the Persian monarchy, would be careful not to encroach on the territory of Persia and not undermine the authority of the Shah'.³² It remained a consistent objective of British policy, but it made little impression on Russian expansionism and did nothing to prevent the fall of Bukhārā, 1866, Samarqand, 1868, Krasnovodsk, 1869, Khīva, 1873 and Marv, 1884. Measures to hold Russian advances and to prevent the infringement of Persian sovereignty contained an element of bluff in so far as there was hardly any prospect of military action actually being taken because of the long land communications and difficulties in protecting areas of British interest. It was the vulnerability of India which gave rise to British concern for Persia. 'Were it not for our possessing India,' declared Lord Salisbury in 1889, 'we should trouble ourselves but little about Persia'.³³ This was the reason for preventing Persia from becoming 'an outlying Russian dependency', and why Persia was a crucial factor in Anglo-Russian diplomacy, in what became known as the 'Eastern Question'.

Force not being a credible option in the formulation of British policy towards Russia over Persia, the real alternatives were to bolster the internal stability of Persia or reach an accommodation with Russia which would include not only the territorial integrity of Persia but also guarantee the defence of India. This prompted the second major cause of interest, the furtherance of commercial relations, which accompanied the more determined diplomatic initiatives of Lord Salisbury, as Foreign Secretary, in 1888 when he appointed Sir Henry Drummond Wolff as Minister in Tehrān. Yet though to some extent this new initiative corresponded with certain Persian aspirations encouraged by Malkam Khān during his period as Persian Minister in London during the 1870s it was not necessarily endorsed by all the British trading concerns nor welcomed by an increasingly nervous and worried Shah. It certainly was not well received by the Russians. The concession-hawking in London and elsewhere by agents of the Shah, with or without his permission, the curious promotion of the Reuter Concession, irrespective of its merits or faults and its subsequent humiliating cancellation amidst a welter of diplomatic pressures, personal

animosity, religious opposition and political opportunism was not an attractive precedent for trade promotion. The scandal of the Lottery Concession in 1889 implicating Malkam Khān, the Shah and his Ministers reflected adversely on Iranian credit rating in the international money markets.³⁴ Dubious and sensible concessionaires alike flocking to Tehrān were fleeced by court officials for spurious privileges. The Shah gained money but gave little in return. As Lord Salisbury came to realise, 'He has a mortal dread of reform, and of all that may lead to it, and the fear lest measures for the development of his country should issue in the curtailment of his own power, stands for very much in the passive resistance which he has offered to most of our attempts to benefit his people. If he once suspects you mean to dip his wings, he will start away from you, and never let you near him again.'³⁵

For all his energy and panache, his self-confidence and persistence, Sir Henry Drummond Wolff was not able to get behind the reserve of Nāsir al-Dīn Shāh. He suggested the Shah should make a declaration granting civil liberties to his subjects, without the satisfaction of seeing it proclaimed before he left Tehrān, and he made no headway over the question of railway construction. He persuaded the Shah to open the River Kārūn to international shipping. He assisted the negotiations undertaken by de Reuter's son for the right to found a national bank as compensation for the abrogation in 1873 of the original Concession. This was granted and it was incorporated in London under Royal Charter in 1889 as the Imperial Bank of Persia. It became an institution of considerable importance in Iranian financial development under its able first manager, Joseph Rabino. Lord Salisbury reckoned it as a positive step in the right direction of developing local resources to arrest national decay and prevent the country being absorbed by Russia. It was, he remarked, 'a matter of capital importance to encourage the creation of commercial machinery' to achieve these ends, but he, like Lord Curzon later, was not sanguine that the prospects for strengthening Persia would come to anything, though he accepted that it was the only feasible policy to counter Russian activities, if an open collision was to be prevented.³⁶

Just before Wolff returned from Tehrān following a nervous breakdown, a Major Gerald Talbot obtained a concession to control the production, marketing and exporting of all Persian tobacco. Such a monopoly, tantamount to an exclusive customs farming arrangement had been successfully implemented in Egypt and Turkey and would certainly have increased Government revenues. However, whatever its fiscal justification it conflicted with the legitimate interests of the growers and merchants and occasioned the opportunity for the religious opposition to campaign openly against the Shah and his ministers. After Russian intrigue and a series of devious manoeuvres the Shah rescinded the Conces-

sion. Compensation of £500 000 was eventually met by a loan reluctantly agreed by the Imperial Bank, thereby inaugurating the national debt.

In 1901–2, British trade with Persia was estimated at £2 759 000 (imports £2 112 000, exports £647 000), about the same as a decade previously, competing with Russian trade of £3 270 000 (imports £2 056 000, exports £1 214 000), an increase of about a third over a decade. Diplomatic activity was intense to prevent Persia falling, as I. A. Zinoviev, a former notable Russian Minister to Persia, who had served in the Legation 1856–83, said for the first time, like an overripe pear, which might have enabled the Russians to 'walk in when the time comes without striking a blow'.³⁷

Life in Tehrān for the small foreign community tended to be monotonous and isolated from the rest of the country. The officials were polite but unpredictable, the court proud but petty. Few foreign merchants were free from arbitrary local obstructions or the uncertainties of local procedures. Persian society was intensely personalised and had little sense of institutionalised responsibility, so misunderstandings were frequent. For many foreign observers, Iran appeared a shadow of its former self. The contrast between the magnificent monuments of antiquity, the richness of the literary heritage and the dilapidated state of the country was noticeable. Beyond the curiosity and the fascination was the reality of much mutual incomprehension.

3 EARLY OIL RIGHTS IN PERSIA

The D'Arcy Concession was not the first sign of interest in the oil deposits of Persia, for seepages had been known and worked for centuries for caulking boats, bonding bricks, setting jewellery and in flaming missiles.³⁸ Travellers visiting Persia in the seventeenth century had made many references to them in the south-western districts and around Baku, then in Persian possession in the north of the country. The first serious geological reference is contained in the observations 'On the Geology of Portions of the Turco-Persian Frontier and of the Districts Adjoining' which W. K. Loftus contributed in August 1855 to the Geological Society in London.³⁹ Loftus had been a scientific member of the Persian-Turkish Frontier Commission of 1848 and travelled extensively over the archaeological sites in the area, noting particularly, for the first time, the oil indications in the neighbourhood of the great Parthian stone platform at Masjīd i-Suleimān.⁴⁰ The de Reuter Concession, granted on 25 July 1872, had conferred on its promoters by Article 11, 'the exclusive and definite privilege to work, all over the Empire, the mines of coal, iron, copper, lead, petroleum etc.' but these lapsed with its cancellation on 10 November 1873. In 1884, the Dutch firm Hotz & Co. of Bushire obtained

a petroleum concession for the lands around nearby Dālākī, but the small scale operations undertaken were quite unsuccessful.

Undeterred by his earlier concessionary fiasco de Reuter was granted, on 30 January 1889, a second concession for sixty years, empowering him to found a bank and develop mineral resources. The bank was duly incorporated as the Imperial Bank of Persia and the Persian Bank Mining Rights Corporation was formed to acquire, in the words of the prospectus, 'the exclusive and definite privilege of working throughout the Empire, the iron, copper and lead, mercury, coal, petroleum, manganese, borax and asbestos mines belonging to the State, and which had not been previously ceded to others'. The exploration of the concession was limited to ten years after which it lapsed if no production had been commenced. The Persian Government was entitled to 16 per cent of the net profits. The capital raised was £1 000 000 in 70 000 preferred ordinary shares of £5 each, and 130 000 ordinary shares of £5 each. The underwriters were Messrs J. Henry Schröder & Co. and D. Sassoon & Co. It was optimistically anticipated that £200 000 working capital would be sufficient to complete the operations and that the petroleum occurring at various places in Persia, notably near Shushtar and Bushire, would be so suitable that it would 'not therefore require (which the Baku petroleum does) distillation before it can be used for lamps etc.'

Indeed the example of Baku was very clearly in the minds of people at the time. Petroleum products from Russia had been appearing in Tehrān since 1876. The first American Minister to Persia (in 1883), S. G. W. Benjamin, was enthusiastic, writing about Baku in glowing terms as 'a large and rapidly growing European city, with a highly important commerce. What has done this? The answer is petroleum... The abundance of the petroleum is indicated by the fact that at the extensive petroleum wells, several miles north of Baku, the work is conducted at night by the aid of the flames perpetually bursting out of the earth.'⁴¹ Lord Curzon, who travelled to Persia on his fact-finding journey via Baku, was less impressed by 'its shabby conglomeration of peoples, its oil harbour, its canopy of smoke, and its all-pervading smells'.⁴² Furthermore a great number of Persian labourers worked in the Russian oil fields, much facilitated from 1890 onwards by the availability of cheap easily obtainable short-term permits. So much so, that, according to Marvin Entner in his study of Persian-Russian commercial relations, 'there were very few labourers in northern Persia who had not spent a year in Russia, and by 1910 a very substantial proportion of the common labour employed at the Baku oil fields was Persian, perhaps 20 to 30 per cent'.⁴³

The Persian Bank Mining Rights Corporation was not unaware of the importance of these Russian oil fields. They recruited a British naturalised

Armenian engineer, Mr Allahverdiantz, who had been employed as 'the manager of some oil works at Baku', according to Sir Henry Drummond Wolff who, in 1890, passed on to Lord Salisbury an optimistic report which claimed that 'the Russian oil fields are getting exhausted at the present day', whereas 'the virgin oil fields of Persia promise a good future as they may be made to engage the whole of Western markets in a short time if there be sufficient oil'.⁴⁴ Future promises were no substitute for present realities. Within a couple of years the Corporation was disheartened, admitting its 'indifferent success partly owing to natural difficulties in the severity of the winter in the north and the extreme heat in the south, partly to the backward state of the country, and the absence of communications and transport'.⁴⁵ The Chairman, Sir Lepel Griffin, also complained of the lack of support and protection from the Persian Government, without which

it is obvious that in a country like Persia, with an autocratic Government and all authority directly emanating from the Shah, no commercial enterprise of a new and strange character can be profitably carried on and it is still more certain that, in the place of assistance and support, the Corporation meets with direct hostility, opposition and outrage from high officials of the Persian Government, its only recourse is to refuse to spend more capital on a fruitless endeavour and retire, which the Corporation did.⁴⁶ Whilst not completely blameless over its lack of judgement, inefficiency, and false optimism it was sorely provoked by local outrages against its personnel in the four main areas where it explored for oil, Kishm Island off the northern coast of the Persian Gulf, Ram Hormuz in the south-west near Shushtar, Simnān to the east of Tehrān and Dālākī.

The Corporation detailed its charges against the Persian Government, maintaining that 'Unless compensation be awarded to the Corporation for the losses they have sustained through the obstruction of Persian officials, it is difficult to understand how any industrial undertaking in Persia can be profitably carried on.' The Foreign Office, however, was not sympathetic to those who 'went into business in Persia at their own risk and if they expected to find the same order and security which is looked for in Europe, it is their own fault if their anticipation were not realised. It ought to be made clear to them at once that no support whatever will be given to this preposterous claim.'⁴⁷ Proposals for compensation and arbitration were eventually dropped and the Corporation went into liquidation on 21 July 1901, its rights having lapsed after the ten year period of unsuccessful exploration.

Three further concessions in respect of oil rights were granted by 1900. In 1894, D. W. Torrence, an American, received a concession for the sinking of artesian wells in association with certain mineral and oil privi-

leges for twenty-five years, but he forfeited it after a year because he did not comply with its terms. Two years later, in January 1896, the Sipahsālār Az'am, a leading politician and landowner, was granted by the Shah the right to prospect and exploit the oil resources in the province of Mazandarān. Later in 1916 the Sipahsālār Az'am disposed of his rights to a Georgian-born Persian speculator, A. Khostaria, after which they became inextricably linked with the North Persian Oil Concession in which the Company and Standard Oil were closely involved (see chapter 12). The Governor-General of Gīlān is reported to have had an oil concession to drill near the Caspian Sea in 1900, but nothing came of it.

4 THE D'ARCY CONCESSION

(a) Discussions in Paris and London

By 1900, therefore, there had been little progress in discovering oil in commercial quantities in Persia. Persian oil consumption was small and mostly confined to kerosene for lamps and cooking, but it was rising. In 1885, oil imports were valued at £2245 for Bushire and £2656 for Tabriz.⁴⁸ Three years later they had increased to £7780 and £4600 for the same towns respectively.⁴⁹ In 1901-2 total oil imports cleared through customs were valued at £60 030 and in 1902-3 at £50 940.⁵⁰

Already in 1888 the Political Resident in Bushire was reporting active competition between American and Russian oil firms for markets around the Persian Gulf: 'The cheapness of the Russian oil enables it to compete against superior American qualities.'⁵¹ Serious interest in the oil possibilities of Persia was sustained by the researches and travels of M. Jacques de Morgan, who was entrusted with a scientific mission by the French Government at the invitation of the Persian Government in 1889. Between 1889 and 1891, he visited Persia and collected an encyclopaedic mass of information on its culture, geology and archaeology. He published a preliminary geological article in *Annales des Mines* in 1892⁵² in which he mentioned possible oil prospects in Kurdistān. After his Persian mission, de Morgan was despatched on a similar one to Egypt for five years before returning to Persia again in 1897. Then he established the French archaeological service at Susa and constructed the Beau Geste style fort which has guarded for so many years the excavations of generations of French scholars.

The detailed volumes on his mission were published between 1894 and 1905.⁵³ The second volume, with his careful descriptions of oil prospects in the region around Zuhāb in the Qasr-i Shirin district of Persia, appeared

in 1895. De Morgan maintained that the geology confirmed that it was an area of potential petroleum development which it would be advantageous for Persia to exploit. As the petroleum products used in China, India, Persia and Turkey either came from Baku or Pennsylvania, he suggested that the foundation of a Persian oil industry 'serait pour le gouvernement la source d'un revenu considérable sans compter les facilités qu'y trouverait l'industrie en Perse ou les combustibles et les huiles d'éclairage sont d'un prix très élevé'.⁵⁴

He was quite convinced that the most important source of oil in the whole region lay in the oil-bearing strata, which extended from Kirkuk to the district of Pusht-i-Kuh. In particular, he singled out a site alongside a little river, locally known in Kurdish as 'Tchâm-i-Tchiasorkh'.⁵⁵ When in Tehrân, de Morgan saw the principal Persian notables and officials whilst discussing his programme and in the course of his social calls met Sir Henry Drummond Wolff. De Morgan knew not only the nature of the country but the personality of its people.

Once the concessionary privileges of the Persian Bank Mining Rights Corporation had lapsed in 1898, the Persian authorities were then free to accept further offers. The experience of the Corporation however was cautionary and the glamour of Persian concessions had become less attractive. In spite of growing national expenditure, revenue was not increasing commensurately and the Persian Government was negotiating for a loan with both the Russians and the British. The extravagance of the Shah was only matched by his desperation for money. *The Statist* observed in March 1900: 'the Money markets of the world are closed to him... The reason is not far to seek. It is the old story: past breach of faith and disregard of obligations.'⁵⁶

It was an opinion with which the Persian Prime Minister, Amîn al-Sultân would have agreed, for he confessed to the British Minister, Sir Arthur Hardinge, in 1902,

If I were Shah I should not have squandered the revenues... I should not now insist on going to Europe. But what can I do? If, in order to avoid a foreign loan I increase taxation, I shall create troubles which we have not the armed force to stamp out; if I reduce expenditure, I shall offend a host of vested interests, and if I fail to provide the Shah with money I shall lose his confidence. As regards internal reforms, ever since I resumed office three years ago, my time has been so taken up in negotiating, in the face of immense difficulties, foreign loans to meet the deficits resulting from the Shah's prodigality, that I have been unable to attend to much else.⁵⁷

There was every incentive for Persia to offer an oil concession again as it lacked the necessary capital and technical expertise to develop an oil industry, but foreign interests were justified in their reluctance to get involved. Thus, for example, Calouste Gulbenkian, already a figure in the

Russian oil industry and concerned in Turkish oil affairs, declined to take up a Persian oil concession.⁵⁸

The initiative that resulted in the D'Arcy Concession came from General Antoine Kitabgi, a Persian official who, amongst other posts, had been Director-General of the Persian Customs, a lucrative and influential position. He was a very close confidant of Amîn al-Sultân, with whom he had been associated in the negotiations for the de Reuter, the Imperial Bank of Persia and the Tobacco Régie concessions and a project described by the French Minister as 'either a hare-brained scheme or a vulgar swindle', for a Banque de Perse et Afghanistan in 1885, amongst other enterprises.⁵⁹ He accompanied Nâsir al-Dîn Shâh on his European visit in 1890 in attendance on the Prime Minister. According to Sir Henry Drummond Wolff,

the Amîn es-Sultân relied very much on a coadjutor of his—Kitabgi Khan—who was also of Georgian origin. He was a Roman Catholic, and married to an Armenian lady. The European element of the Persian Government was really represented by Kitabgi Khan, for he was well versed in Western matters—being able to draw up a concession and initiate commercial movements.⁶⁰

General Kitabgi, a slim, grey-haired, mincing, dapper figure, was well connected, well travelled and well used to the wheeling and dealing of the Persian capital. In 1900 he was organising a Persian Exhibition in Paris and approaching possible concessionaires amongst French financiers. On 27 October 1900 General Kitabgi raised the question with Sir Henry Drummond Wolff in Paris, hoping that he would be able to introduce him to an English capitalist who would be interested in an oil concession. A month later Sir Henry informed Kitabgi that 'Concerning the oil, I have spoken to a capitalist of the highest order, who declares himself disposed to examine the affair, and if you so desire, I shall put him in communication with you.'⁶¹ This was William Knox D'Arcy, introduced to Sir Henry by a mutual friend, Lord Orford.

General Kitabgi and Sir Henry Drummond Wolff, both supreme egotists, took exclusive credit for the D'Arcy Concession. Kitabgi later claimed to have been *au courant* with all contemporary events in Persia through his agents and that his timing was appropriate as 'in fact he had just obtained knowledge of the reports which had been brought forward by Mr Jacques de Morgan', irrespective of the inaccuracy of his dating, 1898.⁶² Wolff, also referring to de Morgan, was no less positive and misleading, stating that 'knowing that I was largely interested in Persian matters, he mentioned the matter to me. Recognising the enormous commercial importance of the matter, I urged him to keep it confidential except so far as his employer, the French Government, was concerned, and this was done.' The reason, he alleged, was that 'in 1888 a mining

concession had been obtained by me through the good offices of General Kitabgi Khan on behalf of Baron Julius de Reuter and his group who subsequently formed the Bank of Persia and a Company to work the mining concession'.⁶³ He referred to the frequent conversations he had with de Morgan and he certainly was furnished with an impressive number of reports of geological, technical and marketing importance, which have failed to survive.

Drummond Wolff was a proud, ambitious, impetuous, nervous, self-opinionated personality, who achieved much success, but admitted towards the end of his life that 'Unfortunately, what are called my declining years have not been overcrowded with enjoyment'.⁶⁴ A friend of the Prince of Wales, he had been a competent diplomat, but he suffered from a hypersensitive nature and could be furiously vindictive with those who had crossed him. Neither Kitabgi nor Wolff, unfortunately, commented on the role of Edouard Cotte, a relative of de Morgan who, as secretary to de Reuter, was an indispensable intermediary in the other principal concessional activities in which Kitabgi was involved and who brought de Morgan's reports to the attention of Kitabgi.

D'Arcy was born in 1849, the only son of an Irish solicitor who practised at Newton Abbot in Devonshire. He was educated at Westminster School. The family subsequently emigrated to Australia and settled at Rockhampton

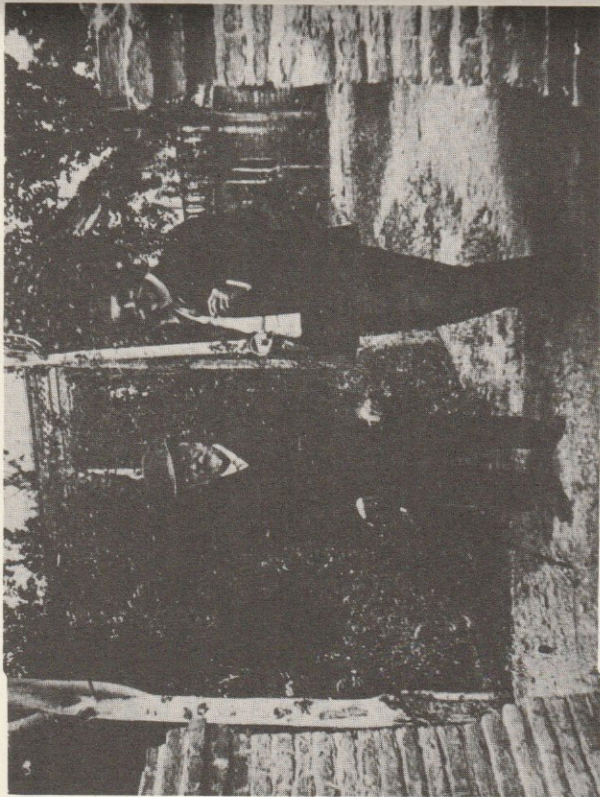


W.K. D'Arcy and family at Rockhampton, Queensland c.1885

ton in Queensland where, as soon as he had qualified in law, D'Arcy joined his father's practice and soon became one of the town's leading and respected young citizens, a member of the local rowing club and the Rockhampton Jockey Club. He had an eye for a good horse as pictures of his Australian home show and he later possessed a stand at Epsom. It was in 1882 that he was approached by the brothers, Frederick, Edwin and Thomas Morgan to assist them in developing an old derelict gold mine they had acquired. Four years later a syndicate led by D'Arcy bought the mine outright and floated the Mount Morgan Gold Mining Company with an authorised capital of a million £1 shares. After innumerable technical difficulties the mine struck gold richly and by the mid-nineties D'Arcy was a wealthy man. Rockhampton becoming too restrictive for his ambitions he returned to England as Chairman of the London Board of Mount Morgan. He gradually established himself with a town house in Grosvenor Square, a country mansion at Stanmore in Middlesex and a shooting estate at Bylaugh Park in Norfolk. On the death in 1902 of his Spanish born first wife, Elena, the mother of his five children, he married Nina Boucicault of the well-known theatrical family. His company being agreeable, his hospitality generous and his wife charming, he was very acceptable in society and had a wide range of distinguished acquaintances.

He was not, however, just content to rest on his financial laurels, but invested his money in a number of enterprises and kept in close touch with his Australian affairs. Though shrewd, he was no fly-by-night speculator. He relied on his own judgement and freely consulted his friends and his advisers. Not a city slicker, not a city gent, he kept to himself, ably served in his office by just one assistant, John Jenkin. He had no business behind him and relied upon his advisers for professional knowledge and judgement. Clearly respected by his associates, there yet remains about him the impression of a successful punter who, in spite of studying the form, still backed his hunch. Whilst he enjoyed his good fortune he was not flamboyant in displaying it, and at his shooting parties might have been mistaken for a portly poacher rather than a distinguished host. Such was William Knox D'Arcy to whose attention a Persian oil concession of unproven prospects was suddenly brought.

A month after Wolff's overtures, D'Arcy declared himself sufficiently satisfied to wish to examine the matter in more detail. Kitabgi was almost offended at such a request when there was no doubt that 'the stretch of the oil fields at Kend-i-Chirin, is a hundred times superior on the surface to the development of Bakou; in such a manner, that in taking a quarter or even less, we are in the presence of a source of riches incalculable as to extension, without counting the great economy on the expenses of production and transport'.⁶⁵ One wonders if D'Arcy ever recalled this fantastic hyperbole



Edouard Cotte and General Antoine Kitabgi, Tehrān 1901

in his later dealings with the Kitabgi family or the estimate, 'the sacrifice' of the £20 000-25 000 for the expenses of the journey with a detailed ground study. The opening bids were not for the faint-hearted.

In early January 1901 Cotte visited D'Arcy in London and persuaded him to return to Paris with him and Wolff to meet Kitabgi on 8 January for the first time. Over the next two months ten more meetings were held in Paris and London often with D'Arcy's solicitors, Nicholl Manisty & Company and his geological adviser, Dr (later Sir) Boverton Redwood, the leading petroleum expert of the day, consultant to the Admiralty and the Burma Oil Company and a kind of single-handed oil personnel agency. The terms of understanding were settled between D'Arcy and his associates, Kitabgi and Cotte on 1 March 1901 after some hard bargaining. Kitabgi received £4000 for his travelling expenses and the cost of his stay in Tehrān and an interest of seven hundredths in the concession if it was granted.⁶⁶ Cotte was given three hundredths should his services be successful. The settlement with Wolff was reached ten days later, 'one tenth part of all the profits to be derived under the said Concession or from the sale thereof. It seems to have been the result of a reluctantly conceded compromise which the disgruntled diplomat regretted and which resulted in him becoming bitterly antagonistic towards D'Arcy. Kitabgi was also given the right to subscribe for 10 per cent of any shares offered to the

public on similar terms. He agreed not to consent to any modification of the draft concession without referring to D'Arcy.⁶⁷ D'Arcy excluded the five northern provinces from the scope of his concession lest Russian interests should be antagonised. It was a wise precaution.

The arrangements were completed with the appointment of A.L. Marriott, cousin and secretary of D'Arcy's confidential adviser, G.W. Marriott, as D'Arcy's representative, 'to obtain from the Shah of Persia a concession for the oil fields believed to exist in that country'.⁶⁸ On the advice of Boverton Redwood, H.T. Burls was instructed to carry out a geological survey. Marriott and Cotte left Paris on 25 March after the departure of Kitabgi, reaching Tehrān on 16 April by way of Constantinople, Tiflis, Baku and Enzeli. Writing to Kitabgi in Paris on 7 March, D'Arcy confidently asserted that 'it is a very great comfort to me to know my interests and those of Sir Henry are in your skilful and able hands'.⁶⁹ Kitabgi was the pivot of the operation.

In accordance with normal practice, D'Arcy had requested diplomatic support for his application, and Marriott was furnished with a formal introduction dated 12 March 1901, and signed by Sir Martin Gosselin on behalf of the Secretary of State, Lord Lansdowne, to the Minister in Tehrān from the Foreign Office. It read simply that

this letter will be presented to you by Mr Alfred L. Marriott, who is proceeding to Persia on business connected with mining. I have to request you to be good enough to afford him such assistance as he may require, and as you can properly render to him in furtherance of the object of his journey, subject to the terms of the Circular Despatch of this Series, dated 8 March 1881.⁷⁰

(b) Negotiations in Tehrān

Kitabgi arrived in Tehrān on 10 April and called on the Minister, Sir Arthur Hardinge, whom he expected, apparently, to be fully briefed on the concessionary application and ready to use his influence on its behalf. There was a cat and mouse atmosphere about the whole negotiations for at the outset Kitabgi told the Minister that the Russians were trying to obtain permission from the Persian Government for a pipeline from Baku to southern Persia and that he had his own scheme which he hoped the Minister would support. He was reticent about the details beyond the fact that Drummond Wolff was associated with him. Hardinge thought it 'bounded rather fantastic' and took no further action.⁷¹ Kitabgi visited his friends on his return but nothing definite was done to advance the negotiations until the arrival of Marriott. At their first meeting Marriott made it plain to Kitabgi that 'we could not expect the English Government to press



Alfred L. Marriott 1901

the matter politically' and that Kitabgi should 'commence proceedings at once'.⁷²

The following day, on 17 April, Marriott called at the Legation to pay his compliments and present his letter to the Minister, but he was not in

Fehrān and Marriott only saw him a week later. The negotiations proceeded at a leisurely pace and Kitabgi did not see the Amīn al-Sultān till 21 April, the day after strict Shī'ite religious observances celebrating the martyrdom of Husayn and Hassan in the holy month of Muharram, had begun. At this meeting the Prime Minister responded favourably but referred in his comments to the comparative influences of Russia and Great Britain on and in Persia. It was his intention to maintain a 'balance between Russian and English Governments'. It was obvious that the negotiations would be conducted in a political context.⁷³ The draft concession was presented and handed to the Minister for Mines, Muhandes al-Mamalek, to be translated into Persian.

The preliminaries had been completed. The first complication about the concession which presented itself was Kitabgi's opinion that it was dangerous to ask in Mr. D'Arcy's name and suggested asking for it in his own or some other Persian's, an idea which hardly appealed to Marriott.⁷⁴ The first meeting with the British Minister took place on 25 April and the following day Hardinge presented Marriott to the Prime Minister by whom he was courteously received and to whom he gave a letter from Wolff. It was clear, however, that little definite progress could be achieved until the month of mourning had ended. Hardinge reported to Lansdowne that he had 'introduced him [Marriott] to His Highness the Atabeg i-Azam, explaining that whilst I had no instructions to afford active support to the proposals which he and Kitabgi Khan, who is associated with him, are making, I believed from what I had heard of them that they might prove advantageous to Persia'. Marriott had made the point that 'petroleum will be found in great quantities and that an industry may be developed which will compete with that of Bakou'.⁷⁵ It was an obvious but subtle trick to play for it reflected not only the current pre-occupation with the Russian preponderance in Persian affairs but also struck a chord of historical response as Baku, previously Persian, had been annexed by Russia in 1806.

The negotiations were almost becalmed for three weeks whilst the Persian ministers were making up their minds. Marriott meantime was keeping a low profile and 'only took such steps in the matter as were absolutely necessary: ostensibly busying myself with the purchase of rugs, embroideries, etc.'⁷⁶ He was cautiously optimistic and discussed with Kitabgi some possible modifications to the concessionary draft to facilitate its acceptance more easily, such as advancing the payment of the money to the Persian Government earlier than had been proposed. In London Wolff was becoming anxious and concerned about the relationship of Amīn al-Sultān with the Shah, which he felt was deteriorating.⁷⁷ Marriott cabled on 6 May with restraint, 'We are making slow progress with business.

The acquisition of the D'Arcy Concession

Present state of affairs satisfactory, doing all possible, must act with great caution. Undue haste would be to lose the business. Please do not be impatient.⁷⁸ The translation was taking time, having been entrusted to the son of the Minister for Foreign Affairs, Mushir al-Dawla.

Kitabgi himself had not been idle for, according to Hardinge on 12 May, he 'has, I understand, secured in a very thorough manner the support of all the Shah's principal Ministers and courtiers, not even forgetting the personal servant who brings His Majesty his pipe and morning coffee'.⁷⁹ On the same day Kitabgi saw the Prime Minister, who had not yet read the concession text. He visited him again the next day and was told that the Minister for Mines had returned to Tehrān and more progress could be expected. Marriott, whom D'Arcy at this stage thought 'worthy of every confidence',⁸⁰ began to feel that the Persian Ministers were dragging their feet and that it was time to take up the running. Believing that 'the authorities are hesitating and want pushing', he asked Hardinge on 15 May for assistance in speaking 'energetically' to Amīn al-Sultān, who, he assumed, was procrastinating 'due to the fact that he does not know if he ought to grant this concession without first consulting the Russians'.⁸¹ It was a dreadful predicament for the Prime Minister as he was in the midst of negotiations for a Russian loan. It was a time of decision of very great political complexity and difficulty.

Hardinge saw Amīn al-Sultān on the following day, 16 May, and pressed him to take some action. Shortly afterwards Kitabgi called on the Prime Minister officially and it was agreed that the Minister for Mines would go through the concession draft clause by clause with himself and Marriott. This took place the next day. Hardinge's intervention was important enough to indicate that whilst the British Government had no particular commitment towards the concession he, as Minister in Tehrān, was not indifferent towards its fate in the perspective of Anglo-Persian relations. He prided himself on having re-established a more friendly atmosphere between the Legation and Persian Ministers than had existed for some time and believed he was successfully countering Russian influence as officials were acting on less purely Russian lines than previously.⁸²

He was unwilling to lose the advantages he had patiently gained and was prepared to use his discretion on D'Arcy's behalf, as he explained to Lansdowne on 30 May.

I was given to understand in the course of the negotiations that a word from me might considerably assist their success and I therefore took an opportunity, as an important British enterprise was at stake, of intimating to the Atabeg-i Azam my conviction that the investment of a large amount of British capital in Persia would be greatly to the advantage of that country and my hope that a concession would be

The acquisition of the D'Arcy Concession



Amīn al-Sultān c. 1900

granted. His Highness said that he had all along been favourably disposed towards the scheme, and that I might rely on his doing his best to promote both this and all other British commercial undertakings.⁸³

This was a clear statement of intent, though the Prime Minister expected better terms to be offered, a decision to proceed, but not a guarantee of

acceptance. Yet it was sufficient to merit Marriott's clear optimism to D'Arcy on 17 May that 'very critical stage successfully passed. All is going on well and I have good hope of obtaining the concession in a week's time. Kitabgi has acted with great judgement and faithfully fulfilled all obligations.'⁸⁴

The fencing was over. The cut and thrust of decision making followed. More explanation of the clauses of the draft concession was made to the Minister of Mines and finally on 20 May the Shah was informed and given a copy of the proposed concession. He 'refused to sign unless we paid £40 000 down and £40 000 on formation of the Company, also 16 per cent instead of 10 per cent on net profits', and went off hunting, a favourite pastime.⁸⁵ That evening Amin al-Sultān and Kitabgi met with a number of the Ministers to discuss the situation. Marriott, examining the position, acted with determination on his own initiative 'to accept the 16 per cent if we were freed from the 5 per cent export duty', as another concession had recently been concluded on such terms.⁸⁶ He also authorised Kitabgi 'to promise his friends £5000 in advance of their shares', because, 'I considered it very necessary to act thus promptly on my own responsibility as Kitabgi had all the Ministers together discussing the affair (a chance which might not occur again) and delay might be fatal.'⁸⁷ He hoped that D'Arcy would approve his action for 'to refuse would be to lose the affair'. 'You can rely on me to make the best bargain possible', he cabled D'Arcy, who agreed, although his original instructions definitely precluded any cash down payments, and replied, 'Don't scruple if you can propose anything for facilitating affairs on my part.'⁸⁸ It seemed as if there would be no further delays, as Kitabgi told Marriott that 'the promise of the £5000 down had been of the very greatest assistance to him, and that he thought he would be able to arrange matters.'⁸⁹ On the following day there was a momentary flurry of excitement when it was revealed that the Persian Minister in London had telegraphed about another oil concession on behalf of an undisclosed rich syndicate claiming to offer higher terms, but Amin al-Sultān remained firm in his association with Kitabgi and declined to become involved.⁹⁰ All trace of those involved in the last minute scheme seems to have disappeared.

Kitabgi's optimism was premature. On 22 May the concessionary negotiations again were stopped in their tracks, Marriott being informed that 'a difficulty had arisen, the nature of which Kitabgi had not yet found out. All he knew was that the Grand Vizier took the concession to the Shah yesterday and that the latter had not signed.'⁹¹ Kitabgi was probably being disingenuous, as it was almost inconceivable that he was not in the confidence of the Prime Minister, but Marriott correctly surmised that Russian pressure against the concession was causing the Persian Govern-

ment to hesitate. He requested authority from D'Arcy to offer a further financial inducement as a possible way out of the impasse reached, 'as if I have this authorisation I am sure that I can do the business if it is possible at all'.⁹² It was a cynical but realistic assessment on a crucial day. Seeing Kitabgi in the afternoon of 23 May about the lack of progress in the stalled negotiations, he made available another £5000 if it was absolutely necessary to clinch the deal. Kitabgi returned from visiting Amin al-Sultān in the evening 'with the news that he had the formal promise that the concession would be granted. He had found the extra £5000 most useful. It appeared that the Grand Vizier had told the Russians who tried to prevent the affair. Also from hints, I fancy the Shah wanted some ready money and stood out for some on signing the concession.'⁹³ The avarice of the Shah in signing the concession overcame his fears of offence to the Russians in granting it.

There was no doubt that the last anxious days turned on Russian objections and the extent to which the Persian Ministers were prepared to disregard them and maintain their balancing policy. As Marriott realised in cabling to D'Arcy on 24 May, 'Yesterday evening on account of opposition from Russian Minister there was greatest danger of losing business', but that according to Cotte, the extra consideration 'alone saved business, any delay might have been fatal'.⁹⁴ The generally accepted account of these events based on Hardinge's recollections of this phase of the negotiations in his autobiography, *A Diplomatist in the East*, is incorrect. Hardinge's memory played him false. He described how a Persian written version of the Concession was passed to the Russian Legation whilst the Oriental Secretary, Stritter, was temporarily away and that the Minister, unaware of the importance of the matter and unable to read the text, took no action, thereby giving the Persian Government enough time to sign the concession without Russian objections being raised.⁹⁵

There is no contemporary corroboration for this imaginative tale, indeed the truth is more exciting. Amin al-Sultān, who was well-known for his pro-Russian sympathies, was conscious that Russia did not approve of any independent Persian action and so conducted the negotiations secretly in order not to jeopardise his friendly relations with the Russian Minister, K. M. Argyropoulo. Indeed Hardinge reported at the time that,

Great secrecy was observed in preparing the necessary papers, as it was felt that if the Russian Legation got news of the project it would attempt to crush it and would almost certainly succeed in doing so. Information on the subject however reached Monsieur Argyropoulo a few days ago and the promoters of the scheme suspect that it was furnished by the Atabeg-i Azam after everything had been settled and that His Highness pleaded, in reply to the Russian Minister's remonstrances, that the Shah's promise having been given it was too late to reconsider the

subject and strove to minimise the value of the concession. His Highness however assures me that all that passed between himself and my Russian colleague was an inquiry by the latter on or about the 24th instant respecting the truth of reports as to the projected concession which had reached him.⁹⁶

Since a leak was obviously known to have occurred, there was no point in denying it.

The evidence from Kitabgi supports the general conclusions of Hardinge at this stage, for he stated on 24 May that there were 'substantial indications of the intrigues which surrounded the Shah in order to prevent him from signing the act of concession'.⁹⁷ Amin al-Sultān was not exempt from the enmity which surrounded Persian courtiers. Kitabgi repeated the Minister's remarks to him, 'Do you understand what is at stake? They are capable of informing the Russians.' This apparently happened through an official in the Foreign Ministry after which Amin al-Sultān told the Russian Minister that his apprehensions were groundless and that 'the conclusion of this affair, if it ever took place, would take many months, and that during that time, he would have plenty of leisure to inform his government and to demand instructions'.⁹⁸ Argyropoulo seemed reassured, but on 26 May probably had second thoughts and called on the Prime Minister at his home, indicating to him the need to reject the concession. Kitabgi seemed depressed at the possible consequences of this interview and though he may have exaggerated the seriousness of the situation, he asked Marriott to request the assistance of Hardinge. He felt that Argyropoulo would press the Russian Foreign Ministry at St Petersburg for precise instructions. The Russian Minister did, excusing the Prime Minister's conduct by suggesting he was, according to Russian sources, 'probably counting on eliminating the opposition, be it even indirect, of A. Hardinge to the commercial agreement with Russia (revisions of customs and tariffs) and compelling him to forgive the severity of customs regulations introduced in southern Persia'.⁹⁹

Marriott, who was expecting the signed concession and had received D'Arcy's authorisation of £10 000 paid to the Imperial Bank for 'blue pottery and salt cellars from Kum and Resht embroidery', sent a cautiously optimistic telegram to London. Hardinge declined to intervene personally but sent 'Abbās Qulī Khān, the dragoman, to tell the Grand Vizier he hoped nothing would interfere to prevent the immediate signing of the concession which he understood had been granted'.¹⁰⁰ On 28 May the Concession was signed by the Shah. Marriott learnt the news at a Legation dinner party from Mushīr al-Dawla that evening. Kitabgi heard about it from Muhandes al-Mamalek. Only polite formalities remained to be exchanged. Marriott and Kitabgi called on Amin al-Sultān on 30 May who expressed himself 'very satisfied with the concession and said he was

sure it would be a good thing for Persia, and at the same time promote the friendship already existing between his country and England'.¹⁰¹

Muzaffar al-Dīn Shāh granted Marriott an audience on 5 June asking 'several questions about the manner in which the operations would be commenced in starting the petroleum works'.¹⁰² Marriott returned to England on 23 June recognising that the 'highest praise is due to Kitabgi. I do not believe anyone else could have accomplished the business. M. Cotte has been of the greatest assistance throughout. The assistance from Sir A. Hardinge has been valuable'.¹⁰³ No less notable had been his own determined contribution to the negotiations and the manner in which he managed his team. Marriott received less recognition from D'Arcy than he was entitled to, probably being unfairly criticised by Wolff.

In the first flush of his success Marriott was enthusiastic, convinced that 'If the oil scheme of Mr D'Arcy succeeds, as I believe it will do with tact and good management, it should have far-reaching effects, both commercially and politically for Great Britain and cannot fail to largely increase her influence in Persia'.¹⁰⁴ Hardinge was much more circumspect, supposing that,

If the hopes of the concessionaires are realised, and petroleum is discovered, as their agents believe will be the case, in sufficient quantities to compete with Bakou, the concession may be fraught with important economic and indeed political results. But the soil of Persia, whether it contains oil or not, has been strewn of late years with the wrecks of so many hopeful schemes of commercial and political regeneration that it would be rash to attempt to predict the future of this latest venture.¹⁰⁵

H. W. MacLean, who had been manager of the Persian Royal Mint and economic adviser to the British Government on Persian affairs, was not optimistic over trading prospects in his 1903 report on Persia, referring to enterprises which had failed to succeed in recent years because 'The great cost of installing machinery on account of the heavy freight on inland transport, the cost of fuel, the inefficiency of labour which, although cheap, is unskilled and without energy, have been the chief causes of non success'.¹⁰⁶

Compared with the forward policy of Lord Salisbury towards Persia, that of the early twentieth century was essentially a holding one, though the objective was the same in 1902: 'to maintain the continued national existence and the territorial integrity of Persia and to develop her resources'.¹⁰⁷ 'The tendency,' it was stated in 1905, 'of British policy in Persia has been to avoid, as far as we can, any addition to our political or territorial responsibilities or any step calculated to disturb the political status quo.' As the Committee of Imperial Defence recommended in March 1905, 'It should be our object, on commercial as well as on strategic

grounds to maintain the *status quo* in Persia.¹¹⁰⁸ This did not preclude defensive measures to prevent the balance tilting unfavourably against existing British interests, such as the Lansdowne Declaration of 5 May 1903 in respect of the possibility of a foreign base being erected in the Persian Gulf as 'we should certainly resist it with all means at our disposal',¹¹⁰⁹ but offensive activities were excluded. The D'Arcy Concession was not a stalking horse.

5 THE CONTEMPORARY SIGNIFICANCE OF THE D'ARCY CONCESSION

In general the terms contained provisions for a concession rather than an industry, for exploration and production rather than administration and marketing; see Appendix 1.1. The Persian Government granted to D'Arcy (Article 1) 'a special and exclusive privilege to search for and obtain, exploit, develop, render suitable for trade, carry away and sell natural gas, petroleum, asphalt and ozokerite throughout the whole extent of the Persian Empire for a term of sixty years' although D'Arcy had excluded the five northern provinces from the actual extent of his concession.¹¹¹⁰ The first company to exploit the Concession had to be formed within two years (Article 16) and on its formation the Persian Government was to be paid £20 000 sterling in cash and £20 000 in paid-up shares, and annually and rather vaguely 'a sum equal to 10 per cent of the annual profits of any company or companies' (Article 10). The payment equalled the guarantee deposited by de Reuter in 1872. Changes from the original draft text concerned the purchase of State cultivable land 'at a reasonable price current in the province' and that of private property from the proprietors 'without their being allowed to overcharge for the use of the grounds' (Article 3) rather than being free of charge. Certain existing seepages worked privately at Shushar, Qasi Shirin and Dälakā were included within the concessionary arrangements (Article 4).

The concessionaire was obliged to notify the Persian Government of all companies formed to exploit the Concession. The definition of the role of subsequent companies in relation to the terms of the Concession later became a matter of considerable legal dispute. The post of the Imperial Commissioner, already instituted in the Imperial Bank of Persia Concession was strengthened (Article 11) and seems to have been tailor-made for General Kitabgi, who was the appointee. He was to receive an annual salary of £1000, not £60 as first proposed, from the date of the formation of the first company, to provide all the relevant information and advice available to him, safeguard the interests of the Persian Government and be

consulted by the concessionaire. Exports and imports were to be free of all taxes and duties (Article 7).

In view of experience over its unfulfilled obligations in the de Reuter, Persian Bank Mining Rights Corporation, Tobacco Régie and other concessions, the Persian Government insisted on D'Arcy bearing all the risks (Article 14). Whilst the Government pledged itself 'to take all and any necessary measures to secure the safety and the carrying out of the object of this concession... and to protect the representatives, agents and servants of the company', it was not prepared 'under any pretext whatever' to accept any liability or claims against it in these respects. There was provision for arbitration in the case of dispute. The terms seem insignificant in comparison with later practice, but it has to be remembered that the prospects were quite unpredictable, the immediate precedent very disappointing (see pp. 25-6). In reality it was wild-cating on a colossal scale in a distant unsettled land. There was nothing comparable to the extent or uncertainty of D'Arcy's Concession. Dutch colonial legislation in the East Indies, under which the first discovery well was drilled on 11 July 1884 in Sumatra, was simple. The lease was competitive but conferred wide rights on the concessionaire for exploitation. In the United States between 1894 and 1904 the royalty rate was between an eighth and a sixth of production and land rights cost between \$50 and \$250 an acre depending upon the probability of striking oil. In the proposed 1914 concession between the Turkish Petroleum Company and Turkey, the Company was to pay an annual rental of 6 per cent of the value of land required and a royalty of 8 per cent of crude oil production. In Russia generally the Government auctioned off oil-bearing state lands in return for a lump sum payment and a low yearly rental charge. As yet D'Arcy was unaware of the magnitude of the undertaking to which he had committed himself, whilst he was congratulating Kitabgi on the tact, discretion and determination which he had displayed bringing the undertaking to such a successful conclusion.¹¹¹¹ He thanked Lord Lansdowne appreciatively for the introduction to Sir Arthur Hardinge and trusted that the 'enterprise will prove advantageous to British Commerce, and to the influence of this country in Persia', and asked for the Government's 'protection and countenance'.¹¹¹² Hardinge, in comparison was laconic and factual in announcing the completion of negotiations to Lansdowne.¹¹¹³

D'Arcy was, nevertheless, perceptively aware of the political realities in Persia and intended from the first, by excluding the five northernmost provinces from the Concession, that he would 'give no umbrage to Russia' and do his utmost 'to prevent any cause of complaint from Russian subjects'.¹¹¹⁴ This was the nerve of the enterprise, for in return for renouncing the northern provinces he had safeguarded himself by the 'express

become an obstacle. Russian oil exports, mostly kerosine, to Persia gradually penetrated into Northern Persia down to Qazvin, along to Khurāsān and down to Isfahān,¹²³ so that in 1910–11 they amounted to 96.2 per cent of total Persian consumption.¹²⁴ As Golubev, Russian negotiator during the Russian–Persian Customs Treaty negotiations, 1901–3, wrote, 'in the interests of our exports, petroleum and petroleum products stand almost in the front rank'.¹²⁵ Russian oil production, which in 1871 had been 5.8 million gallons, was thirty years later 2965.2 million gallons of which 2817.4 million gallons came from the Baku area alone.¹²⁶ Such a production required markets, and already in the 1880s S.E. Palashkovskii, who was an extremely versatile engineer, proposed an oil pipeline to improve access to markets lying near the Indian and Pacific oceans. Russian officials were unconvinced, considering that 'the significance of the pipeline for the Russian trade had been overestimated'.¹²⁷ From 1900, however, Russian well head prices began to drop in response to increasing competition and production, and between 1900 and January 1902 they dropped dramatically from 15.7 copecks per pood to 4.6 copecks per pood.¹²⁸ No wonder the Russian reaction to the D'Arcy Concession was so hostile, for not only did it presage politically a possible resurgence in British influence, but, economically, it posed a potential threat of a new source of oil production and further competition. The Concession had become a pawn in the game of British–Russian relations on the Persian board.

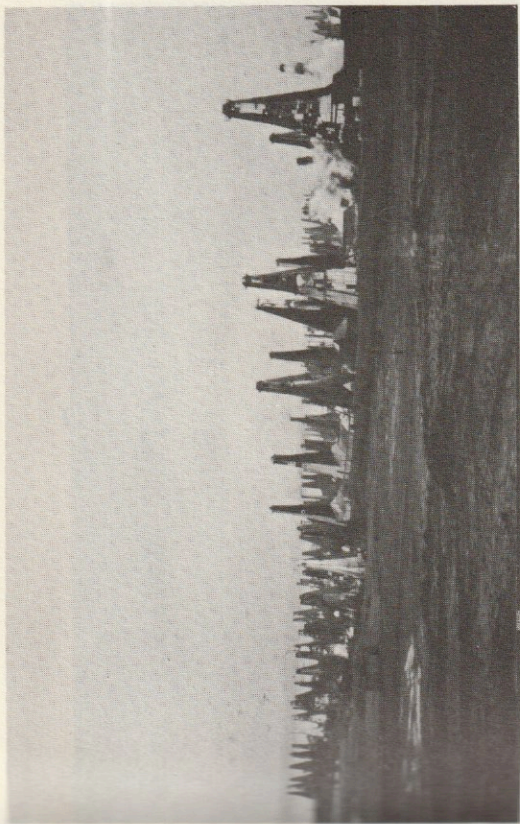
In some respects, as Amin al-Sultān probably anticipated, the D'Arcy Concession became a blessing in disguise. Hardinge, in attempting to bolster up the Prime Minister's opposition to the onerous terms of the proposed Russian loan, argued that the Concession was a private speculation... not actively supported by my Government in the sense of their insisting on the grant of the Concession... it gives the Persian Government a good excuse for refusing the Russian demand, on the grounds that the lawyers differ on the subject (and that these differences can only be settled by long litigation), without offending Russia by implying suspicions of her secret political designs in relation to this proposal.¹²⁹

He later warned against the 'preposterous Concession for pipelines to the Persian Gulf, which will probably never be carried into actual effect, but will, nevertheless, afford an excuse for covering Southern Persia with surveyors, engineers and protecting detachments of Cossacks, and preparing a veiled military occupation' which would only exacerbate not relieve Persian insolvency.¹³⁰ Persisting against Russian prohibitions, the Shah's desperation for money for his European tour, and the parsimony of the British Treasury, Hardinge contended that for Persia 'at a moment when she was beginning to develop her own oil industry, it was not reasonable

condition that the Persian Imperial Government shall not grant to any other person the right of constructing a pipe-line to the southern rivers to the South Coast of Persia' (Article 6). Russian reaction was furious, not so much to the D'Arcy Concession as a whole but to the pipeline restriction in particular. Amin al-Sultān was threatened that 'as long as he is in power, the repetition of anything like that, will not be forgiven by the Imperial Government'.¹¹⁵ Indeed, as Kitabgi had already intimated to Hardinge, the Russians were actively considering their own plans for a pipeline to counter American competition in kerosine in the markets of the Persian Gulf and India. A detailed project was laid before Nicholas II, who approved, in August 1901, with the commendation that it 'would result in the growth of our influence in Persia and on the shore of the Indian Ocean'.¹¹⁶

Thereupon Count de Witte, the influential and aggressive Russian Finance Minister, and his Tehrān agent, E.K. Grube, opened a campaign to thwart D'Arcy's apparent veto on Russian transit pipelines, by exerting pressure on Persian negotiations for a loan by making them dependent on a solution to the pipeline issue. It was the last of a series of Russian initiatives to dominate all of Persia politically and economically, for the conditions attached to the loan were the conclusion of a new commercial treaty favourable to Russian imports and exports, the elimination of British influence from the Persian Mint and the granting of a pipeline concession to the Loan and Discount Bank which was under the supervision of the Russian Ministry of Finance. With the Russian officered Cossack Brigade, formed in 1879,¹¹⁷ and a Russian imposed ban on railway construction, 1889,¹¹⁸ Persian independence was as heavily compromised as its finances were in debt, some £1 216 000 according to Hardinge in November 1901.¹¹⁹ In 1901–2 Persia had an adverse balance of trade, which lasted for a further seven years, and in the same year trade with Russia constituted 45 per cent of Persia's total trade, 38.0 per cent of its imports and 58.7 per cent of its exports. A decade later the comparable figures were 62.8 per cent, 58 per cent and 60 per cent respectively, whereas the British share of Persian trade dropped from under a half to less than a third.¹²⁰ 'To a remarkable extent,' stated Marvin Entner in his study of Persian–Russian trade relations, 'Persia had been drawn into Russia's economic orbit and was a functioning part of her economy.'¹²¹ Even after the dismissal of de Witte in 1903, Count Lamsdorf, the Russian Foreign Minister, declared Russia's task as 'politically to make Persia obedient and useful; that is sufficiently strong to be a tool in our hands – economically to preserve for ourselves the major share of the Persian market for free and exclusive exploitation by Russian efforts and capital'.¹²²

For the realisation of Russian objectives the D'Arcy Concession had



Baku c. 1900

to require her to give Russian oil special facilities for competing with it'. He argued that it would serve no useful purpose for the Shah on his visit to England to be involved in more litigation over the violation of yet another concessionary agreement particularly 'when Persia was once more beginning, through Mr. D'Arcy, to get in touch with English capital'.¹³¹

At the beginning of 1902, particularly towards the end of January, the situation was becoming critical. De Witte, as Argyropoulos reluctantly confirmed, 'absolutely refused to afford Persia any financial assistance unless the pipe-line asked for to the Persian Gulf were conceded' alleging that as his concession was concerned 'exclusively with the export and transit of Russian oil' it did not conflict with the D'Arcy Concession which was 'a monopoly only in regard to native oil'.¹³² D'Arcy, apprehensive over the threats to his Concession, offered the Persian Government on 31 January 1902 £100 000 without security if he was granted the Ahwāz Barrage Concession previously bestowed by the late Shah on his physician, Dr Tholozan, or a 'sum of money on the security of the royalty payable by his Oil Company', some £100 000.¹³³ This proposal, although insufficient to cover Persia's financial requirements, probably corresponded to one of the initial objectives which Amīn al-Sultān had in mind when supporting the D'Arcy Concession, an alternative source of finance. Amīn al-Sultān had committed himself to the terms of the loan, but had not signed, as Hardinge continued his protests.

In St Petersburg on 13 February, the ambassador, Sir Charles Scott, made urgent representations to Count Lamsdorf. On 17 February, de Witte, ignoring all objections, ordered the final text of the loan agreement to be prepared. D'Arcy increased his offer to £200 000 and then £300 000, which the Amīn al-Sultān was able to brandish in his own defence. At the same time evidence that de Witte and Count Lamsdorf were in disagreement emerged from St Petersburg in a cable from the Persian Minister there on 26 February, who reported that Russia would issue the loan without the pipeline strings being attached. Personal animosities between the Russian Ministers, Persian delaying tactics and the D'Arcy offer defused the pipeline question. Persia obtained a loan. After 1902 'a year which may be said perhaps to mark the high-water mark of Russian success in the Middle East',¹³⁴ Russia for many years did not have a comparable opportunity to stymie the D'Arcy Concession, but it was only a reprieve. The Concession never escaped its political implications.

In spite of the bitter dispute over the pipeline the verdict of the Russian historian, B. V. Ananich, is exaggerated: 'By undertaking the exploitation of the oil riches of southern Iran, England dealt a serious blow to the economic interests of Russia in the Middle East and Asia.'¹³⁵ It has to be remembered that, notwithstanding all the efforts of the geologists and

drillers, oil was not discovered in Persia till 1908. Moreover, by then internal conditions in Russia had changed as a result of its defeat by the Japanese in 1904, the outbreak of the revolutionary movements in 1905 and the rapprochement with Great Britain over Persia in 1907. Besides, Russian trade with Persia continued to outpace substantially that of the British till 1914, when it dominated two thirds of the total Persian trade compared to the British fifth. The conclusive evidence, however, with increasing competition cutting the price four-fold by 1902, is to be found in the falling oil production of Baku by half from 2817.4 million gallons in 1901 to 1419.6 million gallons in 1914.¹³⁶ This was not accompanied by any switch of British oil funds out of Russian companies for, with the growth of the more northern oilfields at Maikop, British capital constituted two thirds of the foreign capital invested in the Russian oil industry by 1917.¹³⁷ A causal relationship between the granting of the D'Arcy Concession and declining Russian oil exports or trade to the Middle Eastern area is not proven in this period. The circumstances surrounding D'Arcy's concessionary interest were too unconnected to draw a definite national inference. It was the particular political complexities of Persia which gave the Concession a potential major international significance.

2 THE FUNDING AND FINDING OF OIL 1901-8

I D'ARCY ON HIS OWN 1901-5

(a) Introduction

The granting of the D'Arcy Concession had been, primarily, a political decision accompanied by the customary haggling over terms. Its development depended on finance, technical expertise and an ability to understand the Persian environment in which it would be worked. D'Arcy was not an entrepreneur, he had no engineering experience and little knowledge of Persia. He was an investor who, after consulting his acquaintances and advisers, expected to make a profitable return on his capital by forming a company to exploit his concession. He owed his opportunity to General Kitabgi and Sir Henry Drummond Wolff and he depended upon Dr Redwood for technical advice, as the most distinguished oil technologist of his time.¹ There was no large organisation behind D'Arcy. All his business affairs were handled by his secretary, John Jenkin and later H. E. Nichols,² who merely added Persian correspondence to their other duties, including those of the Mount Morgan Gold Mining Company in London. Kitabgi clearly intended to manage affairs in Persia as his own responsibility.

Such a division of responsibilities, which seemed simple, in reality became uncommonly complicated. The preparations for drilling were not easy, needing local negotiations and long haulage of equipment over difficult terrain. There were problems over labour and supplies. Wolff was uncooperative and Kitabgi, insistent upon 'the necessity of acting in Persia according to the Persian ideas and not those of the English',³ was disregarding Redwood's advice and disagreeing with the views of Reynolds, D'Arcy's engineer. The raising of finance proved desperately more difficult than had been anticipated and within a short time it became necessary to take legal advice on the Concession owing to the imprecision of its language. The early years, then, were marked by adversity rather than success, notable more for the persistence of D'Arcy and the determination of Reynolds than for the results of their efforts.



Sir Boverton Redwood c.1910

(i) Associates and syndicates

Although D'Arcy fully backed his new investment, he did not see himself as more than the person who would initially crank the engine and that once started other fare-paying passengers would come for the ride and share the pleasure. Once the Concession was signed it became imperative to put his rights on a permanent basis, and relieve himself of the total responsibility he was shouldering. In June 1901 it was proposed to form the 'Persian Petroleum Exploration Syndicate' with a capital of £300 000 in £1 shares, of which 270 000 were to be issued as fully paid to D'Arcy in consideration of his concessionary rights and privileges.⁴ The remainder of the shares issued for cash would provide for the necessary preliminary expenses. Redwood estimated that plant for drilling two wells would cost £10 000 and recognised at the outset D'Arcy's desire 'to economise as much as possible'.⁵ He also engaged as engineer, George Reynolds, at a salary of £1500 p.a.⁶ In August D'Arcy wrote to Kitabgi about the new arrangements. Thanking him again for his part in the successful negotiations, D'Arcy admitted that he found the enterprise had expanded to such an extent that it would surpass in a short time, his individual resources.⁷ He felt it was a dangerous situation, for, if his health failed, those associated with the Concession, not least the Shah, would be endangered. So he suggested forming a syndicate in advance of the first exploitation company sanctioned in the Concession which would 'entirely take over my responsibilities, leaving intact my obligations towards His Imperial Majesty'.

The proposal was easier than its accomplishment. A year later D'Arcy confided to Jenkin, 'the fact is difficulties which I did not anticipate have presented themselves with regard to the formation of such a company'.⁸ He then informed his associates that 'the thing is off for the present' but that he would renew his efforts later when 'I will do my level best to get all to come in'.⁹ What had gone wrong? D'Arcy was drawn into a maelstrom of conflicting interests and financial pressures which impeded his efforts to raise funds and embittered his relations with some of his associates, particularly Wolff, who disposed of some of his interest. D'Arcy obtained counsel's opinion on 8 November 1901, Sir F.B. Palmer declaring that D'Arcy had no right to transfer the Concession without the consent of the Persian Government, but that it was permissible for him to form a company which, by contract with him, would obtain the benefit without any transfer and D'Arcy remain the concessionaire.¹⁰

Kitabgi arrived in London on 21 November 1901 from Tehrān, confirmed as Imperial Commissioner and authorised to let D'Arcy form a

syndicate.¹¹ During his visit Kitabgi made it plain that he expected 'to keep in hand the direction of all things Persian, with the end in view that the English occupy themselves solely with the exploitation'.¹² He had already counselled Reynolds in Tehrān that 'it is often for trifles that the best enterprises have been destroyed in Persia' and advised him not to let the Persians get the impression that 'you go there to take their caps off their heads'.¹³ In London he condemned Reynolds for his lack of generosity, 'avarice' as he termed it, and requested that he be accompanied by the adviser he proposed, Shaykh al-Mulk.¹⁴ Encouraged by Redwood's optimistic report, which Reynolds had disclosed to him, and confident of his own position in Persia, Kitabgi was well prepared for the syndicate discussions, 'to see under what conditions Mr. D'Arcy means to share his eventual profits with others'.¹⁵ D'Arcy appeared satisfied with the discussions, thanking Kitabgi on 5 December for his 'kind and invaluable assistance', but he warned that 'what we all must do is to think of the success of the concern, and not the profit, as if we make it succeed, the profit will follow for certain'.¹⁶ On 18 January 1902 D'Arcy informed him that he was working hard 'to get the Parent Syndicate formed'.¹⁷

Less than a month later, on 15 February, D'Arcy was requested by Kitabgi for an advance of £25 000 on the Concession 'which has troubled me a great deal as I do not see how it is to be managed'.¹⁸ D'Arcy was not ready for such an emergency for he had engaged himself only to pay after two years or on the formation of the first exploitation company and it was on this basis that he 'undertook to form a Parent Syndicate with sufficient money for the Boring-only... The Position is very serious as if this money must be found, it is no use my going on with the formation of the Parent Syndicate... so the concern must be at a standstill and I am very much afraid that your Requirements may be the means of ruining the Business entirely'. The demand was dropped. On 24 March 1902 Kitabgi officially approved of the formation of a syndicate and staked out his claim, which it would have been difficult to disregard, 'of assisting at all the deliberations of the administration of the said syndicate and will be consulted in all questions relative to the Imperial Government of Persia, and to those of the country in general. The statutes of the syndicate must naturally be submitted to and approved by me'.¹⁹ On 27 March 1902 D'Arcy informed Kitabgi that the members of the Syndicate, apart from himself, were Evelyn Ashley, Lord Burton, Sir Arthur Ellis, Mr Lynch, Lord Ramsay, Sir Horace Rumbold and Wolff, prominent diplomats, courtiers and men of business.²⁰ He consented to the various appointments of Kitabgi's sons, Paul as a representative in Tehrān, Vincent in London and Edouard as an assistant to Reynolds. By 15 May, Kitabgi, who was living then in Geneva, was informed that 'the syndicate business is now virtually

settled', and given a copy of the Articles, which it was hoped to have signed in June 'when everybody will be in London'.²¹

Once again D'Arcy's optimism was premature. Kitabgi assumed that 'the statutes of the Parent Syndicate Ltd., just as they are written, no longer consider the simple creation of the claimants to fill up the gap of the concession but they constitute the formation of the first society for the exploitation of the concession'.²² He may have been inadequately informed by Wolff.²³ D'Arcy attempted to correct the misunderstanding for it was a prerequisite that 'the borings be finished and the petrol discovered with proofs of its existence in sufficient quantities'.²⁴ D'Arcy was being cautious and pragmatic but Wolff alleged to Vincent Kitabgi that 'Mr. D'Arcy loves to earn money and does not want to make others profit by it'.²⁵ Wolff accused D'Arcy of promoting the Syndicate to evade financial responsibility. D'Arcy told Vincent Kitabgi that 'Sir Henry does not understand business very well; he is an excellent diplomat but not a business man'.²⁶ Distrust had appeared even before drilling operations had commenced.

Kitabgi travelled to London again in mid-July 1902 from Geneva at D'Arcy's invitation and expense, conferred with Wolff and rejected the recommendations for the Syndicate. Kitabgi professed to believe that the Parent Syndicate represented the first exploitation company mentioned in the Concession but D'Arcy was adamant that it had only the more limited objective of financing the preliminary operations. D'Arcy, who had accepted the initial risks at his expense, resented the pretensions of his associates, who were endangering the long-term prospects of the Concession, but Kitabgi and Wolff were apprehensive about surrendering long-term expectations for immediate financial coverage. Kitabgi made counter-proposals²⁷ but he overplayed his hand²⁸ and D'Arcy decided to continue alone until he had made other arrangements.²⁹

Perhaps, even at this early stage, it was proving difficult to find a common wavelength on which to communicate with sufficient clarity between Persian and British interests. Yet D'Arcy, in spite of his dis-appointment, maintained friendly relations with Kitabgi, writing to him that 'the whole of the expenditure is now on my shoulders and I am doing all I can to control that expenditure to things which are absolutely necessary . . . the expenses are a great tax on my resources'.³⁰ Kitabgi, however, replied that the real problem was not about finding oil or raising money, but, 'if there be any danger, it is in the familiarising of the Persian element to European contact'.³¹ Nevertheless, when Kitabgi suddenly died of pneumonia in Italy on 20 December, D'Arcy, in extending his sympathy to the family, wrote that, 'I know I have lost a kind and sincere friend and a valuable and able colleague'.³² Kitabgi had been indispensable in deliver-

ing the Concession, but had he survived he might have crippled it in its infancy.

By the end of 1902, D'Arcy's problem was that he had not succeeded in getting the agreement of his associates to set up a syndicate to guarantee the financial backing for the Concession, so he did not have the funding for a company to exploit the Concession. At one time he envisaged seeking an extension of the concessionary period in which to register a company by drafting a Supplemental Concession, but rejected the idea on account of its probable cost³³ and the opposition of Wolff, who was being obstructive and threatening as his own financial position worsened, thereby causing further expenditure without a corresponding monetary liability. An effort to interest Sir Ernest Cassel, international banker and friend of Edward VII, apparently failed and D'Arcy acknowledged in mid-April to Jenkin that he had no option but to form a company. So 'until we find oil... will carry on the work we are now doing. When oil is found it will be different. The Company will go on its way and I shall then continue the work we are now doing'.³⁴ D'Arcy wanted to launch the ship, he did not want to navigate it. By the middle of March, Reynolds had drilled some 900 feet, which encouraged D'Arcy to hope that the news 'may soon be followed by another wire saying oil in quantities is really found'.³⁵ There were many more such mirages in D'Arcy's desert.

Early in May 1903, D'Arcy took advice from a specialist in company law, E. T. Hargraves, and consulted Sir Howard Elphinstone about syndicates and forming a company. On 21 May the First Exploitation Company was registered containing the following main provisions.³⁶

(1) The Company was to have the right, within one year, to select anywhere within the Concession area, blocks of land not exceeding in the aggregate one square mile, the Concessionaire transferring to the Company all rights and privileges vested in him under his Concession in relation to such blocks of land.

(a) In consideration of the grant of these rights, the Concessionaire was to receive 350 000 shares of £1 each issued as fully paid.

(1) The Company was to pay the Persian Government 16 per cent of its annual net profits, and, in exercising its rights under the Agreement, was to conform to all requirements of the Concession, and to indemnify the Concessionaire against all liabilities in respect of any action that it might take.

The purpose of the company caused confusion and aroused the suspicions of Wolff and Vincent Kitabgi, who thought that, not only their rights were being jeopardised, but that obligations to the Persian government were being disregarded. Their concern was justified, so was D'Arcy's anxiety. D'Arcy was forming an exploitation company, not the concessionary company for he was in no position to do that, and, since he was not able to do so, he could not predict its composition nor forecast its policy,

except in so far as it would be obliged to honour his commitments and those of his associates. He did not know who would provide the finance.³⁷ Ironically, the longer D'Arcy was prevented from raising finance, the more difficult it became to interest a financier and the more likely it was that his conditions would ultimately be more onerous. Even Wolff accepted that he was entitled to form the First Exploitation Company. He had complied with the concessionary requirements in forming a company. He had discharged his official obligations of £20 000 and 20 000 £1 shares to the Persian Government and his personal debts of honour of £19 000 and 30 000 £1 shares to those who had been involved in securing the Concession.³⁸ Vincent Kitabgi had made all the necessary arrangements in Tehrān with the assistance of his brother Paul. The Persian Government was informed that the terms of the Concession had been observed in these respects by Vincent Kitabgi, who had succeeded his father as Imperial Commissioner.³⁹ Whilst these legal and financial arrangements were being completed in London, the first practical steps to exploit the Concession were being taken in Persia.

(ii) Preparations in Persia

George Bernard Reynolds, who was engaged by D'Arcy as his first engineer, was a taciturn, energetic, self-reliant person. He had graduated from the Royal Indian Engineering College, served in the Indian Public Works Department and had worked in the oil fields of Sumatra. He was a competent, mostly self-taught geologist, a practical engineer, a passable linguist and a competent horseman. Remarkably self-reliant and adaptable, Reynolds was a 'loner', contemptuous of office 'wallahs' but generous to those who shared with him the discomforts of the scorching sun, the freezing nights and the barren landscapes. Without being impressive in appearance, apart from his bushy black moustache, he was physically tough and mentally alert, able to withstand and understand the rigours of the Persian countryside. Reynolds reached Tehrān on 10 September 1901. He was immediately taken in hand for a fortnight⁴⁰ by General Kitabgi, who had his own ideas about where and how to commence operations, irrespective of Dr Redwood's instructions. Kitabgi stressed to Reynolds his own knowledge and experience, pointedly inquiring that 'Now you begin to penetrate into the grammar of Persian affairs, tell me if it is possible to manage a like enterprise in Persia with the experience acquired in London?'⁴¹ Reynolds was impressed and grateful but not intimidated, informing D'Arcy that 'I have been able to converse with him and learn far more of the human methods in vogue in Persia, than I could possibly have done had I hurried away.'⁴²



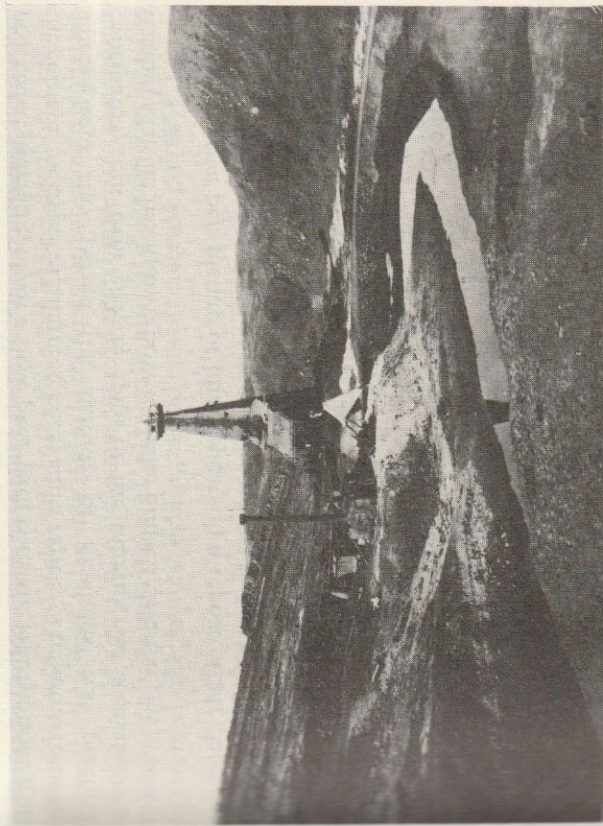
G. B. Reynolds, Crush and Willans c.1909

Kitabgi, however, was deeply disappointed in not being able to persuade Reynolds to go to Shushtar, where oil was plentiful.⁴³ On the basis of the geological survey undertaken by H. T. Burls during the spring of 1901, whilst the concessionary negotiations were being carried on in Tehrān, Redwood recommended examining the area around Zuhāb in the Qasr-i Shīrīn district. Burls arrived back in London early in July, confirming the observations of de Morgan on the prospects for oil but he did draw attention to the lack of water at Qasr-i Shīrīn, scarcity of timber, desolation of the countryside, dearth of fuel, difficulty of communications, shortage of labour and most important, transportation problems and tribal unrest.⁴⁴ He also visited Qaleh Dārābī in the vicinity of Ahwāz and briefly mentioned in his report, Shushtar and Masjid-i-Suleimān. Redwood was enthusiastic about the reports of Burls that 'the territory as a whole is one of rich promise'.⁴⁵ Reynolds was requested to make arrangements for carrying the plant from Basra through Baghdad and over the Persian-Turkish frontier to the drilling sites. He left Tehrān on 21 September for Kirmanshāh, which he reached on 10 October, having forfeited the initial 'favourable impression'⁴⁶ with which he had been received by Kitabgi, who later seemed determined to undermine his authority and impose his own direction on affairs in Persia.

Why was Kitabgi so insistent on Shushtar to the exclusion of the Qasr-i Shīrīn area in July, even before Reynolds arrived in Tehrān?⁴⁷ The reason is

more associated with political and religious affairs than geological observations. Throughout the Qājār period, the religious authorities, the *ulemā*, were powerful, and at this time playing a very influential role in Persian political life, as the movement for constitutional reform was gathering pace. Kitabgi had close relations with Āqā Sayyid 'Alā al-Dīn, the principal Mujtahid, religious leader, of Shushtar, who was also well-known to Amin al-Sultān. Kitabgi visited him in Tehrān on 8 July to seek his cooperation, suggesting that oil gained by Persia would be a loss to Turkey. When the Mujtahid returned the visit three days later, he pledged his friendly assistance to mutual advantage and agreed to write a commendatory letter to the principal Mujtahid at the holy Shi'ite city of Najaf, now in Iraq.⁴⁸ Kitabgi promised to 'persuade Mr. D'Arcy to put him in a position to satisfy all his friends there', who owned and worked some existing seepages.⁴⁹ Kitabgi introduced the Mujtahid to Sir Arthur Hardinge and to Reynolds on his arrival, whom he assured 'of the existence in abundance of oil and the certainty that a cordial reception would be given to them at Shushter'.⁵⁰ Reynolds politely indicated his interest, but was not prepared to change his plans. It is quite remarkable that at this stage there was little evidence of religious animosity, partly attributable to Kitabgi's deference to and consideration of religious susceptibilities. When it appeared later it was not spontaneous, but the result of personal intrigue against Reynolds by a protégé of Kitabgi, Shaykh al-Mulk, sent with him in order to smooth out 'the number of small difficulties inevitable in all beginnings', but which he exacerbated.⁵¹

Reynolds had cleared his fences in Tehrān. He moved on to new ground near Qasr-i Shīrīn where he visited the oil indications and met with much hostility.⁵² A fortnight later, in mid-November, he was in Baghdad and later unloading *The Afrikander* at Basra which brought the first plant and machinery, valued at £1250.⁵³ In December some drillers arrived too early, and had to be returned. The slow trek to the mountainous valleys across the Mesopotamian plains with the cumbersome equipment began with a shortage of mules, makeshift waggons and obstruction from Turkish officials. Gradually Reynolds gained the confidence of the local tribal leaders, firstly Azīz Khān and then Muhammad Karīm Khān, who owned the seepages at Sar i-Pul, where the geological indications were favourable. There was, however, no prospect of drilling without local bargaining for 'the authority of the Shah was held in low esteem by our host',⁵⁴ and the landowners had 'no idea of the mineral rights of the owner of the ground being nil' but required payment 'over and above that laid down in the Concession'.⁵⁵ Starting operations was an exhausting, disheartening and troubled period for Reynolds among unfamiliar surroundings and people, improvising with machinery often broken and



Chiāh Surkh no.1 well 1903

with parts missing, keeping the peace between squabbling tribal leaders, managing his labourers unused to regular employment and industrial practices, nursing his relations with the local population and tolerating his Kitabgi-appointed assistants, whose counsels, if not always misguided, were frequently irrelevant. D'Arcy was worried at the lack of progress and telegraphed Reynolds on 15 April 1902, 'when probably commence drilling - delay serious - pray expedite'.⁵⁶ Reynolds replied that it was 'not possible to estimate' but that 'no exertion on my part shall be wanting'.⁵⁷

Drilling commenced in November 1902, some six months later, the site perched on a small plateau in mountainous undulating country with a stream nearby and tents spread around. The party was composed of half a dozen Polish and Canadian drillers, three or four work shop machinists and a couple of blacksmiths from Central Europe, a number of rigmen, including some who had been employed at Baku from Azarbāyjān, an Indian doctor, a Turkish surveyor, two English assistants, many Kurdish and Persian guards and a motley of camp followers, cooks and firemen. Surrounded by tribes perpetually at odds with each other, survival depended on strength of character and force of personality rather than on the precarious protection of ministerial decrees obtained in Tehrān⁵⁸ or the exhortations of indifferent and weak local governors. The water was foul for body and boiler, the attentions of insects unremitting, but work

proceeded indefatigably at a slow pace with constant interruptions from the climate, mechanical failure, sickness and a variety of religious festivals. Throughout this period the attitude of Reynolds was practical, conciliatory but firm and, in spite of the intemperate accusations of Kitabgi that 'he has known how to make himself detested', he was well regarded.⁵⁹

A perceptive pen picture of him appears in a report of Mr (later Sir) Henry Dobbs, Indian Civil Service, who passed through Chiāh Surkh in February 1903. Dobbs refers to his 'generosity and kindness', his familiarity with tribal affairs and the respect in which he was held.⁶⁰ He alluded to the intrigues of the Shaykh al-Mulk, whom Kitabgi had foisted upon Reynolds, who 'tried to get all the payments of gift, salaries etc. into his own hands with the obvious desire of enriching his friends and acquaintances', claiming that 'Reynolds was exciting hostility in the neighbourhood by not employing Persians exclusively and by not dispensing money with sufficient liberality', charges also repeatedly expressed by Kitabgi. Dobbs sensibly cautioned that 'Apart from the question of the existence of oil, the undertaking will certainly fail, if the Concessionaires at home refuse to trust the man on the spot, and undermine his authority by listening to the tittle-tattle of interested persons like the Sheikh ul-Mulk.' Reynolds lived to see his management ultimately vindicated by the discovery of oil. If his Persian grammar was not always correct his vocabulary was well understood.

By the time of his return to England in early April 1902, the first well was over 900 feet deep and a pipeline route from Zuhāb to Muḥammara had been surveyed. Reynolds had accomplished the exacting task of setting up camp with all its drilling paraphernalia, not excluding beer, sunhats, waterproofs and calendars. No exertion had been wanting for he was well aware of D'Arcy's anxiety already in August 1902 that our time is getting short, and I cannot get one day's extension from the Shah. So this means that either you must find oil in quantity soon enough to enable me to form and float a subsidiary company before May next, or I must either pay the Shah the amount due under the concession out of my pocket or abandon the whole thing.⁶¹

At the same time as D'Arcy was pressing Reynolds to find oil, he was contemplating sending out another geologist, W.H. Dalton, partly to reassure himself and provide more geological backing for the Parent Syndicate which he was expecting to form, and partly, in all probability, to persuade Kitabgi that he was not neglecting the case for Shushhtar. He recognised that without such a report it would be impossible to get people here to buy land or 'to take shares in any company that might be formed for working it'.⁶² Redwood was not convinced of the need to go elsewhere

in Persia.⁶³ Dalton, with assistance from Kitabgi, completed his survey both in the west and south at a cost of £2202⁶⁴ and reported on 15 May, before the deadline for the formation of the first company for exploitation had elapsed. His general conclusions were blandly imprecise, 'continuous recurrence of accumulations of oil the commercial value of which can be determined only by test drilling at judiciously selected points'.⁶⁵

(c) 'Every purse has a limit' May 1903 - July 1904

(i) Searching for finance

In July 1903, taking a cure at Carlsbad, D'Arcy was pondering on the implications of Dalton's survey and Reynold's estimates for drilling in the south. He had delayed a decision pending 'some assistance towards the cost from those interested in the Concession, but at the same time, I have decided to do it myself even if this assistance is not forthcoming'.⁶⁶ He confessed to Jenkin, 'I want to be certain of all this as every purse has its limit and I can see the limit of my own and I want first to know what sum Mr. Reynolds thinks he can get oil for and then whether that money can be supplied'.⁶⁷

There was no easy solution for D'Arcy, as he was so far committed that withdrawal would have involved considerable loss, for his concessional assets were only an indeterminable financial liability. He did not possess a single substantial asset of a proved oil well, let alone a field, to use as collateral to float a company. It was almost financial checkmate, which ever move he made. He had little alternative but to accept the advice of Hargraves, his business adviser, who warned him that approaching a financier then would give the impression that 'he is letting some one out and will try and make hard terms against you' and that he would do better to wait and 'see if you get oil'.⁶⁸ D'Arcy was hesitating over drilling at Shushhtar in case 'Fisher's friends...decided one way or other'.⁶⁹ Admiral Sir John Fisher, Second Sea Lord, 1902, and First Sea Lord a year later, a leading advocate of the use of fuel oil in naval vessels, was also at Carlsbad at the same time as D'Arcy and was very impressed by his enthusiasm for his new venture, joking that 'I am thinking of going to Persia instead of Portsmouth'.⁷⁰ Limited experimental work was undertaken in 1902 with relatively little enthusiasm by naval engineers. The first trials of a coal-fired marine engine convertible to oil on a battle ship, *H.M.S. Hannibal*, took place at Portsmouth harbour on 26 June 1903.⁷¹ It became a technical disaster, when the ship was enveloped in a pall of black smoke as a result of faulty burners, rather than the oil, which had been supplied by Sir Marcus Samuel, Chairman of Shell. As a result of this fiasco it was doubtless

obliged to seek 'outside' capital if the Concession was to survive. Beyond concern, nothing substantial resulted from this meeting.⁷⁸

He was greatly reassured by his friend, Major-General Sir Arthur Ellis, Liquerry to the King, on 16 December of Rothschild interest. A fortnight later Ellis wrote optimistically to D'Arcy that he had seen and explained everything to Baron Rothschild who would get in touch with his cousin, Alphonse, in Paris to send a representative to London, adding that 'on the whole I feel sanguine that there is a fair prospect of success with their cooperation'.⁷⁹ D'Arcy was relieved but worried for, as he confided to Manisty, his solicitor, on 1 January 1904, 'the greatest difficulty in the matter is Wolff - as usual - as they hate him and do not want him in'.⁸⁰ A thorn in D'Arcy's flesh he had become a blight on the Concession. Vincent Kitabgi at this time too informed D'Arcy that he reserved his position as inheritor of his father's estate.⁸¹

D'Arcy's bankers, Lloyds, became more restless at the size of his over-draft, which stood on 31 December 1903 at £176 548 14s 3d, of which £158 19s 5d was interest.⁸² For this reason, after he had met M. Aron, the Rothschild representative on 29 January 1904, he urged his counsel, Mr Fletcher Moulton KC (later Lord Justice Moulton), to get a proposition prepared as soon as possible, as 'I am very anxious to get this matter pushed on, not only on account of the Concession, but also on account of the bank, as they will have to be reckoned with before long'.⁸³ D'Arcy was being squeezed, but he was still hopeful that his Persian affairs 'will be brought into Port within the next six months'.⁸⁴ Following further interviews which Ellis had with Baron Rothschild on 8 and 9 February, D'Arcy with Fletcher Moulton visited Alphonse Rothschild in Cannes towards the end of February.⁸⁵ His wife in an imaginative phrase looked forward to hearing 'they have struck the lake of oil',⁸⁶ but no bargain was struck and negotiations with the Rothschilds were suspended as the arrangements which they had concluded on 2 July 1903 with Royal Dutch and Shell offered them a more attractive prospect. It seems that at some stage the fuel oil committee was again informed of D'Arcy's difficulties, probably informally through Redwood who was on the committee.

As Pretzman explained later in 1919 in a letter to Sir Charles Greenway, who was then Chairman of the Company, he had

ascertained that Mr. D'Arcy was, at that moment, in the Riviera negotiating for a transfer of his concession to the French Rothschilds. I therefore wrote to Mr. D'Arcy explaining the Admiralty's interest in petroleum development and asking him, before parting with his concessions to any foreign interests, to give the Admiralty an opportunity, of endeavouring to arrange for its acquisition by a British Syndicate.⁸⁷

inevitable that no definite proposals then emerged from 'Fisher's friends', but later in July the Admiralty first inquired about the possibilities of the Burmah Oil Company supplying fuel oil for the Royal Navy.⁷²

After D'Arcy received news of a show of oil at Chiāh Surkh in October 1903, it seems that he applied through E. G. Pretzman, then parliamentary secretary to the Admiralty, for a loan. Pretzman advised D'Arcy to forward a letter stating the position and the amount of money required to put the concession on a firm basis and that Lord Selborne, First Lord of the Admiralty, 1900-5, would then consider the matter and take the appropriate action.⁷³ Selborne had already appointed a small fuel oil committee to advise him. D'Arcy followed the advice, but the answer was negative, the Government was not interested. Nevertheless the Foreign Secretary, Lord Lansdowne, was worried about the international implications of foreign control over the Concession. Writing to Lord Curzon, Viceroy in India, and Sir Arthur Hardinge, on 7 December 1903, he reported that D'Arcy had already spent £160 000, needed another £120 000 for drilling in the south of Persia and that he was 'not sanguine of receiving support by British capitalists'. So concluded Lansdowne, 'As British Government are unable grant any assistance to a scheme of this nature, it is represented to me that there is danger of whole petroleum concession in Persia falling thus under Russian control', on which he invited comment.⁷⁴

Curzon, who had been a director in the Persian Bank Mining Rights Corporation, was sceptical, not believing in the 'likelihood of Persian oil deposits being worked at profit and should not fear the sale of concession to anybody else', except that in Russian hands it might be used to spread their influence.⁷⁵ Hardinge initially expressed the same opinion as Curzon, that if the Russians obtained the Concession 'it would be most dangerous to British interests in Southern Persia'.⁷⁶ Later, however, after visiting Chiāh Surkh in January 1904, he felt that the pessimism of Curzon was unjustified and that it would be a pity to allow the Concession to pass into foreign ownership before it had been exhaustively tested. Agreeing that its financing was beyond a single individual capitalist, he advocated that, at the least, an effort should be made to prevent its acquisition by Russian interests who might construct a pipeline to the Gulf.⁷⁷

D'Arcy was becoming desperate, it was cash not advice he needed. An attempt was made to raise a loan from Joseph Lyons and Co. as 'It is all I can do to keep the bank quiet and something *must* be done', but to no avail. He placed more of his Mount Morgan Gold Mining Company shares with the bank as security for his overdraft. On 25 November 1903 D'Arcy hired a suite at the Coburg Hotel in Grosvenor Square to inform his associates that he had come to the end of his financial tether and that he would be

D'Arcy accepted Pretzman's invitation to discuss the position with him. No commitments were made. D'Arcy seems to have approached Lord Lansdowne again, who telegraphed to Hardinge about D'Arcy's current financial plight and asked whether any assistance could be expected from the Government of India,⁸⁸ but there was no sign of urgency.⁸⁹

D'Arcy redoubled his efforts as his bank became more demanding and requested the Concession itself as security for the overdraft, which by the end of April 1904 had increased to £186 366 9s 5d. This was an unacceptable condition for it would prevent further finance being raised on the Concession, as D'Arcy knew from the interest shown by the Standard Oil Company in early April, which thought of buying it outright, provided it was not encumbered in any way.⁹⁰ As he mentioned to Manisty, 'It would be a pity to give the security for at all events a few weeks as the American Group are still after the thing, and Sir E. Cassel is taking a few days to consider whether he will take the business up or not.'⁹¹ At the end of the month he temporised unsuccessfully with the bank because he expected an offer from the American group but 'all the thanks I get is the enclosed letter demanding the custody of the Concession itself.'⁹² In June, Standard oil offered no definite proposals, Cassel rejected the proposition submitted to him and the Rothschilds declined to accept the terms drawn up by Fletcher Moulton at the end of the month. Wolff 'more troublesome than ever' was suggesting that the Concession would be forfeited by its lack of development.⁹³ In Persia too the oil strike in the second well on 14 January, which was, for D'Arcy, 'the glorious news from Persia and is the greatest relief to me',⁹⁴ had dwindled to a trickle and had therefore not, as Rosenplaenter, the engineer, hoped 'removed all anxiety from your mind regarding the ultimate success of our drilling operations in this field'.⁹⁵ The limits of the purse had been reached.

(ii) Drilling for oil

Reynolds was succeeded as engineer at Chiāh Surkh, when he returned home after his first contract expired, by C.B. Rosenplaenter, who took charge of operations in March 1903. Rosenplaenter, who had drilling experience in Assam and Baku, where it appeared he 'has worked pleasantly with Eastern people and has had Persians under his control',⁹⁶ was technically proficient and adaptable. Less robust and abrasive than Reynolds, he was just as determined and fully trusted by Redwood, for whom he had elsewhere shown his capacity for overcoming obstacles.⁹⁷ Rosenplaenter, like Reynolds, was more than the resident engineer, he was effectively the administrative manager of operations attending to all technical problems, the welfare of his staff, the provision of guards and



C.B. Rosenplaenter 1903

security, negotiations with landlords and officials, the supply of water and fuel, the organisation of transportation, the receipt and despatch of equipment, the supervision of building quarters and camp discipline and the arbiter of local disputes. Rosenplaenter too was respected for his compe-

tence, authority and care. Sir Arthur Hardinge, who visited the camp, 6-11 January 1904, commended his behaviour, 'for one of the greatest difficulties attendant on Mr. D'Arcy's enterprise lies in the lawless character of the region in which he has to work... the real Rulers of the country are the tribal chiefs, great and small, who are constantly engaged in petty feuds and warfare with one another'.⁹⁸ Reynolds and Rosenplaenter had succeeded 'by conduct at once straightforward and tactful to remain on good terms with the turbulent and constantly warring native elements... no single untoward incident of any importance has troubled their relations with them'.

There was a multiplicity of technical difficulties, and Rosenplaenter displayed a talent for improvisation. Steel cables frayed and broke, cases split, boiler tubes cracked, tools dropped into the wells and were retrieved with intricate fishing skill, drilling bits splintered, well sides caved in, water corroded metal parts, timber was in short supply, equipment did not always fit and was bent, buckled or missing on arrival. It was arduous and occasionally dangerous work for on one occasion 'a pole broke on the upward stroke close to the top and when the tools dropped, another near the bottom broke. We fished fifteen poles out of the hole that were turned into corkscrews'.⁹⁹ There were worries about 'the increasing quantity of perfectly odourless inflammable gas', because the glass in the safety lamps had been broken and replacement fittings turned out to be the wrong size.¹⁰⁰ Optimistically Rosenplaenter tried to introduce some technological improvements by changing from the traditional method of percussion pole-type drilling which hammered the bit into the ground, to the newer method of cable drilling which was more flexible.

Progress, however, was slow and only the Canadian drillers, McNaughton and Buchanan, showed any expertise at all whilst 'our Baku men do not take kindly to the cable drilling as they think their services will not be required any longer'.¹⁰¹ The experiment had later to be abandoned because the wire was too frail, the Polish drillers too inexperienced and the situation too uncertain, with a Russian vice-consul recently arrived at Kirmanshāh, to provoke the Baku drillers.¹⁰² One innovation was successful; the labourers 'have taken most kindly to wheelbarrows and while they are doing at least three times the amount of work they did before, they get no end of fun out of it'.¹⁰³ When the oil was first struck there was an immediate benefit, for its utilisation in the boilers brought about a rapid reduction in the price of wood which was offered at 2/5 of its former price and pilferage declined as it had been 'impossible to prevent the nightly wood thefts as the guards are probably the greatest offenders in this line'.¹⁰⁴

The climate was extreme. In the low thick-walled stone houses that were constructed for the drillers the temperature rose to 120°F 'so as the

nights are hot the men get very little rest and still less sleep'.¹⁰⁵ A week later on 5 August it was reported that progress was slow because of 'the infernal heat',¹⁰⁶ but when the rains came 'the water came down in torrents'.¹⁰⁷ In January the traditional mud covered reed roofs of the stables collapsed and the mules had to be driven to Qasr-i Shīrīn as no corrugated tin remained for repairs.¹⁰⁸ These natural events were disturbing, but more unpredictable were the human elements. They were not necessarily all surprising. Thus the Governor of Kirmanshāh, Prince Fārmān Fārmāfar, the Imām Jum'ā, the principal local religious dignitary, officials and religious leaders enjoyed visits to the site and they 'seemed very keen on receiving a substantial present from us, especially in the shape of some shares of our Company'.¹⁰⁹ So popular was their reception that Rosenplaenter was obliged 'to run a separate Mohamedan kitchen for such native chiefs and Prominent Persians'.¹¹⁰ The medical treatment provided for staff and public alike was highly appreciated. References by Rosenplaenter to contemporary affairs are few, but one was interesting in the light of subsequent events of the constitutional struggle: 'the Mullahs in the North are exciting the population as much as they can against the foreigners... the real fight is now between the Shah and the Mullahs for the control of the public affairs'.¹¹¹

Serious and frequent tribal skirmishes across disputed tribal borders, whilst they did not directly impinge on the operations, disrupted food and fuel supplies. On 26 June 1903, for example, Rosenplaenter reported raiding by a Turkish tribe and retaliation so that 'for the last week the whole country north-east of the camp has been on fire'.¹¹² In August he was unable to complete a land survey on some property as 'the Ahmadowandi have been raiding there for the last two months'.¹¹³ More threateningly in January 1904 two local tribes, with lands in the vicinity of the oil wells, massed for a clash with many people taking refuge in the camp with their children, flocks and chattels in cold and wet weather.¹¹⁴ By admirable impartiality or the magical impression caused by the sudden show of oil at that moment, the tribes were reconciled and in the presence of Rosenplaenter swore eternal peace and friendship.¹¹⁵

The oil strike, auspicious for tribal peace, occurred in the second well drilled at 756 feet on 14 January 1904, and flowed at a rate of 600 barrels (a barrel containing 35 gallons) in twenty-four hours accompanied by brine.¹¹⁶ The rains had washed away the collecting dams, oil oozed everywhere and pandemonium broke out when women swarmed over the camp to collect the salt water, oblivious of the blows of the guards.¹¹⁷ Rosenplaenter restored order and allowed access to the brine on a regular basis. Unfortunately the oil failed to flow regularly in sufficient quantity to justify its early promise. Neither well showed more than occasional



Aziz Khān and Karim Khān, with followers 1903

traces of oil. No. 1 had reached 2315 feet when it was discontinued on 6 May and No. 2 had reached 1348 feet on 23 June¹¹⁸ when all operations were suspended at Chiāh Surkh by A. W. B. Holland, then in charge, who had been an assistant to Reynolds and had worked in charge of transport at Chiāh Surkh. Rosenplaenter himself left in the middle of May. Though frequently ill he had shown great fortitude, skill, endurance and patience.

Whilst Rosenplaenter was drilling at Chiāh Surkh, Reynolds had returned to Persia at the end of October 1903. D'Arcy contemplated drilling in the south and in September the instructions to Reynolds were to select at least six promising sites in the south-west on the basis of Dalton's report and negotiate suitable terms under which drilling could be undertaken with the agreement of the landowners.¹¹⁹ D'Arcy did not have sufficient funds to drill in more than one place at a time. On 28 November, in Kuwait, Reynolds met the Viceroy, Lord Curzon, who was on a tour of the Persian Gulf, but it was little more than a social visit. Arriving in Shirāz in January 1904, Reynolds was hospitably entertained by the consul, R. G. (later Sir Robert) Graham to whom he was indebted for much useful local knowledge and advice and they became good friends.¹²⁰ He reached Behbehān on 16 February,¹²¹ journeying towards Ram Hormuz, which he reached at the beginning of March and a fortnight later, joined by Holland, arrived in Shushtar.¹²² Travelling was dangerous because of the tribal

feuding between the Sagwands and the Daraghwands¹²³ and the Dehlurān area to the north-west was much disturbed.

After arriving in Shushtar, Reynolds arranged to visit the seepages owned by the Sayyids, in charge of a religious endowment, to see the Bakhtiari Khans and survey the region for suitable sites. In a telegram he mentioned Masjid i-Suleimān for the first time on 31 March, 'Oil found in typicaliferous rocks. The rocks here are saturated with oil as at Mandali. The property is a very valuable one.'¹²⁴ Dalton, however, preferred the prospects at Shardin as being 'by far the best' and placed Masjid i-Suleimān as 'the next best'.¹²⁵ At a meeting on 1 April the Khans demanded practically 10 per cent of net profits of working the oil in their country'. They were indifferent to the terms of the Concession and the authority of the Shah, and they were not interested in the distinction between surface and sub-surface rights.¹²⁶ Reynolds was only authorised to offer 2 per cent. D'Arcy replied that he could 'only agree to give 10 per cent of profits if Persian Government will reduce royalty on this property by this extent', but Reynolds was not to enter into any binding contract.¹²⁷ When the conditions of the Khans were reported to the Persian Government by the Minister in Tehrān 'suggesting the reasonableness of reducing in such cases the royalty due to the Central Government', it refused to make any exceptions.¹²⁸ No firm agreement was reached with the Sayyids of Shushtar, who demanded, annually, eleven tons of crude oil, eleven tons of bitumen and £100 for the duration of the Concession. Reynolds was disposed to agree straightaway, 'In view of religious fanaticism... otherwise their rights are likely to cause considerable trouble.'¹²⁹ Though the terms were acceptable it was decided to settle only after oil had been obtained in commercial quantity.¹³⁰ At a time when the financial negotiations in London were in the balance, D'Arcy was not prepared to commit himself further. On 19 May, whilst he was waiting for fresh instructions in Baghdad, Reynolds was ordered not to make any fresh contracts and on 8 June summoned home.¹³¹

(d) The Burmah connection

By mid-1904 it must have seemed to D'Arcy that the dice were loaded against him, but a new player joined the game, the Burmah Oil Company, introduced by Pretymān. Burmah, registered in Edinburgh in 1886 and reconstituted in 1902 with a capital of £1 500 000, was founded by a group of Scotsmen led by David S. Cargill. It was a pioneering British company in overseas oil interests linked technically to the East Midlothian shale oil industry. Burmah transformed the primitive village-based oil gathering undertakings of Burma into an industry with a refinery at Rangoon and

markets in India supplied by agents. The oil was of fine quality, the operations simple and the profits good. Production rose five-fold between 1900 and 1914, when it reached 1 000 000 tons. The development of marine engines for burning fuel oil in naval vessels had already been undertaken in the Russian and Italian navies¹³² and was under active consideration by the Admiralty.¹³³ Surety and security were the prerequisites of supply, as the Admiralty informed the Secretary of State for India on 4 May 1904:

they desire to obtain as far as possible in any concessions to prospect or drill in any oil fields situated in British Territory, the right of pre-emption of suitable residual oils for Naval use, and to secure a supply of such residual oils by requiring that the refining of the crude oil should be carried out in British Territory.¹³⁴ The year before the Admiralty had inquired about the Burmah Oil Company supplying fuel oil and whether it would be prepared to provide a gallon sample, 'free of expense to the Crown'.¹³⁵

The Burmah response on 2 November 1903 was positive and confident. Regretting that they were then 'not in a position, without adopting a new modus operandi, to offer supplies of fuel oil in anything like large quantities' they were, nevertheless, sure that, 'at no distant date, we shall be in a very different position and that large supplies of oil fuel may be available'.¹³⁶ Details of the oil to be supplied were forwarded but more important than the technical competence displayed was the determination of dependability for 'we regard with the greatest confidence, the future of this Company and its expansion far beyond its present limits'.¹³⁷ At the Annual

General Meeting in 1905 its success was explained 'in a large measure due to the policy of expansion and extension which your Directors have been pursuing during the last two or three years'. As the deputy chairman C. Wallace a founder partner in the firm of managing agents, Shaw, Wallace & Co. Ltd, touchingly remarked, 'Now that we have emerged from the "baby" stage they have apparently resolved to compete with us'.¹³⁸ Defiantly, Burmah increased its capital by £500 000, enlarged its refining storage and transport facilities and persuaded the Indian Government to reject requests for Indian concessions by Standard Oil but increase their own concessionary area. As was said of David Cargill, who died early in 1904, a man of 'great courage with great caution',¹³⁹ these were the years of courage, when its affairs were administered 'with prudence and energy', according to Redwood, their technical adviser, who championed their case with the fuel oil committee.¹⁴⁰

By February 1904, enough correspondence had been exchanged for the Admiralty to be satisfied that a trustworthy supply of fuel existed in British possession¹⁴¹ and for John T. Cargill, as chairman, to propose

direct discussions.¹⁴² The first of these took place on 15 March,¹⁴³ with Cargill, Wallace, Pretyman and Gordon Miller, Director of Contracts at the Admiralty, present. Negotiations proceeded satisfactorily, Cargill being able to meet the Admiralty's requirements of 50 000 tons a year from the Company's own resources, though not without a premonition that later 'we may hereafter be called up to extend - and perhaps largely extend - our operations in the Oil Fields of Burmah should other suitable sources of supply not present themselves meantime'.¹⁴⁴ On 2 July, the Admiralty announced that the oil sample had passed the test and was considered to be a very suitable fuel oil for service use', equal to the best quality Texas oil.¹⁴⁵ Cargill's strategy seemed to be to take advantage of Pretyman's views with sympathetic Admiralty support that British oil procurement should be assisted and not allowed to fall into foreign hands. He was, therefore, prepared to seek preferential treatment from the Indian Government over increased concessionary areas and restrictive duty on foreign oil importation, in return for the increased outlay on refining and pipelines which would be required to provide fuel oil for the Admiralty. There was no room for patriotic complacency.

These factors were part of the background to the important meeting of July 1904, which was not only a significant stage in reaching agreement for a fuel oil supply contract with the Admiralty, but was also the preliminary point of contact over Persia. Pretyman must have stressed the equality of interests between D'Arcy and Burmah and their likely impact on Admiralty fuel oil supplies but Burmah was under no delusion, as Cargill candidly in 1927 that,

... to be, and very often is, the case that private and Imperial interests are served by the same action, but it was primarily the protection of its Indian investments that took the Burmah Oil Company Ltd. into Persia, and it was its past conviction of the burden of its disappointment and expense which for many years has not with

its idealism, not sentiment, which induced Wallace and John Cargill from beginning to meet D'Arcy on 10 August. Thereafter Persia became a principal strand in their policy. What actual protection did Persia present for Burmah? It was an insurance against exploration failure. Cargill had become worried about the lack of new exploration success in Persia as he confided to Redwood in October 1904, 'for a considerable time past we have been devoting much of our energies and a very large amount of Capital, in prospecting work over a large extent of territory, with a view to endeavouring to prove fresh deposits of Oil, but unfortunately up till now with no success'.¹⁴⁷ Meanwhile uncertainties of the Government of India's unwillingness to grant further licences for

exploration were affecting their confidence in their ability to supply the Admiralty with fuel oil. Because of the bargaining and the doubts, a further year elapsed before the Admiralty supply contract was signed in November 1905.¹⁴⁸ An inter-company arrangement with Shell was concluded on 27 October¹⁴⁹ and an agreement with D'Arcy for the formation of the Oil Concessions Ltd on 5 May, 1905 was a decisive year.

What of D'Arcy as he contemplated the attractions of this financial association? He was encouraged because 'the Burmah people think well of it and Lord S (Strathcona) has consented to join them. I am to meet them tomorrow, and discuss terms. They are prepared to agree to £500,000 (in capital... and £150,000 towards my outlay and half shares of the company) which he considered 'quite satisfactory to me'.¹⁵⁰ Lord Strathcona of Mount Royal, founder of the Canadian Pacific Railway and the Bank of Montreal, and Canadian High Commissioner in London, was a respected figure in financial circles. Cargill and Wallace were provided with documentation,¹⁵¹ Redwood was consulted,¹⁵² and Reynolds and Rosenplanter warned to be available for 'the offtener and more they can contrive to see Messrs Cargill and Wallace and talk to them about the concession the better'.¹⁵³ The call of the moors was stronger¹⁵⁴ and it was not till early October 1904 that the two engineers were seen separately by Cargill¹⁵⁵ and D'Arcy was able to feel that 'the Burmah business looks promising'.¹⁵⁶ November was busy, for at the beginning of the month it was clear that Burmah and Strathcona had agreed 'to go into the Persian Business' and it was 'only a matter of terms'.¹⁵⁷ D'Arcy was offered £25,000 for the right to drill in the south with Burmah putting up £70,000 for drilling, some half of the expenditure thought necessary. If drilling was successful, D'Arcy would recoup his expenditure out of £1,000,000 working capital and divide the remaining £2,000,000 capital with Burmah, though he had hoped to get £1,250,000 in shares.¹⁵⁸ With Fletcher Moulton acting for D'Arcy, an agreement was reached on 27 November, but it was not settled till 25 January 1905 and confirmed by the Board of Burmah on 3 February.¹⁵⁹ D'Arcy was relieved,¹⁶⁰ and Fletcher Moulton, referring to 'endless negotiations and grievous delays', was satisfied that the terms he had reached 'with a body of very practical businessmen are as good as we could get and that the men are in earnest'.¹⁶¹ Burmah formally assured themselves of the validity of the Concession and the protection which could be granted to British subjects by the Government.¹⁶² The main terms were:

- (1) The Concessions Syndicate was to pay D'Arcy £25,000 on account of his total expenditure (£225,000) in connection with the Concession.
- (2) The Syndicate undertook, within three years, to spend at least £50,000 in proving the oil-bearing character of the Southern territory of

the Concession. If necessary, a further sum or sums amounting to £20,000 (including £70,000 in all) was to be spent. Any additional expenditure was to be at the option of the Syndicate.

(1) D'Arcy was, whilst the Agreement was in force, to hold the Concession and all the property, plant and rights in Persia, Turkey or elsewhere in trust for himself and the Syndicate.

(2) The Syndicate was henceforward to pay all expenses of the Concession and FEC, and D'Arcy was to arrange for (a) the transfer from himself to the Syndicate of 300,001 shares in the FEC, and (b) for the resignation of the majority of the then Directors of the FEC and the election of nominees of the Syndicate in their place.

(3) If oil was not found in sufficient quantities, the Agreement was to be determined and D'Arcy was to repay the Syndicate the £25,000.

(4) If oil was discovered in sufficient quantities to justify the formation of a company, such a company was to be formed with a capital of £1,000,000 in ordinary shares.

(5) This company was to acquire the Concession and all rights from the Syndicate and D'Arcy, and was to issue to them, as consideration therefor, 1,000,000 and 1,200,000 ordinary shares respectively.

(6) The Company was to issue debenture stock to the value of at least £200,000 and, if necessary, up to £1,000,000 in all, in order to provide funds for: (i) Meeting the expenses connected with the formation of the company, (ii) Repaying D'Arcy £200,000, being the balance of the sums expended by him on the Concession, (iii) Reimbursing the Syndicate for its expenditure, (iv) Developing the Concession by drilling wells, etc.

(7) D'Arcy undertook to take up and pay for £200,000 of the debenture stock or, alternatively, to take up and pay for the balance of that amount of debenture stock not subscribed for by the public.¹⁶³

It all seemed plain sailing for D'Arcy, but there were reefs ahead in the objections of his earlier associates. D'Arcy had kept them informed of the negotiations with Burmah, which had 'taken much longer than I ever expected',¹⁶⁴ but he did not anticipate difficulties, especially after receiving congratulations from Vincent Kitabgi, who was hoping for 'a great success in the future'.¹⁶⁵ This praise was the prelude before the storm which broke a week later on 6 February 1905, when Vincent Kitabgi disputed the agreement with Burmah.¹⁶⁶ He was joined by Wolff, who objected to D'Arcy being relieved entirely of the responsibilities as the concessionaire, being reimbursed for expenses already incurred and freed of 'all possible losses whilst he pocketed nine tenths of the benefices'.¹⁶⁷ Although the other associates, Wolff included, accepted the eventual terms on 3 May, Vincent Kitabgi maintained his attitude till the last moment. D'Arcy was steadily irritated in April with Vincent Kitabgi's contentions, Burmah's

delays,¹⁶⁸ and his own continuing financial outlay, all of which he claimed in an outburst against Fletcher Moulton 'is costing me £300 per week or £50 per day... money I shall never see again'.¹⁶⁹ By 14 April it appeared all was in order to form the syndicate which, as D'Arcy always maintained, was not a company 'formed for working the Concession within the meaning of Article IX' but only to prove the existence of oil.¹⁷⁰

Vincent Kitabgi, who had maintained that he was entitled not only to 7 per cent of the original as well as any subsequent issues of capital, or, at least 7 per cent of the total net working profits of the Concession, consulted counsel, R. Younger K.C. (later Lord Blanesburgh) and J. T. Prior. They, whilst supporting his claim, pointed out 'as a practical matter that an advantageous disposal of the Concession is more likely to be secured by cooperation than by dissent between the co-owners. Indeed it would appear that the concession may become valueless to all the parties interested in it if Mr. D'Arcy's active interest in turning it to account be not retained'.¹⁷¹ So Vincent Kitabgi agreed to reduce his claim to 7 per cent of all the benefits pertaining to the share benefits accruing from the agreement with Burmah.¹⁷²

Acting on this, D'Arcy completed the final arrangements with Burmah, 'better than I could have obtained from any other company'.¹⁷³ On 5 May 1905 the Concessions Syndicate Ltd was incorporated with a capital of 100 000 in £1 shares, Lord Strathcona taking up 5000, all the rest being subscribed by Burmah. On 13 May D'Arcy received a telegram from Vincent Kitabgi repudiating his earlier acceptance and imposing new conditions. D'Arcy was outraged and threatened 'to tell the Burmah Co. that I will not complete'.¹⁷⁴ Kitabgi relented. It had been a frustrating search for finance, hardly the image of glorious imperial prescience mirrored in many commentaries.

2 THE CONCESSIONS SYNDICATE LTD 1905-9

(a) Introduction

With the financial backing of the Burmah Oil Company assured and the interest shown by the Admiralty, it might have been assumed that D'Arcy's worries were ended. Such optimism would have been presumptuous. The fate of the Concession remained in suspense till the bit of the drill struck the oil-bearing rock. It was not only that the situation in Persia was unpredictable. As Hardinge remarked when leaving Tehrān, at the end of 1905,

It is as yet too early to hazard an opinion as to whether this oil enterprise will be crowned with success. The promoters are very sanguine, but they have perhaps inadequately appreciated the difficulties attending all commercial undertakings in a country possessing no regular or efficient administration, where authorities' one idea in relation to commerce is to levy blackmail on it for their own personal and immediate profit.¹⁷⁵

The new element was political instability generated by the rivalry of those promoting and opposing constitutional reform, in which monarchical absolutism was to be replaced by a democratic assembly. Majlis, responsible for representative government. The ailing Muzaffar al-Din Shah acceded to the demands for a Majlis on 5 August 1906 and the Fundamental Law completing the Constitution was passed on 7 October 1907 in spite of the opposition of Muhammad 'Ali Shāh, whose relations with the constitutionalists deteriorated so desperately that he was deposed in favour of his young son, Ahmed, in July 1909. The inability of the Government to enforce law and order in the provinces during the drilling operations in south-west Persia in the lands of the Bakhtiari, the most important single tribal confederacy, which had its own political ambitions and internal struggles for power, was a significant element in the internal situation of Persia in this period.¹⁷⁶ Anglo-Russian diplomatic competition had reached a stalemate, which resulted in the Anglo-Russian Convention of 1907, affecting not only Persia, but also Afghanistan and Tibet. Serious German interest in Persia also became evident at this time.¹⁷⁷

No less important than the Persian dimension was the relationship of D'Arcy to his new collaborators and the manner in which they managed the operations and subscribed to the funds. Reynolds was often sarcastic in his comments, but there is no doubt that the Burmah directors seriously, and almost fatally, underestimated the administrative and technical problems inseparable from operations in Persia. Tetchy, touchy and frequently petulant with his superiors as he was, Reynolds persevered and laid the foundations for the Iranian oil industry. He was patient in dealing with the Bakhtiari Khans and persuasive in handling his staff of different nationalities, sustaining their endeavours during the rains and throughout the heat. His engineering expertise was accompanied by a flair for adaptation when material was lost or damaged. He supervised the drilling through the complicated geological strata, he encouraged the construction gangs when their roads were washed away by swollen rivers and he inspired those depressed by lack of success, homesickness and local variations with his sure authority and determination to strike oil. He was the rudder and anchor of the enterprise, keeping it on course and off the rocks.

The funding and finding of oil 1901-8

(b) The Bakhtiari Agreement: Khans and guards

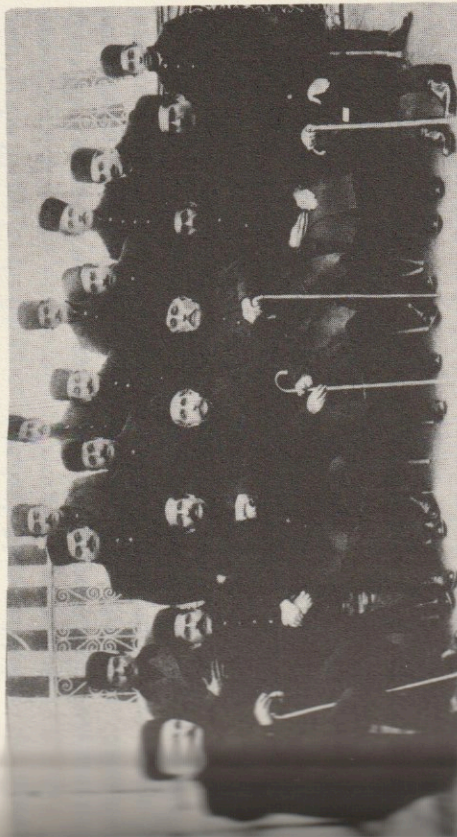
The fate of the Concession depended upon discovering oil in as short a time as possible in the south-west of Persia where the Bakhtiaris exercised their own virtual autonomous authority over their lands. Without their agreement, operations were impossible. Local arrangements were indispensable. An inevitable, if unsatisfactory, consequence was that local British consular representatives became involved. British official concern in the contemporary situation was less than might then have been expected, given the absence of a properly institutionalised Persian government presence and the lack of adequate political experience and knowledge available to the Concessions Syndicate, apart from that proffered by members of the Kitabgi family, whose impartiality was not always evident.¹⁷⁸ It would be unrealistic to ignore this handicap, the difficulties it caused and the prejudices it aroused, for Reynolds and his later successors certainly suffered from too close an assumed identification of the Company's interests with those of the British and not the Persian Government.

The dilemma was apparent from the beginning of negotiations with the Bakhtiari Khans. Reynolds had left England on 2 May 1905 after a final conference in mid-April, when a site at Shardin was chosen for the first well and it was decided that preparations for drilling at Masjid-i-Suleimani should be started once agreement had been reached with the Khans.¹⁷⁹ In the meantime he was to moth-ball the plant and equipment at Chiah Sukh in July and arrange for its safe keeping. It so happened that J.R. Preece, who was Consul-General in Isfahan and had wide knowledge of Persia extending over many years, was home on leave. He was persuaded on 11 June, at the request of D'Arcy and with the permission of the Foreign Office, to assist in the negotiations with the Khans on his return to Persia in October.¹⁸⁰ The delay thus caused was extremely irksome to Reynolds not so much because of the involvement of Preece, but because he was prevented from using the best working months for surveys, road building and delivery of plant and equipment before the rains came, as he had been requested not to disclose his real intentions in advance of the negotiations with the Khans.¹⁸¹ The delay was not only psychologically exasperating but practically it was disastrous, exacerbated by the subsequent failure to recruit a surveyor who would have complemented Reynold's efforts elsewhere. Reynolds realised the urgency of the situation and suggested approaching the Government of India for the loan of an assistant engineer to help in surveying.¹⁸² D'Arcy too appreciated what was at stake and apologised for the 'extreme urgency and importance' of his request to Sir Thomas Sanderson, permanent under-secretary to the Foreign Office, for

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an engineer to enable the work to be completed soon and with as little expenditure as possible.¹⁸³

The Indian Government had no objections but showed no enthusiasm and provided no engineer, Lord Curzon remarking that 'we are not hopeful as to prospects of the D'Arcy Concession'.¹⁸⁴ Meanwhile, whilst waiting for the arrival of Preece, Reynolds busied himself in Baghdad with plans for 'drillers' quarters and a dispensary,¹⁸⁵ modifications to transport equipment,¹⁸⁶ the hiring of mules, designing carts,¹⁸⁷ cladding for derricks, the engagement of a Turkish surveyor,¹⁸⁸ drawing up accounting procedures,¹⁸⁹ and arranging for the reception of goods and men at Muhammara and Ahwaz with the local agent of Lynch Brothers. Letters were despatched to the office of the Concessions Syndicate Ltd (CSL) where they were dealt with by James Hamilton, general manager and director of the Burmah Oil Company, an unimaginative self-opinionated man whose inability to understand Reynolds and appreciate the problems of Persia was a terrible failure in an undistinguished career. Leaving his assistant, Bertie, in charge at Muhammara, Reynolds left for Ahwaz on 26 September¹⁹⁰ going north-east to Shalamzar, in the foothills of the Zagros mountains west of Isfahan, the residence of the Il Khani, Samsam al-Shirvan, on 13 October, where he was joined by Preece three days later.



Bakhtiari Khans with Sardar Assad centre c. 1905

Negotiations with the four leading Bakhtiari Khans took place on 16 and 17 October 1905, and, as Reynolds describes it,

...all of which the Sirdar Assad, Hadji Ali Kuli Khan took, I may say the entire role of the representatives of the Chiefs, no other Chief having it seemed a word to say in his

presence...He, I should say, was masterful and has seen more of the world than most Khans, and has a greater flow of language, so it may have been a pre-arranged affair that he should hold the platform.¹⁹¹

On 20 October Sardār Assad moved to his own residence at Junaghān, where on the following day he was adamant in refusing to lease land. He demanded 5 per cent of the share capital issued by each working company, to which Reynolds and Preece had no option but to agree, though it was in excess of their negotiating position. Reynolds left the next day to telegraph the terms from Isfahān and receive instructions. When he returned on 10 November with an authorisation to settle, he discovered that Preece had persuaded the Khans to accept 3 per cent of all shares issued with no limit, but that no agreement had been reached on the guarding arrangements, for which £2000 p.a. had been offered irrespective of the number of drilling camps, later verbally restricted to four.¹⁹² Following the insistence of Samsam al-Saltana and Shahāb al-Saltana, Il-Khāni and Il-Begī respectively, the highest tribal dignitaries, Sardār Assad signed too. The fourth signatory was Sārum al-Mulk, Sardār Jang. The general terms agreed to on 15 November 1905 were as follows:¹⁹³

(1) The Agreement was to remain in force for five years, during which period the Company had the right to search for oil, make roads, pipelines, build houses, etc. All arable or irrigated land required was to be handed over by the Khans 'at the fair price of the day'. Non-arable land was to be free.

(2) The Company was to pay the Khans £2000 per annum in quarterly instalments, in return for the guards furnished by the latter. The first instalment (£500) was to be paid after signature of the Agreement; in return the Khans were to assume responsibility for any robbery and for any damage to the Company's property in Bakhtiari territory. 'The Agent of the Company must keep cash in an iron box so that it is further from danger.' Before the finding of oil, the Khans were to furnish two bodies of guards to protect the two places where drilling was to be done. After the finding of oil, the Khans were to furnish as many bodies of guards as would be required to protect the various spots where drilling would be carried out.

(3) In the event of sufficient oil being found in Bakhtiari territory, the terms of the Agreement were to remain binding as long as the D'Arcy Concession continued in force.

(4) On the pipeline being constructed, the Company was to increase the guarding subsidy to £3000 per annum.

(5) After the formation of one or more companies to work oil in the Bakhtiari country, and after oil had been passed through the pipeline, the Company was to grant the Khans 3 per cent of all the ordinary shares

issued by such company or companies, the said shares were to be fully paid.

(6) Should the employees of the Khans fail in their duties, the Company would have the right to ask for compensation for any loss.

(7) On the expiration of the D'Arcy Concession, all buildings that belonged to the Company were to become the property of the Khans. D'Arcy was both apprehensive and elated on hearing the news, admitting to Jenkin that 'Between ourselves I anticipate a good deal of trouble with Mr. Cargill over it...there is one thing certain if we can *now* get this matter settled the success of the Business is assured.'¹⁹⁴ A couple of weeks later he was 'delighted that Burmah agree, I was so afraid they would try for still further concessions...I think really now we can look on Persia as a success.'¹⁹⁵ As so often D'Arcy resembled an inexperienced climber who having ascended one ridge is surprised to find another beyond. There was no doubt that the assistance of Preece facilitated the negotiations with the Khans, as he was known and trusted by them,¹⁹⁶ but neither Preece nor Sardār Assad remained in close touch. When they left the scene, diverging pressures were already exerting themselves without their restraining presence. The guarding payments were of immediate advantage to the Khans, not like shareholdings future returns, but as the responsibility filtered down the rewards were in inverse proportion to the work actually undertaken.

This was the heart of the guarding controversy, which festered like an abscess on the operations among the Bakhtiariis. It was unpopular because the guards gained least themselves, but it was also a means by which the Concessions Syndicate could be coerced into granting better terms. It was at the mercy of conflicting family factions, to which the Bakhtiariis were prone, who promised or withdrew their services accordingly. Indeed, whilst returning to Ahwāz, Reynolds was attacked¹⁹⁷ and his surveyor molested on the way. He regretted that 'we did not reserve to ourselves the right to pay these Guards...The spark of discontent is there, and only needs fanning by our well-wishers to cause trouble.'¹⁹⁸

Indeed the validity of the Agreement itself was doubtful. At the beginning of January 1906, the Persian Government declined to 'recognise an arrangement made by His Majesty's Consul at Isfahān with the Bakhtiari Chiefs stating that the latter had no right to make it' and that 'D'Arcy should first have referred matter to them, and that they are only bound by terms of concession'.¹⁹⁹ The Government had been informed and the Shah had approved of the drilling which had been proposed.²⁰⁰ It was also being challenged on national grounds by the disgruntled adherents of the Kitabgi family. Just after the conclusion of the Agreement in November Sardār Assad received an anonymous letter from Ichrān urging him for patriotic

and religious reasons to 'prevent the Foreigner interfering in his country', particularly as far as the British were concerned, whose oil concession was being used to advance their political and commercial interests 'by intrigue, if they cannot gain their ends direct in the former, they do it thro the latter'.²⁰¹ Referred to apparent experience at Chiāh Surkh, Sardār Assad was warned against the appropriation of fuel by the operators for their own use without payment, the employment of non-Persians and the behaviour of Mr Reynolds, who had 'a natural enmity with Persians'. The handwriting resembled that of Nasr'ullāh Khān, father-in-law of the Shaykh al-Mulk, who had also been employed at Chiāh Surkh.

It was probably no coincidence that the employment of the Shaykh and Edouard Kitabgi had been terminated when the Concessions Syndicate took over and that Vincent Kitabgi had just been recalled as Imperial Commissioner by the Persian Government. It was no surprise that, after Sardār Assad himself denounced the Agreement in May 1906, D'Arcy received from the Shaykh al-Mulk a letter to this effect.²⁰² It was, however, not the existence of the Agreement which was at fault, but the necessity for it imposed by those who were among the first to criticise it, the Khans themselves. Thereafter it was tossed about like a shuttlecock among the players, none of whom wanted to keep it in play, none of whom wanted to hit it out of the political court and most of whom did not even enjoy the game and were always changing the rules. The existence of the Agreement was deeply resented by successive Persian governments till it was denounced by Rizā Khān in 1924, but the Company had little option but to accept some agreement imposed by the Bakhtiari Khans.

(c) *Payment is the crux of the matter 1906*

It was not till mid-November 1905 that Reynolds was able to visit Shardīn for the first time, when returning from Shalamzār to Ahwāz, have a plan of the site made, select a route by which plant, machinery and supplies might be carried and choose a suitable place for a depot. The first caravan loaded with heavy material for buildings moved off on 23 December. It rained, the nights were cold and water froze in the tents. Some local obstruction was overcome 'by the exercise of patience and a little tact and firmness'.²⁰³ With the ground a quagmire and the carting heavy, progress was slow until the firmer going in the spring. In January 1906 alone, some 1000 tons were unloaded at Muhammara for haulage to the sites over slippery mud and soft sand by the simplest of mule-drawn carts. It was not until 22 August 1906 that drilling commenced at Shardīn, even before all the workshops and stores were erected.²⁰⁴ Three weeks later a depth of 120 feet was reached hindered by problems over water and fuel.²⁰⁵ A month

later, Reynolds was reporting 'terribly slow business... Further I have not native labour fit to let me work at night'.²⁰⁶ In the autumn it was still a hard slog with progress delayed by sickness, caused by contaminated drinking water 'best described as water with dung in suspension',²⁰⁷ want of fuel and the wet weather which caused the sides of the well to cave in.

Reynolds was spartan in his habits but concerned for the welfare of his staff whom he felt should be in a fit state on arrival as 'the materials afforded for food here are rather trying for any digestion, so that teeth natural or false, are essential if a man is to retain his health'.²⁰⁸ Such bantering was not appreciated by Hamilton, who later appeared hectoring in his homily that when staff 'are kept in good condition you will be able to get the maximum of work out of them'.²⁰⁹ Reynolds was not sympathetic to indulgence. He criticised Driller Harris, who complained of being short of 'grub...having only had cold boiled eggs and dry bread', when he inquired 'where the tins, some ½ dozen of Army and Navy Rations were which I had given him for use in an emergency, he said he was sitting on the box containing them and had not opened one'. 'He should have brought his mother out', was Reynold's verdict, 'the men have very little to growl at and if they would look after themselves a little and their own interests instead of sitting down and growling they would do better'.²¹⁰ Reynolds was a disciplinarian from the outset with a simple code of conduct for retaining the goodwill of the people among whom they lived. It was essential that 'our men behave themselves as reasonable beings not as drunken beasts...the women of the country must not be touched by our men...there must be no striking of them if they do wrong, and I cannot too strongly emphasize this as it is necessary and we can get what we want without it'.²¹¹ He was not afraid to dismiss refractory staff, but it only occurred twice.

As the goods started rolling towards Shardīn there were changes in the Bakhtiari hierarchy as a result of family feuding, which was almost endemic, and Samsam al-Saltana was deposed in favour of Sardār Assad, and Sālār i-Arfā, nephew of Sardār Assad, became the new Il-Begī in mid-January 1906. Reynolds had no intention of interrupting his work even if it meant engaging guards himself,²¹² but he was surprised when Sālār i-Arfā, in response to his allegations of disturbances along the route to Shardīn, blandly replied that in our country 'never is it necessary to have any Guard for anything at all'.²¹³ In mid-February, Reynolds was ready 'to take my Plant and men to the site of our work' and consulted Captain D. Lorimer, the consul at Ahwāz, on the best course of action. He recommended that Lorimer and himself should see Sālār i-Arfā and agree a plan 'as should it ever become necessary for our men to be withdrawn, owing to disturbances among the Tribesmen and insufficient guards, the

results would be disastrous to the enterprise'.²¹⁴ Lorimer was cooperative and, riding separately, joined Reynolds in talks at the tribal encampment at Ram Hormuz on 23 February. Sālār i-Arfā was friendly but forthright that unless the guarding money was 'paid to the credit of His Excellency the Sirdar Assad, he - the Salar Arfa - had instructions to provide no guard and that our work must stop', irrespective of the provisions of the Agreement that a receipt for the payment of money had to be signed by all the signatory Khans.²¹⁵ The reason was blatantly political, for Sardār Assad was buying his way into power in Tehrān.²¹⁶ A compromise was reached whereby the second instalment of the guarding money was paid to Sardār Assad in the circumstances that he would refund it if the arrangement was unacceptable to the other Khans. Reynolds informed the Concessions Syndicate that he had no alternative to prevent the stoppage of work, but his initiative with the consul was deprecated in Glasgow.²¹⁷

The action then moved to Tehrān where the Khans, briefly united again, were attempting to repudiate the Agreement to the *chargé d'affaires*, Grant Duff on 15 May 1906, at the instigation of Sardār Assad, who pleaded that they were 'men who were unacquainted with business matters' and had only concluded the Agreement out of regard for Preece 'without realizing what they were undertaking'.²¹⁸ He listed six objections which concerned the kind of buildings to be erected on their land, the insufficiency of the guarding payments, and the hearing of disputes between the Syndicate employees and Persians to be held by the local judiciary. Grant Duff disclaimed any authority in the matter, passed on the information and thought it incredible that '£2,000 a year should not cover the cost of maintaining eighty tribesmen'. It was Preece who advised D'Arcy and the Concessions Syndicate, having retired from the Foreign Office, and been appointed as political agent in respect of Persian affairs on 11 June.²¹⁹ D'Arcy was again apprehensive of Burmah's reaction 'as it will make them doubt the validity of all contracts made with Persians' and he advised prolonging 'the thing as much as possible and if it could be prolonged for some months, results may be obtained in Persia which could simplify matters considerably'.²²⁰ In the event there was no crisis and the reply of Preece was clear in rejecting the proposals, which amounted to cancelling the Agreement.²²¹ Discontent rumbled on in Tehrān, but inaction prevailed as the Bakhtiari Khans played tug of war amongst themselves and with the Shah. Then in mid-September Samsam al-Saltana, restored again as the Il-Khānī, refused to sanction guards for work planned as Masjīd i-Suleimān 'until a settlement is arrived at with respect to points they have raised with British Minister in Teheran'.²²² Reynolds disapproved of Grant Duff, the *chargé d'affaires*, having taken the demands of Sardār Assad seriously, for by no calculation were

the Khans being underpaid for the guarding services on which their maximum annual outlay could have been no more than £272.²²³ The Khans were dissatisfied and as Preece admitted to the Foreign Secretary, Sir Edward Grey, it was 'the payment of Guards which apparently is the real crux of the matter',²²⁴ as it had been from the beginning. By a fortunate coincidence both the Concessions Syndicate and the Minister, Sir Cecil Spring-Rice, agreed in returning the matter to Reynolds, thus vindicating his earlier stance, to settle with the assistance of Captain Lorimer.²²⁵ Meanwhile Lorimer, whilst helping some of the Khans, Samsam al-Saltana, Mu' in Humāyūn, Shahāb al-Saltana and Sārum al-Mulk to compose their differences with each other, persuaded them to settle their claims for an extra payment of £500 for the preservation of friendly relations.²²⁶ Reynolds agreed and within a couple of days on 2 November confirmation was received.²²⁷ Apart from a last minute flurry of concern over fluctuating rates of exchange the year ended peacefully.

(d) 'The unsettled state of south Persia and danger to the Persian business' 1907

D'Arcy, who had by no means left the stage, expressing himself with a characteristic blend of optimism and anxiety, confided to Preece on New Year's day,

I can see no cause for alarm, as unreliable as the Bakhtiari are, they are not such fools as to attempt to kill the goose that lays the golden egg, and the increased amount that they have agreed to take and are presumably satisfied with, will, let us hope cause them to continue in this frame of mind until Reynolds gets oil - and I do not think this is very far off... You must not think when I say I am attending to other things that I ever neglect this Persian business, as that always comes first, as apart from my large money interest in it I am, for my own sake, most anxious that it shall succeed. I am aware that the finances are running short and, of course, they will have to find more money. They will not like this, I fear, and I cannot think why, instead of finding more, they do not at once form the Big Company and go to work thoroughly. I am gently suggesting this to Hamilton on every favourable opportunity.²²⁸

Discussions took place between D'Arcy and Burmah directors during January and February 1907. On 27 February, the Burmah Board unanimously resolved that only on the cancellation of their obligation to subscribe £800 000 in the company to be formed to work the Concession would they be 'prepared to go on with the testing operations in the South and spend up to a further £30 000 on the same', making £100 000 in all, less than D'Arcy had reckoned three years previously.²²⁹ D'Arcy was dismayed that they blamed the 'Persian unrest' for their reluctance to proceed and was worried about raising more money and the task - 'this

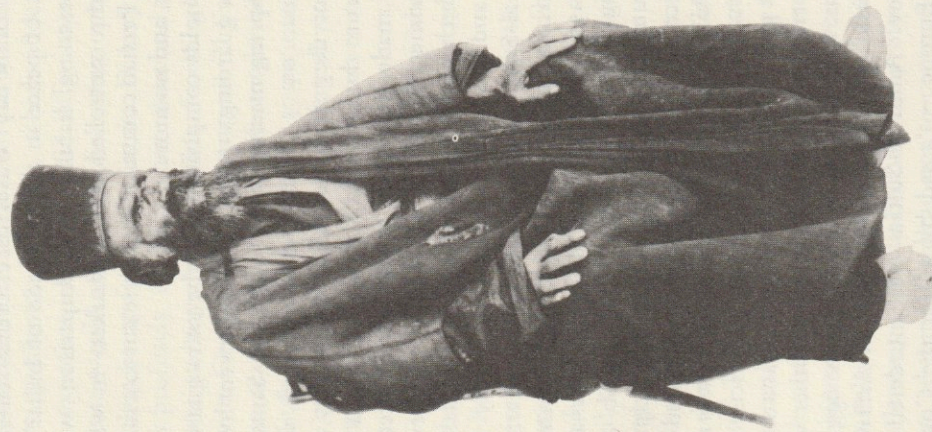
really makes me shudder' - of getting his associates into line again.²³⁰ He opted for the lesser of the evils,²³¹ but Manisty advised him otherwise, for the new proposals might have precluded him from recovering his initial outlay and would have involved him in disposing of more than one eighth of the interest of his associates.²³² The Burmah directors after considerable discussion agreed to guarantee £200 000, which at least safeguarded D'Arcy's original expenses. If this final offer was declined 'the Concessions Syndicate would abandon their testing operations'.²³³ The Concession would then be up for auction again. D'Arcy was depressed. He thanked Manisty profusely 'for all you have done and are doing for me in this terrible business' and toyed with the idea of seeking finance from the Harmsworth - Newnes Group, but to no purpose.²³⁴ Eventually, on 15 July, agreement was reached and signed a fortnight later. As D'Arcy informed Vincent Kitabgi, who remained very suspicious, 'it is a question of either getting the money from them or stopping all work and virtually abandoning the concession'.²³⁵ G. T. Powell, a lawyer acting for Wolff, came to much the same conclusion in advising his client.²³⁶ Wolff, grumbling terribly in May, was actually advocating 'the desirability of those concerned in the Concession joining German interests in concessions along the Turkish - Persian frontier'.

Why were the majority of the Burmah directors, apart from Wallace and Hamilton so reluctant to renew their commitments with D'Arcy? It was not because of an adverse financial position for, at the Annual General Meeting on 26 April 1907, it was reported that 1906 was 'a prosperous year', enabling them to write down the book value of unprofitable investments, including Persia, by £60 000, place £100 000 in the General Reserve, which was thereby increased to £340 000, and commission a new pipeline in Burma.²³⁷ The failure of the Admiralty fuel oil contract to materialise, so laboriously negotiated, may have reduced their crude oil requirements, which could now be provided from their own improved production and exploration prospects in Burma. There was a change of emphasis at the Admiralty not only because of the Liberal Party's landslide electoral triumph in January 1906 but because 'the professional engineers at the Admiralty are advising the head not to commit themselves too deeply to Fuel Oil, as in their opinion the next few years will probably see a development in internal combustion engines worked by coal gas'.²³⁸ On the other hand Burmah always adopted a cautious balance between supply and demand, for 'this Company's crude oil resources', affirmed R. I. Watson, a Burmah director in 1916, 'directly and indirectly produced by it, have never been for any length of time materially in advance of a more profitable market for them' and 'this arrangement with the Admiralty has never had and has not now any attractions' apart from its patriotic

interest.²³⁹ Redwood, perpetually ebullient, declared publicly that Burmah had large reserves of oil-bearing territory available, but he may not have been so convinced in private.²⁴⁰ Was the Persian insurance policy now superfluous? Was the period of 'great courage' over and was 'great caution' the order of the day? Was it just effortless self-satisfaction basking in 'the blessings of peace in the oil trade of India?'. Persia probably appeared a worsening liability in comparison with the growing profitability of the controlled eastern markets in which Burmah was entrenched. The Persian commitments were cut to a minimum to retain a covering interest, and no more.

In Persia, Reynolds complained that the extra guarding payment had not improved the guarding arrangements to prevent loss and pilfering.²⁴¹ Lorimer, in his Spring meeting with the Khans, Samsam al-Saltana and Shahāb al-Saltana, on 3 March, remonstrated with them about compensation but they disowned all responsibility. They were only concerned 'to secure the whole £2,500 and not spend a penny...no cash payment is ever made. Payments are merely effected by remission of taxation'.²⁴² Lorimer regretted the weakness previously displayed towards them which was only encouraging further demands and evasion of responsibility and was determined not to give way. Eventually during his visit Samsam al-Saltana and Shahāb al-Saltana quarrelled and the latter secretly promised to be more accommodating.²⁴³ Lorimer sensing that the family balance was tilting in favour of Shahāb al-Saltana accepted his good faith. His foresight was confirmed when Shahāb al-Saltana became al-Khanī and Sārum al-Mulk, Il-Begī, the two principal tribal offices. In the south a particularly bad robbery was perpetrated by a well-known trouble maker, Alī Murād Khān, but the property was returned due to the exertions of the two Khans,²⁴⁴ who certainly exercised more control till they too lost their positions when Samsam al-Saltana ousted them in June. Reynolds' comment on Samsam al-Saltana's brother was appropriate to most of the Khans, 'a man as full of intrigue as the egg of a nightingale is pregnant with music'.²⁴⁵ Sardār Assad and Sālār i-Arfā returned from their European journey. Amīn al-Sultān was murdered in August after returning from Europe - 'a sad blow' for the Concession²⁴⁶ - and D'Arcy's earlier troubled advice 'to sit tight and do nothing...we must put up with a certain amount of temporary inconvenience and let Reynolds go on. Of course Bakshesh is at the root of it all and that with my consent they will never get', was becoming less feasible.²⁴⁷ Not only was there a deterioration in the guarding position, but there was rising impatience about the existence of oil.

At the end of May, Reynolds acknowledged that 'the question "When do you expect to strike oil?" is on the lips of all those interested in the



‘Alī Murād Khān 1907

success of this undertaking, but it is one I find exceedingly difficult to answer.’²⁴⁸ Reynolds at this time had been discouraged by a letter from Redwood to which he replied that ‘I cannot do for the Company any better than I am doing now and have been doing.’²⁴⁹ E.H. Cunningham Craig,

geologist to Burmah, later in November 1907, on his visit to the scene of the operations, agreed, writing of Reynolds ‘without whose guidance and knowledge of the country I should have found it quite impossible to have worked out the many geological problems presented in so short a time, and whose constant courtesy and kindness will always make me his debtor’.²⁵⁰ At the beginning of May the first well had been drilled to 925 feet,²⁵¹ but had encountered over 100 feet of hard cap rock, which perturbed Reynolds, and the second well had reached 738 feet. Because of the pressure of work and insecurity he was unable to correlate his findings with observations elsewhere, but he was pessimistic and by September was convinced that further drilling at Marmatain, a nearby site, and Shardīn was hopeless.²⁵²

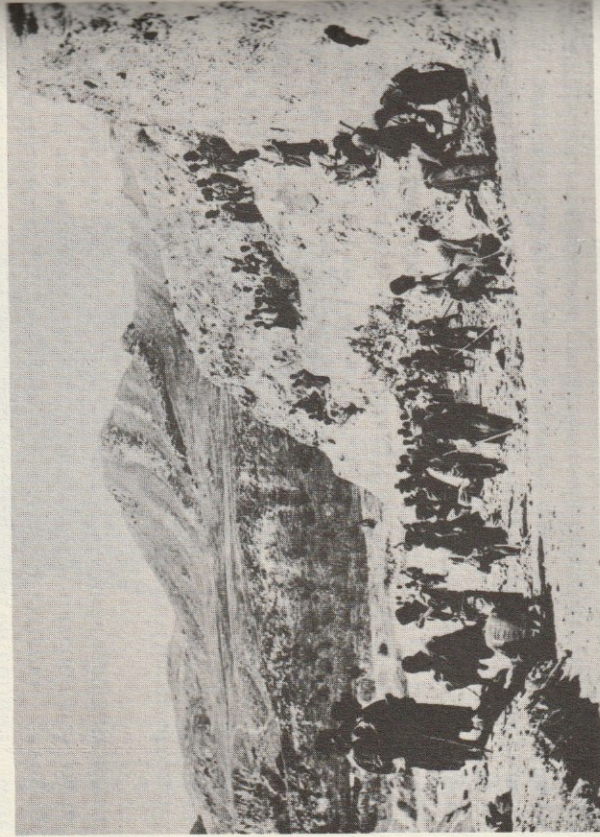
Redwood and Dalton disagreed but Cunningham Craig supported Reynolds and in early January 1908 drilling ceased at Shardīn after the wells had reached 2172 feet and 1942 feet respectively. Mid-1907 was a crucial period, for with lack of success at Shardīn it became all the more vital to get the road to Masjīd i-Suleimān finished and supplies in before the autumnal rains wrecked their chances. It was a scorching summer with tempers running short. ‘Alī Murād called his villagers away without notice’²⁵³ and at the end of June, in a fracas at Baitwand, Driller Harris was stoned and injured.²⁵⁴ Short of staff, striving to press on with drilling and opening up Masjīd i-Suleimān, Reynolds, dependent on Lorimer, ‘were you not at the back of me, I fear I should be soon ‘in extremis’’, was not in favour of any retaliatory action.²⁵⁵ Inadequate protection was better than no protection. At the end of September, ‘Alī Murād again threatened the drillers, who feared for their safety.’²⁵⁶

Lorimer may have been exaggerating when he reported the situation in a serious light and anticipated danger to European life and property,²⁵⁷ but it was a risk D’Arcy could not disregard, because ‘the unsettled state of S. Persia is a Danger to our Business’.²⁵⁸ Preece, whilst not sharing Lorimer’s pessimism, agreed that it would be disastrous if all the plant was looted and the boring destroyed.²⁵⁹ D’Arcy spoke to Sir Charles Hardinge, permanent secretary to the Foreign Office, who was concerned.²⁶⁰ Action was taken but the arrival of the gunboat *Comet* was ludicrous because it failed to float over the shallows below Ahwāz and lay like a stranded whale against the bank. The appearance of the reinforcements of two officers, Lieutenants Ranking and Arnold (later Sir) Wilson, and twenty men for the consular guard, was welcome. As the Foreign Office informed Preece, ‘it has been decided upon as a temporary measure with the object of affording some assistance and protection to the employees and property of the Oil Syndicate in view of the importance attached by His Majesty’s Government to the maintenance of British enterprise in South West

Persia'.²⁶¹ It did not replace the services of the Bakhtiariis, which, in fact, improved.

(e) The discovery of oil at Masjid i-Suleimān in May 1908

Masjid i-Suleimān was the last throw of the concessionary dice. At the beginning of 1906 Reynolds was enthusiastic about drilling there. 'I do not think,' he wrote to the Concessions Syndicate, 'justice would be done to the place if you did not decide to drill there. To the best of my judgement it is the better property of the two... You have incurred the cost of the plant and the extra cost of drilling there will be a trifle in comparison to the expenditure incurred already.'²⁶² It was a shrewd assessment, but overlooked the problem of the road. Reynolds pointed out that it was hard for those 'who have never set foot in these parts to realise that it is impossible to get a native whom one can put in charge of a gang of men to do earth work or any such work there may be to do'.²⁶³ The work was not 'all beer and skittles'.²⁶⁴ It was not till August 1906 that the road was under way, making 'fair progress' given difficult conditions and a shortage of explosives, with two teams working until the beginning of December,²⁶⁵ when Bradshaw, in charge of road works, reported that the River Kārūn, 'a raging torrent' after the rains, had completely demolished everything



Working on the road to Masjid i-Suleimān 1907

that had been done.²⁶⁶ Reynolds drafted all available staff on to the road to make up for lost time vowing to 'get into Maidan ba-Naphthun all right' so that 'when we have success nothing will give me greater pleasure than to learn that more of the Directors of Messrs. the C.S.L. have been there to judge for themselves'.²⁶⁷ Reynolds generously praised two of his assistants, Holland and Walters, without whom 'working at a time when no one in this country works if he can help it we should not have had the plant up at site'.²⁶⁸

In spite of these exceptional efforts, drilling at the first well at Masjid i-Suleimān, located by Reynolds, did not start till 23 January 1908 at 4.30 p.m.²⁶⁹ One of his last difficulties was caused by damage to the screwed casing, about which he had complained two years previously and which he had advised protecting with wooden blocks.²⁷⁰ The instructions he received in January were to close down work at Shardin, 'Push ahead with two selected sites Masjid i-Suleiman' and return redundant drillers.²⁷¹ Reynolds retained all the drillers in order to press on with preparation for the second well, the site of which was still being levelled in mid-February and not started till March.²⁷² At the end of February Reynolds confidently asserted that 'a definite result will be obtained one way or the other, before it becomes necessary to pay the 15th May instalment to the Khans'.²⁷³ He was just ten days out. With staff leaving on the expiry of their contracts, which were not all being renewed, or merely prolonged on a temporary basis, Reynolds did well to sustain morale in the last trying months when sulphurous water was corroding wire ropes and gas was dangerous. In April, Reynolds was assured by Cunningham Craig and Redwood that oil would be struck at a moderate depth.²⁷⁴

The geologists may have been optimistic but the Burmah directors were again being cautious as the Agreement of 1907 was coming to an end and finance was becoming short as D'Arcy remarked to Preece on 1 April.²⁷⁵ A few days later another session of concessionary poker opened when Hamilton informed D'Arcy that 'their money is exhausted... unless I find half of the expenditure in future, the work must stop... of course, I cannot find £20 000 or anything, and what to do I know not'.²⁷⁶ He took some comfort from the comment of Thompson, Cargill's cousin, 'for their own protection, having either to prove Persia a success or no good to anyone else'. In fact both D'Arcy and Burmah were locked into the same position, with Burmah having the stronger hold. Burmah was confident on geological advice that by 1500 feet in depth it would be known whether oil was present or not.

Drilling was easier and by April it only required 500 feet more in the first well and 1000 feet in the second. Hamilton mentioned £40 000 to D'Arcy but he felt that 'in my opinion £10/15,000 should see the experiment

through, seeing we were only spending at the rate of £3,500/4,000 per month'.²⁷⁷ D'Arcy prevaricated on paying anything, perhaps on purpose. On 15 April the Board of Burmah requested D'Arcy to pay half of any expenditure up to £20 000 but that if he declined by the end of the month 'the Board would then consider whether they would not at once abandon the operations in Persia entirely'.²⁷⁸ To emphasise the point they announced at the Sixth Annual General Meeting, two days later, that 'unless satisfactory results are shortly obtained this enterprise will be abandoned'.²⁷⁹ On 19 May, a week before oil was struck, D'Arcy signed a further agreement with Burmah whereby it guaranteed a further expenditure up to £40 000 till 20 May 1909 to prove the existence of oil in return for recovering all their expenditure if and when a company was formed to exploit the oil discovered. They had little to lose and not long to wait.

At the beginning of May the wells had reached 933 and 563 feet respectively. Unexpectedly the drilling bit came unscrewed and lost in the hole for ten days while they fished for it with the temperature 110°F in the shade.²⁸⁰ Then suddenly on 26 May 1908 about 4 a.m. at a depth of 1180 feet oil was struck.²⁸¹ On a testing flow the next day an estimated 297 barrels was recorded. Reynolds cabled the news, but it was a wire from Lieutenant Wilson, which arrived first in biblical code, 'See Psalm 104 verse 15 third sentence and Psalm 114 verse 8 second sentence', which being translated, 'That he may bring out of the earth oil to make a cheerful countenance'; 'the flint stone into a springing well'.²⁸² Reynolds, remembering his men, inquired what action he should take over rewards and returned to Ahwāz to bring his accounts up to date for his contract too was lapsing. On his way back in mid-June he received a letter of 14 May from the Concessions Syndicate, 'We would like if possible to put the two wells at Musjid-i-Sulaiman down to 1,500/1,600 feet and if no oil is found at this depth, to abandon operations, close down, and bring as much of the plant as is possible down to Mohammerah'.²⁸³ Reynolds must have smiled wryly. No riposte was required. It just remained for the Company to operate the Concession acquired by D'Arcy.

3 THE FORMATION OF THE ANGLO-PERSIAN OIL COMPANY 1909

I INTRODUCTION

The striking of oil at Masjid-i-Sulaimān on 26 May 1908 was more than the culmination of years of intrepid exploratory endeavour or the possibility of commercial success. It could not have been foreseen, but it eventually signalled the emergence of the first oil-producing area in the Middle East, with all the economic and political consequences which this meant. It coincided, moreover, with a political crisis in Persia when Muhammad 'Alī Shāh intervened to suppress the parliamentary assembly, the Majlis, culminating in the bombardment of its premises and the dispersal, arrest and murder of some of its members by the Russian-officered Cossack brigade on 23 June 1908, under the Shah's orders. The two events were quite unconnected with each other, but subsequent economic and political developments remained closely intertwined in Persia. The injection of a measure of industrialisation into Persian society, in which there was political instability and social tension, did eventually produce economic growth, but it also exacerbated conflict within it. The interaction of these elements was dramatic and in some respects immediate for in Persia there had been no prolonged period of industrial apprenticeship, that familiarity with materials and technology which tempers ambition, recognises skill and values the importance of the practical application of knowledge. At the time of the formation of the Company, there was little industry in Persia.

The Constitutional Movement was accompanied by patriotic euphoria but it lacked real accomplishment. The splendid appearance of a national revival and independence contrasted with foreign influenced despotism and did represent a strength of emotion and a force of conviction which could not be ignored. In spite of the troubled conditions of the country, this political revivalism was accentuated with the Bakhtiariis under Ismail al-Saltana and Sardār Assad marching on Isfāhān and Tehrān in the cause of the reforming movement, the insurrection and defence of Tabriz by the Constitutionalists against earlier Russian intervention, the

The formation of the Anglo-Persian Oil Company

ignominious deposition of Muhammad 'Ali Shāh and the accession of Ahmed Shāh, all occurring in 1909.

Thus, whatever the diplomatic justification for the Anglo-Russian Convention of 31 August 1907, conceived in terms of *realpolitik* and its ultimate success in preventing what the British militarily would have been unable to stop, Persia becoming a dependency of the Russian Empire,¹ it was, as Sir Cecil Spring-Rice, Minister in Tehrān, anticipated, regrettable in its implications for Persia. Partly because he was not consulted and partly because he was perfectly aware of the Persian political predicament, the Minister was apprehensive, and with less than the usual deference to a Foreign Secretary he warned him that 'a great impetus will at once be given to the already existing anti-foreign sentiment',² and some antagonism towards British interests.

The actions of the British Government towards Persia were seldom without their influence on oil affairs. Indeed, in July 1908, soon after Reynolds' return from Persia, C.M. Marling, chargé d'affaires at the Legation in Tehrān, was anxiously stating that in the oilfield, 'In order to avoid confusion, delay and waste of money, a competent and sufficiently numerous European staff is most necessary at the present moment, when the actual and expected developments of the oil field appear likely to involve negotiations for a refinery, telephones, pipelines etc.'³ When the matter was referred to Preece, he rather lamely replied that it was under consideration.⁴ The general impression of the oil strike was favourable; as Sir Charles Hardinge observed, it was 'excellent news for our interests in south-western Persia',⁵ and would 'greatly increase our interest in south-western Persia'.⁶ The Government, however, was careful to refer to general interest and not specific concern. Yet, notwithstanding some official caution, there was an understandable tendency on the part of some zealous local consular representatives to emphasise the useful political and commercial advantages which an extension of British interests in their areas would achieve. Thus Lorimer, who had been so helpful to Reynolds, remarked emphatically over the question of a British presence in south-west Persia that 'the greater the aggregation of our interests in this quarter, the more possible it is for us to exert pressures on the Persian Government'.⁷

Yet, however admirable an analysis of national interest, it does not necessarily follow that there will be a corresponding commercial benefit. Political response to economic opportunism varies from country to country, decade to decade. It is, therefore, of particular importance in understanding the relationship of the Company to the government of the day to ascertain at any given moment the factors which affected it. Thus, though Lorimer may have envisaged that the presence of a British oil

The formation of the Anglo-Persian Oil Company

company in south-west Persia would contribute towards tribal stability, improve the transportation system, expand trade, strengthen security and counter foreign enterprise in an area of British influence, such considerations, although the concern of the Company, were not the object of its operations.

Louis Mallet at the Foreign Office remarked, in forwarding the recommendations of Lorimer in September, that,

I think these papers will be of use to the Syndicate in deciding how such an enterprise should be carried out if they decide to undertake it and I need hardly add that it is most desirable from the point of view of British interests, both political and commercial, that it should be taken by them since if it is not, there is every likelihood that the business will be secured and worked by subjects of a foreign power.⁸

This may have been obvious to the officials of the Foreign Office and they may have been rightly anxious about German involvement in Persia and that the German Legation would be on the watch for opportunities to play the part of friend and adviser to Persia to the detriment of nearer neighbours. In particular they were concerned about the German penetration of trade in south-west Persia, as evidenced in the despatches of Herr Edward Mygind, correspondent of the *Berliner Tageblatt*,⁹ but this was not the preoccupation of Preece and his colleagues who accepted the risk that all the concessionary eggs were in the Bakhtiari basket. Given that funds were limited, Preece asked, 'To get to the present point very large sums of money have been expended, is it worth while to expend in a purely tentative measure further large sums in addition?'¹⁰ Lorimer was not only perturbed by the unreliability of the Bakhtiari Khans¹¹ but also by the prospect of Canadian drillers being replaced by those from America. This was not on technical grounds but because of 'the presence of persons over whom His Majesty's Government would have no power of jurisdiction, and over whose conduct, however unruly, they would exercise no control'.¹² The interests of the bureaucrat and the concessionaire were not always identical. The formation of the Company was to bring this out in the open.

Lorimer's concern was not entirely gratuitous, for neither he nor Arnold Wilson had been impressed with the management of the Concessions Syndicate Ltd, apart from Reynolds, and were sceptical of the commitment of the directors to exploit the Concession. In April 1908, the rumour in Tehrān, according to G.P. Churchill, the Oriental Secretary, was that 'the Syndicate is going to throw up the sponge';¹³ Wilson was sarcastic over 'faint-hearted merchants, masquerading in top hats as pioneers of Empire', 'Scottish employers, whose short-sighted parsimony had so nearly wrecked a great enterprise'.¹⁴ There were thus doubts about

the determination of the Burmah Oil Company to develop the Concession which only the formation of a company would allow.

2 ACTION AFTER THE DISCOVERY OF OIL JUNE-NOVEMBER 1908

D'Arcy was delighted at the discovery, receiving the news appropriately at a dinner party. A month later, holidaying on Hayling Island, he asked Preece 'to look at the Concession and see if we have to give any notice on anything on finding oil as it is important that all the conditions in the Concession shall now be complied with'.¹⁵ It was D'Arcy who took the initiative. He regretted the lack of an immediate response from the Burmah directors and chided them for wanting to drill more wells 'for why I do not know as if they all failed it could not affect existing facts. I suppose when they have made Musjid like the top of a Pepper Pot they will be happy'.¹⁶ His relations with his partners in the Concessions Syndicate were tense. He was apprehensive, even over-anxious, and criticised their decision to recall Reynolds at the crucial moment of success, leaving Bradshaw behind in charge, but, he asked Preece, 'what can I do unless I give formal notice and a quarrel. I think we had better wait and see what Reynolds says'.¹⁷ Preece had become his confidant. The situation in Persia depressed him and he observed tersely that 'Things at Teheran look bad and will not I should imagine be better until the Shah is bombed or dethroned'.¹⁸

D'Arcy's concern coincided with the arrival of the new Imperial Commissioner, Sādigh al-Saltana, Mut'amin Huzour, for the first time in June. He had succeeded Vincent Kitabgi on two occasions, in March 1905 before being replaced in May 1907 and then again appointed in September 1907. Already in January 1907 Sādigh al-Saltana had been inquiring about the Concessions Syndicate.¹⁹ Indeed the Concession had been the subject of discussion in the Consultative Assembly when Sa'ad al-Dawla, who had been Persian Minister in Belgium and was an opponent of the Shah, commented that D'Arcy 'had engaged to employ natives and to observe certain other conditions' and that the Commissioner was not aware of the nature of his responsibilities.²⁰ On 20 January 1907 Sa'ad al-Dawla, briefed by Shaykh al-Mulk with the backing of Edouard Kitabgi, again criticised the lack of Persians employed in the oil operations. In reply it was said on evidence from the local authorities that 'apart from the managing staff and engineers, the whole of the employés were Persians'.²¹ The Minister for Mines, Muhandes al-Mamalek, and Sādigh al-Saltana were present at this meeting of the Majlis.

As a result of this questioning in the assembly it was thought wise to appoint Paul Kitabgi as agent of the Syndicate in Tehrān, particularly as

the question of the Bakhtiari Agreement was also provoking much discussion at this time. Edouard Kitabgi had also advocated creating 'an influence favourable to Mr. D'Arcy's interests'.²² In reality the Kitabgi family was quite dependent upon the patronage of the Amin al-Sultān who had been assassinated in mid-1906, so the appointment of Paul Kitabgi was not renewed after the first year because his services had no practical benefit. As for relations with the Bakhtiari Khans, the advice on 20 May 1907 of Mr (later Sir) Percy Loraine, First Secretary at the Legation, that 'former should be the sole intermediary between the Legation, the Concessions Syndicate and the Khans, was accepted'.²³

Sādigh al-Saltana first communicated with Preece on 19 August 1908, apologising for sickness since his arrival and requesting a meeting with D'Arcy, 'as there are many matters regarding the oil concession about which I shall have to talk' and inquiring 'what is being at present done both in Persia and here regarding the oil concession'.²⁴ Having been informed on 24 June that oil had been found, it was natural that he wanted 'to know what steps you are taking to exploit the oil and to work the concession in a satisfactory manner', so that he could fulfill his obligations towards his Government. He raised again the nature of D'Arcy's agreement with Burmah and the outstanding rental which the Government believed was due to it under Article 4 from the seepages at Qasr-i Shūrīn, Shushtar and Dalaki.²⁵

Preece overreacted in his comments to D'Arcy, thinking that Sādigh's letter was 'distinctly aggressive' and that it might have been written in collusion with German interests as 'if they can annul the Concession for any cause they may get a lump sum from the Germans'.²⁶ He wrote to Hamilton even more strongly, 'My reply is a fighting one and is intended to put him in his place'.²⁷ D'Arcy was disturbed and immediately asked Preece 'to send the short *non fighting reply*'. He was determined not only to prevent any unnecessary offence being given, observing that 'This matter has *more to do with me* than with Hamilton and I strongly urge you to do this',²⁸ but believed that it was highly important that 'the Concession or its Rights must not be jeopardised'. He was resolved to 'finish up - if we can - the position Regarding the Concession and the Rights of the Persian Government for once and for all', on his return from holiday in Scotland.²⁹ The intention was admirable, its realisation unlikely. D'Arcy saw the Commissioner in mid-September. He appeared to satisfy him about his agreement with Burmah and the progress of operations in Persia, and promised to keep him informed about the formation of the Company. At the beginning of November, Sādigh al-Saltana, pleased at the news that a third well had come in as a producer, was nevertheless impatient about 'the return to town for the winter of people and financiers when you would let

me know definitely as to the date of the formation of a Company'.³⁰ He naturally wished to be able to inform his Government 'definitely as to this'.

Thus by November the Imperial Commissioner and D'Arcy were both anxious that the formation of the Company should not be delayed. Sadigh al-Saltana had already complained to Preece that 'it is nearly eight years since the Concession was granted and nothing of a practical nature has yet been done'.³¹ It was reasonable for Sadigh al-Saltana to suggest that 'the Imperial Government have naturally been hoping to have derived some benefit', but unrealistic to claim that it should have been 'long since'. D'Arcy, with his habitual and premature optimism, thought early in September that 'all certainly looks as if we were not far from the initiation of the Co'.³² He may have gained this impression from C. W. Wallace, at whose insistence he wrote to Charles Greenway politely requesting a meeting and apologising for 'troubling you without a proper introduction but probably Wallace has mentioned me and the oil Business to you'.³³

This seems to have been D'Arcy's first acquaintance with Greenway, the first occasion on which Greenway was directly concerned in the enterprise with which he later became so closely identified. They soon established a mutual and sympathetic understanding and had similar social interests. Greenway was more at ease in the home counties than in the highlands. He was, in a sense, a protégé of Wallace, in whose firm of Indian managing agents, Shaw, Wallace and Co, he was a senior partner, and was experienced in the oil trade. Greenway had been involved in 1905-6 in the intricate negotiations between Burmah and Shell which eventually resulted in their joint marketing agreement over Indian markets. Thereafter he spent two years managing the distribution of Burmah petroleum products in India, during which time sales expanded and profits increased. He thus possessed not only a practical knowledge of petroleum affairs, but also marketing expertise and shrewd determination. 'Champagne Charlie' as he was depicted in later life, with monocle, spat and cigar, was a resilient, formidable and tenacious businessman, decorous, even fastidious, but who could trade punch for punch with his commercial competitors. His loyalty to Wallace was reciprocated by the older man's confidence in him.

D'Arcy was doubtless relieved at the prospect of dealing with someone other than Hamilton. Hamilton, corresponding with Cargill in July over the D'Arcy interest in an oil concession for Mesopotamia, had referred to 'friction with D'Arcy and Manisty, which, as we all know is strong at present'.³⁴ The animosity persisted in September with D'Arcy unable to 'understand Hamilton being sick at not seeing me',³⁵ and continued with differences of opinion over Reynolds. Greenway acknowledged D'Arcy's

letter on 15 September and within a few days D'Arcy was thanking him for his 'very kind letter' and accepting Greenway's advice over some shares in spite of the fact that he 'did not intend going into anything further until this Persian Business of mine was settled, but I should so like to be associated with you on what appears to be a very good thing'.³⁶ This preliminary exchange set the cooperative and cordial tone of their relationship. On Greenway's suggestion, D'Arcy wrote to Hamilton at the end of September drawing his attention to the recent show of oil in No. 1 well and the need to form the company, as 'I am desirous that the matter should not be delayed longer than is absolutely necessary as I am being continually worried by those interested. There is of course also to be considered my position with Persian Government'.³⁷ Little sense of urgency was noticeable from the Burmah directors and D'Arcy found Hamilton's reply unsatisfactory. D'Arcy complained to Greenway and regretted having 'to trouble you so often about the Persian matter and the importance of it must be my excuse'.

Greenway assured D'Arcy that Wallace shared his views and it seems likely that Wallace took the initiative in pressing the Burmah directors to come to a definite decision. Although D'Arcy was not officially informed till after the Burmah Board Meeting on 28 October that 'Oil had been found in sufficient quantity to justify the formation of the big company',³⁸ he was already sufficiently and rightly confident to write to Manisty and also Vincent Kitabgi that 'nothing will stop the Burmah Oil Co from forming that great Company we have been wanting for so long'.³⁹ On 9 November D'Arcy had an important meeting with Wallace and Hamilton to discuss a basis for forming the company, all the more urgent as Cargill was leaving for a four month visit to India and Burma towards the end of November.⁴⁰ The decisive meeting occurred a week later on 17 November when a general measure of agreement was reached between D'Arcy, Cargill and Wallace.⁴¹ Cargill made Wallace responsible for Persian affairs in his absence and Greenway was instructed to assist him.

These arrangements, quite fortuitous, were nevertheless to have significant repercussions. Wallace, under whose guidance the Anglo-Persian Oil Company was formed, had a talent for negotiation, an ability to conciliate and a flair for business. Within four months he had persuaded or charmed many men into dropping their differences and working more energetically than they were accustomed. It was a remarkable display of nerve, efficiency and amiability. His orchestration of the proceedings was impressive and his achievement probably tilted the balance of directorial responsibility towards London and away from Glasgow, with incalculable consequences for the Company, which thereby escaped some of the consequences of narrow-minded parochialism. As the principal assistant

to Wallace, Greenway was not beholden to the Burmah directors for his position and regarded the Company, for whose formation he was partly responsible, more independently. He had no inhibitions, no prior obligations to divide his loyalty, which he totally reserved for the Anglo-Persian Oil Company.

There was, therefore, no reason to delay forming the company to develop the Concession. In the meantime Reynolds had been asked to return to Persia. The Burmah directors had shown little disposition to see Reynolds just after his arrival on leave, which surprised D'Arcy, but he was twice seen by Hamilton at the beginning of September in a rather perfunctory manner. Hamilton completely misjudged Reynolds and paid little attention to his advice, knowledge or experience. D'Arcy was perturbed, informing Greenway that,

I think he is a man who would be most useful for the new Company, as he knows the country, is liked and trusted by the British Authorities, and gets on well with the natives... He is a man who will never by a stupid action imperil the Concession, and if it is thought advisable to engage him, and the year or so is only a question of terms, I am quite confident that if you or Wallace and I saw him that these could easily be arranged.⁴²

Hamilton was not convinced, and complained sarcastically that Reynolds 'had opened his mouth considerably wider than I bargained for'⁴³ and finally remarked to Cargill before Reynolds left in November that 'the type machine could not reproduce the words I would like to say about this man'⁴⁴

Reynolds pointedly suggested to Hamilton on 24 October, 'I would be glad, before leaving, to hear what your programme may be for future work in Persia, as such were better discussed personally than by letter when I am there.'⁴⁵ The programme agreed for Reynolds on 19 November was prepared primarily for the appeal of the prospectus to potential investors. So at Masjid i-Suleimān he was to 'put down as many wells as possible - as far apart as can be conveniently arranged so as to define the field as much as possible - stopping the drill on the hard surface which we know covers the oil sand'.⁴⁶ A rig was to be erected at Shardin and reports were expected on the possibilities of outlying fields. Every assistance was to be offered to B.F.N. Macrorie, a geologist, who, on Redwood's recommendation, was going to Persia to compile 'sufficient reliable data to form a report for insertion in a prospectus'. Results, not window dressing, were required for the successful flotation of the Company.

3 THE INCORPORATION OF THE COMPANY
NOVEMBER 1908 - APRIL 1909

(a) Negotiations between D'Arcy and Burmah

By the beginning of December a memorandum existed, drafted by Greenway with amendments proposed by D'Arcy. The capital of the new company was to be £3 000 000 of which £2 000 000 was in ordinary shares and the remainder in preference shares. The ordinary shares were for the vendors as the purchase price of the Concession, while the proceeds of the preference shares and an issue of 5 per cent debentures were to be used for (1) repaying the actual expenses already incurred, (2) the cost of pipelines, a refinery and other facilities and (3) working capital.⁴⁷

A Board of Directors was tentatively agreed, consisting of D'Arcy himself, Cargill, Wallace, Hamilton of Burmah, and Greenway. Others for possible selection included Lord Burton and Lord Orford, friends of D'Arcy, already financially interested in the Concession, E.G. Pretyman, J.R. Prece, Sir Hugh Barnes, Lt-Governor of Burma 1903-5 and member of the Government of India Council, 1905-13, and Mr Ailwyn Fellowes. D'Arcy at first hoped that Lord Cromer, who in April 1907 resigned after 14 years 'eminent services' in Egypt, or Lord Milner, colonial administrator and High Commissioner for South Africa, 1897-1906, would agree to be chairman. D'Arcy approached Sir Charles Hardinge to ask Lord Lansdowne to persuade Milner to accept but after an embarrassing wait of a month, Milner, apologising for the delay in replying, intimated at the end of January 1909 that he did not think 'he could possibly add duties so onerous as this Chairmanship would entail to the considerable amount of City work which he already has on his hands'.⁴⁸ D'Arcy was sorry, Wallace relieved and Greenway expressed it succinctly, 'It is a pity about Milner but I am not sure that Strathcona will not suit us better if he is obtainable.' He was and Wallace obtained his acceptance at a meeting in the first week of February.⁴⁹ They soon established a close understanding. Wallace benefited from the experience and knowledge of his new chairman, who trusted Wallace and was soon busily concerning himself with directors, accountants, bankers, brokers, underwriters, the Press and so forth. It was an effective working relationship of distinction and realism.

During December and early January, D'Arcy, Wallace, Greenway and Hamilton were almost continually engaged in drafting or commenting on the Articles of Association and the prospectus between themselves and with their advisers. In the midst of such activity, Wallace found their imposed confidentiality 'an absurd attitude of mystery and secrecy' and suggested that 'there should be removed from D'Arcy and from me the

continual necessity for prevaricating and being mysterious in regard to matters which are really common knowledge'.⁵⁰ It was a positive sign of confidence for, as D'Arcy indicated to Preece on 9 January, 'I have been kept constantly going with all this Persian Business',⁵¹ and to Manisty that he expected the company to be formed in the course of February.⁵² A few days later he explained to Vincent Kitabgi that,

I have been able to arrange something better for us than the Company contemplated, viz the 2 000 000 ordinary shares, and the whole property mortgaged for £1 000 000 or more to debenture holders. I propose to keep the 2 000 000 shares as before, but to get the working capital half in debenture and half in preference shares, which latter will get no dividend until the Company pays a profit.⁵³ The one person not satisfied was Mrs D'Arcy who, with commendable marital pride, wrote to Manisty on 11 January about the prospectus, 'disappointed to see they had left my husband's name out of it absolutely. This, I think, a great mistake as far and wide his name is associated with this Persian business. He will not do anything of course, I have talked for months, but quite uselessly. So I am making a last bid for fame to you'.⁵⁴ Set against the multiplicity of issues at stake, this simple domestic vignette has a delicate feminine charm.

In November, the interests of the Persian Government were again discussed. D'Arcy had previously suggested that the Imperial Commissioner should retain lawyers to act on his behalf and confer with Manisty on how far he was entitled to be consulted and supplied with reports.⁵⁵ On 24 November Manisty had a long meeting with Mr Lumley, the solicitor, who had agreed to act for Sādigh al-Saltana, who stressed his desire to assist 'in every matter with the Concession, coupled on the Commissioner's side with an anxiety that he should be able to justify himself in his position with the Persian Government'.⁵⁶ Lumley accepted Manisty's opinion that D'Arcy's Agreement with Burmah was outside the provisions of the Concession and resembled a private arrangement you might make with your Bankers', the details of which need not be disclosed. He was, however, less convinced that steps had been taken under Article 11 of the Concession to consult adequately with the Commissioner. Manisty argued that it was dependent upon a company being formed and limited to 'protecting the Imperial Government in obtaining 16 per cent of the profits, exactly as in all colliery agreements clauses were inserted to protect the Colliery owner with regard to his royalties'. 'No doubt,' he explained, 'there would be a clause entitling the representative of the Commissioner to supervise, to ascertain the output of the oil and the disposition of it.' Lumley reserved his position and maintained that such an interpretation was applicable from the granting of the Concession and that it should be covered by a written agreement, although he recognised that it would not

be easy to define. Manisty rejected the idea as 'an impossibility until a Company was formed for the working of the Concession'. It was a contentious subject, for there is no doubt that in practice any suggestion of undue interference deemed to have taken place on the part of the Persian authorities over the details of the operation in Persia or the raising of finance in London would have had a detrimental, if not fatal, effect on the money markets.

In the middle of December, D'Arcy, Wallace, Preece and Manisty met Sādigh al-Saltana to report the progress on forming the company. D'Arcy referred to it as a 'horrible' occasion. The Commissioner protested firstly about the non-payment of the rental for the oil seepages, to which D'Arcy replied that as they were not being worked no rental was due, and secondly about the deduction of money from his salary to pay the Persian Legation in London, for which the Persian Foreign Ministry in Tehrān, not D'Arcy, was responsible. He also complained of a lack of consultation.⁵⁷ By the end of December the salary problem had been temporarily settled⁵⁸ and D'Arcy was striving to pacify the pride of the Commissioner by requesting Jenkin to address him as '*His Excellency* and His Excellency then all Round as it pleases them and does not hurt us'.⁵⁹ D'Arcy remained very concerned, and impressed upon Greenway at the beginning of January that with the good progress being made in the formation of the company 'we *must* consult the Commissioner very soon as his solicitors will have to advise him on every clause in the Memo of Association'.⁶⁰ Although progress was slower than anticipated, a month later D'Arcy, not disposed to ignore the Commissioner, requested Sādigh al-Saltana to be handy between now and the middle of March so that he can be consulted about the formation of the Company'.⁶¹

There were, moreover, two important concessionary matters upon which legal opinion was required, firstly whether there was any objection to the proposed company acquiring and operating the Concession and secondly the applicability of the 16 per cent royalty provision to more than one company involved in concessionary activities. In late January, Sir Frank Crisp, senior partner in Ashurst, Crisp and Morris, who had been appointed solicitors early in December, consulted Mr Robert (later Lord Justice) Younger KC, who advised that the proposed company could take over all D'Arcy's rights and liabilities as concessionaire and be directly responsible to the Government for the royalties on profits earned from working the Concession, whether by itself or by any other subsidiaries formed for that purpose.⁶²

More serious, however, was the possibility of double royalty payments. It was Manisty, who had earlier been involved in the drafting of the original concessionary terms, who, after seeing a preliminary prospectus

for the formation of the Bakhtiari Oil Company, raised the question presuming 'it has all been thought out'.⁶³ It had not and D'Arcy since hoped that 'he has only found a Mare's nest'.⁶⁴ Wallace was troubled not for the first time, revealing to Adamson, a fellow Burmah director that, 'It occurred to me last October' but that he had brushed it aside then forgotten about it.⁶⁵ Adamson and Hamilton were logical in their analysis but impractical in their proposals. They contended that the signing of Article 10 'was to secure to the Government 16 per cent only, on the total net profits of all Companies operating under the Concession and would be inequitable to demand a further 16 per cent on any portion such profits merely because they had passed to the Parent Company instead of being distributed to individual shareholders'.⁶⁶ Besides 'if the whole work, Government Companies, and the Parent Company undertaken apart from the First Exploitation Company, which had already been formed, 'there is no absolute necessity to float any other Company beyond the P. O. Coy.'

Adamson and Hamilton proposed approaching the Persian Legation but Wallace answered tersely that such action was tantamount to admission that the problem was incapable of solution without 'interminable delay, a mission to Teheran and incalculable baksheesh'.⁶⁷ Wallace was in a dilemma for he recognised that the share capital required was large 'the share capital of the working Companies must be at least £4,000,000. This was a formidable sum of money to be raised, the possibility of which would be seriously impaired if there was a chance of paying double royalties to the Persian Government under Article 10 of the Concession. Wallace proposed the suggestion of Sir Frank Crisp, 'the formation of what is known in the American financial world as the holding company'⁶⁹ but Burmah legal advisers, Boyds, Miller and Thompson pointed out that it would be costly, with stamp duty, companies' capital duty and registration expenses, and that it suffered from the disadvantage that profits were payable in good years, but losses were not deductible from royalties in bad years.⁷⁰

Crisp and Manisty were convinced that no court of law would decide that the Persian Government was entitled to 16 per cent of the profits of every company even if they included profits already taxed.⁷¹ For further advice, Younger was again consulted and it was his opinion that various Companies have not got to pay 16 per cent of the annual net profits of every Company, but the Company is to pay 16 per cent of the annual nett profits of every Company'.⁷² There was thus no objection forming the contemplated Bakhtiari Oil Company or others for, as Wallace informed Manisty, there 'is only an obligation on one Company

to pay a royalty of 16 per cent as the net profits of all or any Companies'.⁷³ It is not the first nor the last occasion on which the imprecision of the wording of the Concession caused difficulties of interpretation. Just as the uncertainty over the 16 per cent royalty appeared to be resolved and Wallace was turning his attention towards the prospectus, he went at the end of January that D'Arcy wanted underwritten a further £100,000 on his behalf in addition to the £400,000 already agreed in November. 'This upsets everything,' he commented, 'for if a proposal less attractive than the November one is to be made to the underwriters, well I have been living in a fools' paradise since November, and I see no chance of it now.'⁷⁴ D'Arcy seemed to have got cold feet, but, claimed Wallace, 'at that moment, you would not in regard to this issue have to find another penny piece'. Wallace, feeling the pressures of the timetable, was momentarily caught off balance, but, on regaining his composure, questioned the underwriting procedure. The intention was 'to offer the public £1,200,000 of which £800,000 we (i.e. D'Arcy and BOC our shareholders and friends) underwrite half' with the underwriters taking the other half, £400,000. Even if, however, D'Arcy's proposal was acceptable for underwriting the whole £1,200,000, its cost was prohibitive, for Mr Andrew Haes of Messrs Andrew Haes and Sons informed Wallace that 'no underwriters will come in for less than 5 per cent clear and there will also be an over-riding commission (for the intermediaries) of 1 per cent', giving £44,000 in all.⁷⁶

Wallace objected to these terms and Wallace began to reflect on alternatives. Within a week he had discussed an absolutely new proposal with D'Arcy and Greenway and was on his way to Glasgow to discuss it with his fellow Burmah directors 'an arrangement whereby the Anglo-Persian Oil Co might avoid the objectionable underwriting of Shares and features'.⁷⁷ He spent an arduous week between Board meetings on 21 January and 1 March in persuading the Burmah directors to accept his proposal, which they completely rejected at first at a seven-hour session.⁷⁸ D'Arcy did not conceal his sentiments from Greenway that 'I always doubted if these Scotch men had the pluck',⁷⁹ but, undeterred, Wallace finally convinced his colleagues that his proposals were in their ultimate interests and that an immediate decision was necessary which could not be delayed till the return of Cargill. Returning to London on 2 March he also moved quickly. By the next evening he had seen D'Arcy several times, discussed the question with Manisty and finally in conference with Herbert Moulton KC, 'the business was accepted and put through'.⁸⁰ D'Arcy was to sell to Burmah all his interests in the Persian Concession and rights in Turkey in return for 170,000 Burmah ordinary

shares.⁸¹ It was a simple solution but depended on the Burmah Board undertaking almost all the investment in the ordinary share capital of the new company. It eliminated the need for underwriting.

(b) The Agreement

Wallace responded to the challenge, fully realising that 'I have now to remodel a great many things with scant time to do it in if we are to get the public issue made before we get into Budget troubles at the beginning of April.'⁸² He badgered his colleagues and advisers, confessing that I did not lose an hour after the D'Arcy Agreement was adjusted, and I have not allowed anybody with whom I have been in contact to lose an hour if I could help it.⁸³ He had little sympathy with the dilatory behaviour of lawyers and impressed his urgency upon Adamson 'to try to make up as much as possible for lost time'.⁸⁴ He received the approval of Strathcona, who was 'delighted with the change that our recent arrangements have enabled us to effect in the constitution of the Company' and was willing to take up his proportionate shareholding.⁸⁵

Whilst Wallace was engaged in the legal details, the information for the prospectus and the settling of terms for the issue of shares, D'Arcy, a little apprehensively, had to satisfy his own associates that their interests had been safeguarded. It was no easy task, as he had admitted earlier to Wallace,

Each one of those interested with me have to be consulted at every point and the Imp. Com. as well on some points. My people have most of them Solicitors Employed and you know what that means. I have always found that if I consulted them when or before things are agreed upon and *before they are done*, they are much easier to handle.⁸⁶

It was at Burmah's insistence in 1905 that he had been obliged to obtain 'the express sanction of the people interested with him to the Primary Agreement', the effect of which was to deprive D'Arcy 'of his previously existing free control of their interests'.⁸⁷ Now that the arrangements were being altered again, Manisty maintained that the associates had the opportunity of suing D'Arcy for damages if the new scheme was put through without previous sanction.

Sir Frank Crisp suggested an indemnity for D'Arcy against such claims but Wallace was reluctant to seek permission from his Burmah directors for such an authority. He suggested that D'Arcy should inform his associates that a more beneficial settlement had been reached, their acceptance of which was to be presumed unless he was notified to the contrary. The benefit was that instead of a company with 'two million Ordinary Share Capital and the whole of its property mortgaged to the purveyor of

working Capital', it would be one with that amount of ordinary capital but 'with only half the working capital provided by Debenture holders - the remainder by Preference holders, which latter will get no dividend or interest till the Co. is earning profits'.⁸⁸ D'Arcy was not enthusiastic but Wallace told his colleagues that 'I think that we shall hear no more of the matter - except perhaps in the way of growls.'⁸⁹

On 9 March D'Arcy informed Adamson that he was satisfied with the new agreement, subject to consulting his associates which he was 'proceeding to do as quickly as possible'.⁹⁰ Wallace then was worried that 'we are making very slow progress' and that 'if this matter is not settled within a couple of days there is no chance of making an issue before Easter',⁹¹ regarded by the brokers as an important consideration. There was no particular cause for alarm. On 12 March Sir F.B. Palmer KC gave his opinions on three essential issues which had been put to him.⁹² He advised that only the approval of Vincent Kitabgi and Cotte was required before the new Agreement could be signed, that D'Arcy could only assign his Concession to a company or companies for working that concession and no other and that D'Arcy could agree with a person or company to have the full benefit of his rights for working the Concession, which would not be construed as a transfer but as an agreement to be carried out. This established the concessionary status of the Anglo-Persian Oil Company.

The opportune arrival of Vincent Kitabgi in London on 17 March enabled him to be acquainted with the new arrangements and give his consent the following day. He was given 11 900 Burmah shares, from D'Arcy's allocation and signed his agreement on 23 March. On receiving his shares he effusively congratulated D'Arcy on 19 May for terminating 'a business that has undoubtedly required a great amount of worry and care for so many years... Please accept my thanks for all you have done in my interests'.⁹³ Cotte signed on 21 March. Two days later D'Arcy himself signed. All pretence aside and greatly relieved he admitted to Wallace, 'I feel like signing away a child'.⁹⁴ Cargill, just returned from his Far Eastern tour, signed for Burmah on 25 March. His old friend and adviser, Lord Justice Moulton, aptly remarked to Manisty, 'My heartiest congratulations on the day's work. Things look very different for our friend from what they did two or three years ago!'⁹⁵

The main points of the Agreement⁹⁶ included:

(1) D'Arcy would sell to the Burmah Group the D'Arcy Concession, property and rights (subject to the rights of the FEC under its Agreement of 4 June 1903 with D'Arcy), all his privileges under the Agreement with the Burmah Group of 20 May 1905, and the Bakhtiari Agreement, and all the shares in the FEC owned or controlled by him, to the extent to which

the Concession, rights, powers, privileges and shares had not become the property of, and were held in trust for, the Concessions Syndicate.

(2) D'Arcy undertook to assign the Concession, property, rights and privileges and FEC shares, when required, to the Oil Company or to its nominees being a Company or Companies to be formed in terms of Article Nine of the said Concession subject always to the said rights of the Exploitation Company.

(3) D'Arcy further agreed 'to indemnify and hold harmless the Oil Company from and against all and any claims by any person...Company or Companies...rightfully claiming by or through under or in trust for him'.

(4) The Burmah Oil Co. undertook to assume all D'Arcy's engagements and responsibilities under the Concession and his liabilities under the various Agreements.

(5) In carrying out the Principal Agreement...of 20 May 1905, and the Supplementary Agreements and Bakhtiari Agreement it was agreed that they could be varied in such way as the Oil Company and the Syndicate thought fit.

(6) The consideration for the sale of D'Arcy's concessionary rights, privileges, etc., was to be £203 067 19s. 6d. in cash (consisting of (a) the £200 000 unpaid balance of his expenditure on the Concession and (b) £3 067 19s. 6d. expended by him thereon after the signature of the 1905 Agreement with the Burmah Group), and 170 000 fully paid ordinary shares in the Burmah Oil Company.

4 THE ISSUE 'A GREAT SUCCESS'

Towards the end of March the major problems had been surmounted. It was agreed that the Company should be formed on 14 April and that the issue should be made two days later before the Budget and the Burmah Annual General Meeting. Bankers were appointed. At first it was hoped that the Bank of England would accept but in spite of Strathcona's endeavours it was unable to accept its name being put on an industrial prospectus.⁹⁷ The Bank of Scotland was an immediate choice. Cargill insisted on the Imperial Bank of Persia. The Bank of Montreal was proposed and D'Arcy suggested his own bankers, Parris. The National Provincial was the third choice, then regarded 'by a long way the best Bank after the Bank of England'.⁹⁸ S. M. Penney and McGeorge in Scotland and J. and A. Scrimgeour in London, recommended by Strathcona, were chosen as brokers and their fees fixed. Brown, Flemming and Mur-

ray were appointed as auditors. The first office in Winchester House, Old Broad Street, was leased and a telegraphic address, 'Anglopers', registered.

As all agreements, no matter how remotely connected with the proposed Company's business, had to be mentioned in the prospectus, the lawyers were heavily involved on behalf of their various clients.⁹⁹ The final proofs were ready for a preliminary directors' meeting on 5 April.¹⁰⁰ The Imperial Commissioner and his legal advisers were kept informed and consulted. As Wallace mentioned to Cargill, 'I have been a good deal occupied with D'Arcy and the Imperial Commissioner's Solicitors, Lumley's'.¹⁰¹ All points were settled between Lumley's and Sir Frank Crisp,¹⁰² except that Sādigh al-Saltana felt that the Shah should have been given shares in the Bakhtiari and Anglo-Persian Oil Companies. Lumley's wanted their name on the prospectus but it was too late. It was, however, included in the newspaper announcements.

There was thus no attempt to conceal the activities associated with the formation of the Company from the Imperial Commissioner, who was again being embarrassed because his salary had been once more assigned in Tehran to the Ministry of Foreign Affairs.¹⁰³ He had received all the relevant documentation according to D'Arcy, who saw him early in April, when he said that 'he had handed the "Statutes" over to his Dol [doulat = state], that there was no difficulty and that he imagined that the matter would be settled'.¹⁰⁴ His intentions may have been good but there was negligence and as a result the Persian Government was not kept informed and asserted that their rights were 'prejudiced by the illegal action of the concessionaire and will not ratify the statutes of the New Company which they cannot recognise'.¹⁰⁵ Preece had to explain that the Government was mistaken.¹⁰⁶ Sādigh al-Saltana seems to have been satisfied and good relations were kept with him.¹⁰⁷

Towards the end of March there was an unexpected protest by the Admiralty to references to it in the prospectus. Redwood, the ubiquitous petroleum plenipotentiary, who was responsible as technical consultant for the geological information, reported to Wallace that the Admiralty strongly objected to our making public that the Admiralty suggested our developing Persia, and on my remarking that the statement is absolutely true, Redwood tells me that the Admiralty would go so far as to deny the statement.¹⁰⁸ Although Wallace realistically observed that 'as the Admiralty is our prospective good customer, we cannot afford to stamp on their horns',¹⁰⁹ there was no disguising the grievance which Burmah had felt towards the Admiralty since its abortive supply agreement of 1905 and the Persian involvement of the same year. The Admiralty had not assisted Burmah in its application for further exploration licences in Burma and, as

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Wallace observed, 'the sacrifices that we had made in the interests of the Admiralty would be indefinitely expanded'.¹¹⁰

This dissatisfaction with the Admiralty probably also explains the Burmah desire publicly to dissociate the Admiralty with the formation of the Anglo-Persian Oil Company, not only to impart some official authority to the issue but also to emphasise the possibilities of sales of fuel oil for naval purposes, which might more favourably influence investors. It was commercial opportunism, not patriotic altruism, which influenced the Burmah Board, as can be understood from a long and significant letter from Wallace to Cargill of 2 November 1908.

Redwood has put before Pretyman your view that the BOC did not consider itself indebted to the Admiralty for putting them into this scheme, and a long argument had ensued between Pretyman and Redwood. I asked him when he next saw Pretyman to add to his arguments that even if the Admiralty persisted in believing that they had done BOC a good turn not to forget that the Admiralty had certainly not done that good turn for the sake of the BOC's blue eyes and that in the meantime, the party that had pulled the chestnuts out of the fire was the BOC and not the Admiralty. In other words that it would be quite time enough for the Admiralty to urge their claim for consideration when the Persian Oil Company began to eat the chestnuts, i.e. when the Persian Oil Company is paying good dividends to its shareholders. Supposing that the Admiralty did not wish to wait for Fuel Oil until that happy eventuality, then, obviously, they must pay the Persian Oil Company the price for its Fuel Oil equivalent to what the Persian Oil Company could get for its Petroleum manufactured into the most paying products, or arrive at some other means (by guaranteeing interest, or something of that kind) of compensating the Persian Oil Company for making Fuel Oil.¹¹¹

Burmah was not indulging in imperial give-aways, then or later, for unless, according to Cargill in April 1909, the Admiralty was prepared to pay realistic prices for fuel oil, 'I do not see how we are ever going to make contracts with them which can possibly be of a paying character'.¹¹²

Nevertheless the prospectus contained a baited reference that 'the development of these fields is therefore calculated to be of immense benefit to the British Navy, and substantial contracts for Fuel Oil may be confidently looked for from the Admiralty'.¹¹³ Redwood forecast for the prospectus that 'the proposed Company will enter into possession of productive oil-fields constituting the basis of an established industry'.¹¹⁴ It is very probable that this opinion on 'taking an even liberal discount off his constitutional optimism',¹¹⁵ greatly sustained morale during the complicated and exhausting negotiations as preceding the formation of the Company. Expanding marketing opportunities were foreseen in the prospectus for Persian oil in the Middle East. 'With the low cost at which this Company will be able to bring oil to these markets' not to mention 'an

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almost limitless market will be found for Fuel Oil' with its advantages over coal for marine purposes.

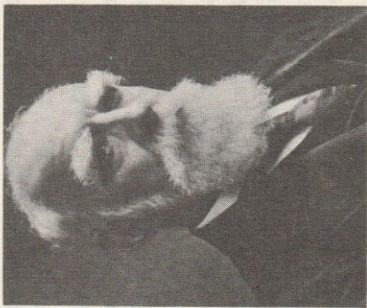
The Anglo-Persian Oil Company was incorporated on 14 April 1909, with an authorised capital of £2 000 000; £1 000 000 ordinary shares of £1 each were allotted as fully paid as 570 000 to the Burmah Oil Company, 400 000 to the Concessions Syndicate Limited and 30 000 to Lord Strathcona and £1 000 000 in 6 per cent preference shares. It was to be the third largest British oil company by capitalisation after Shell, £3.5 million and Burmah, £2.5 million. There were no real surprises among the directors appointed, who were Lord Strathcona, chairman, C. W. Wallace, vice-chairman, Sir Hugh Barnes, John T. Cargill, W. K. D'Arcy, William Garson, C. Greenway, James Hamilton and HSH Prince Francis of Teck, the only member of the Board ever to have a royal association. Strathcona had proposed both Garson, his legal adviser and the Prince, referred to in correspondence as 'The Detective', who had caused a spasm of alarm at the last moment by suggesting it was beneath his dignity for his name to appear on the prospectus.

The issue on 19 April was for 600 000 cumulative 6 per cent participating preference shares (out of an authorised total of one million) of £1 nominal value at par. A further £600 000 was raised by the issue of 600 000 1 per cent first debenture stock at par on the same day.¹¹⁶

In fact £791 500 was available, £600 000 for the purchase of assets and £191 500 for working capital, after deduction to the vendors, preliminary expenses and brokerage. It may be wondered if this estimated expenditure was assessed on any rational basis of what would be required, or whether it represented just a shot in the dark, bearing in mind the financial difficulties with which D'Arcy had already been faced. Redwood had initially forecast an expenditure of £10 000 to drill two wells in Persia, but in four years D'Arcy had spent some £200 000 all told and in three years the Concessions Syndicate had spent some £130 000. There was, thus, some experience on which to base reasonable calculations of cost for working capital.

However, unlike D'Arcy, Burmah had consultant engineers, Andrew Gillespie and Sons, to advise them, who had already been concerned in the construction of a refinery in Rangoon, a pipeline from the fields to the port and tank storage. The cost of pipeline, weighing 8000 tons for example, supplied by Jacobs and Davies, of New York was £83 000, the freightage charged by F. C. Strick and Co. from New York to Abadan was 21s 3d per ton, including discharging. The equipment for the pumping station at Tombi supplied by Messrs G. and J. Weir amounted to £17 395. The pipeline construction presented no special technical problems and was completed competently on time. The uncertainties concerned the refinery, originally designed by J. Gillespie for 2 000 000 gallons monthly (about

The formation of the Anglo-Persian Oil Company



Lord Strathcona



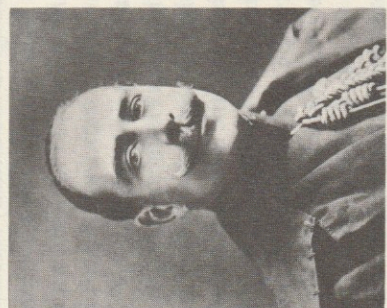
C. W. Wallace



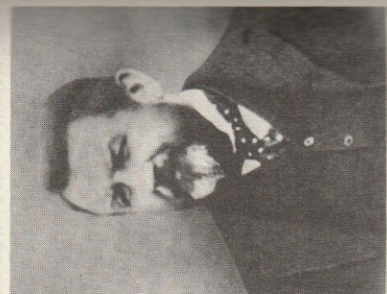
J. Hamilton



C. Greenway



Prince Francis of Teck

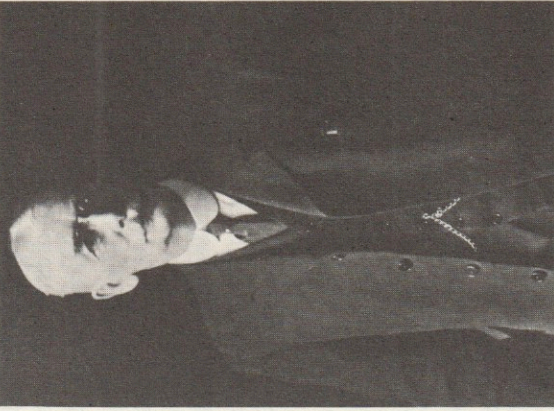


W. M. Garson

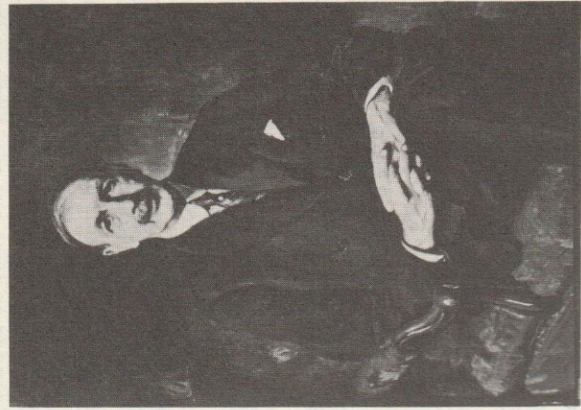
The formation of the Anglo-Persian Oil Company



W. K. D'Arcy



Sir Hugh Barnes



John T. Cargill

The formation of the Anglo-Persian Oil Company

7500 tons), according to his understanding of Burma oil and its yield of products, which did not correspond to that of Persian oil with its corrosive sulphur content. There was also little provision made for port facilities and a reception area for the off-loading of goods, nor for the provision of adequate transportation, whilst there was no attention to distribution and marketing requirements. It was a very tight schedule, pared to the essentials with little allowance for contingencies, but if the capital commitments were not irresponsibly underestimated, it was realised within a year that the return on capital expected was obviously rashly optimistic. The justification for the programme was that by September 1908 three wells had been brought in as producers of which one had flowed at 11 600 gallons a day and another at 108 000 gallons. Within the first year, six wells had been drilled capable of sustaining sufficient commercial production. The whole of the issued capital was not called up at once.

Initial calls, £1 on debentures and 5s on preference shares, yielded £750 000, leaving £341 500 after the settlement of immediate claims, of which some was placed with the Glasgow Corporation at 2 1/4 per cent for three months. Further capital was not called till October 1911 when a further £300 000 was issued in preference shares. The public responded enthusiastically to the issue. Cargill remarked that the Bank of Scotland was overwhelmed, 'nothing like the rush of applications yesterday has ever been known in Glasgow before, it being impossible at times to get inside the Bank at all, and all day long the public were standing five to ten deep at the counter with their applications'.¹¹⁷ He conceded that the Bank had 'made a nice mess over the question of the closing of the List', and that in consequence 'we have managed to irritate quite a number of people'.¹¹⁸ Nevertheless, Cargill was able to report to his Board, 'this issue had been a great success'.¹¹⁹ The preference shares were oversubscribed some fifteen times whilst applications for debenture stock exceeded that offered by over half again.

What were the factors which contributed to such a surprising success? It was certainly not taken for granted. Wallace had been allocated some £3000 for public relations activities including newspaper advertisements to attract potential oil investors whom he believed, 'except for BOC shareholders... speaking generally and with comparatively few exceptions, cannot be very much in love with their oil investments',¹²⁰ classed by most brokers as purely speculative. Signs of unease on the part of the brokers were evident a week before the issue when they wanted to insert a commendatory slip into the prospectus. Wallace objected as it appeared 'a somewhat "loud" hint to the intending investors that the Debentures are not in themselves attractive', and he just hoped that they 'will succeed in placing at all events the bulk of the Debentures'.¹²¹

This Prospectus has been filed with the Registrar of Joint Stock Companies. The List will be opened on the 18th April, 1909, and will be closed on or before the 21st April, 1909.

Anglo-Persian Oil Company, Limited

(Incorporated under the Companies (Consolidation) Act, 1908.)

CAPITAL £2,000,000,

1,000,000 Cumulative 6 per Cent. PARTICIPATING PREFERENCE SHARES of 81 each,
1,000,000 ORDINARY SHARES of £1 each.

ISSUE OF 600,000 Cumulative 6 per Cent. PARTICIPATING PREFERENCE SHARES of £1 each at par,

2s. 6d. per Share on Application.
PAYABLE on Allotment.
And the balance, as and when required, in calls at intervals of not less than two months. The Preference Shares are entitled to a Preferential and Cumulative Dividend at the rate of 6 per cent. per annum on the amount paid thereon, such Dividends for the first five years being guaranteed as hereinafter mentioned by The Burmah Oil Company Limited.

(After payment of the Cumulative Preference Dividend and payment of a Dividend on the Ordinary Shares for the year at the rate of 8 per cent. per annum, the profits in each year will be applied in payment of a Dividend on the Preference Shares at the rate of 6 per cent. per annum, subject thereto a sum will be carried to a Special Reserve Fund out of the profits of each year, which will be applied only (a) in making up any deficit on the 6 per cent. Preference Shares, and (b) in making up any deficit on the Working Capital of the Company.)

Subject as aforesaid, the balance of the profits available for Dividend will belong to the holders of the Ordinary Shares. In a winding-up the Preference Shares will be entitled to the preferential payment of an amount equal to 110 per cent of the amount paid thereon. The remainder of the surplus assets available for distribution will belong to the holders of the Ordinary Shares.

£800,000 5 per Cent. FIRST DEBENTURE STOCK at par,

2s. 6d. per cent. on Application.
PAYABLE on Allotment.

The Debenture Stock will be secured by a First Floating Charge on the whole of the Company's undertaking, and assets in trust of the Trustees named below, and will be redeemable at the Company's option at 5 per cent. premium, either in whole or in part, on the 1st December, 1920, or on any subsequent 31st December, on not less than six months' notice, and will be redeemed at the rate of 100 per cent. per annum, either by the Company going into voluntary liquidation for the purpose of re-construction or amalgamation, commencing with the date of the winding-up, or by drawings in the usual way to the amount of £200,000 annually, either by purchase of the Debentures on the open market, or by drawings in the usual way to a total Debenture issue equal to half the amount of the Debenture Stock ranking *pari passu* with the above Stock up to a total Debenture issue equal to half the amount of the issued Share Capital for the time being.

Interest on the Debenture Stock will be payable half-yearly on 30th June and 31st December, the first payment being made on the 30th June 1909. The Stock will only be transferable in multiples of £1.

Applications have already been received for 200,000 Preference Shares, and for £200,000 of Debenture Stock at par, and 800,000 Preference Shares and £800,000 of Debenture Stock, the balance of the full amount being available for allotment otherwise. The Directors will go to allotment only on subscription of the full amount of 600,000 Preference Shares and £600,000 of Debenture Stock, and will be underwritten.

As part of these issues has been underwritten.

Trustees for the Debenture Stockholders.

HIS GRACE THE DUKE OF SUTHERLAND, K.G., Stafford House, St. James's, London, S.W.
THE RIGHT HON. THE EARL OF LICHFIELD, 38, Great Cumberland Place, London, W.

Solicitors for the Trustees to the Debenture Stockholders.

FRESHFIELDS, 31, Old Jewry, London, E.C.

Board of Directors.

Chairman.

THE RIGHT HON. LORD STRATHOONA AND MOUNT ROYAL, G.C.M.G., G.C.V.O., 29, Grosvenor Square, London, W.

Vice-Chairman.

C. W. WALLACE, Director The Burmah Oil Company, Limited, Winchester House, Old Broad Street, London, E.C.

Directors.

SIR HUGH S. BARNES, K.C.S.I., K.C.V.O. (late Lieutenant-Governor of Burma), East India United Service Club, St. James's Square, London, S.W.

JOHN T. GARGILL, Chairman The Burmah Oil Company, Limited, 175, West George Street, Glasgow.

W. K. D'ARCY, Chairman London Board Mount Morgan Gold Mining Company, Limited, 42, Grosvenor Square, London, W.

WILLIAM GARBSON, Writer to the Signet, 5, Albany Place, Edinburgh.

C. GREENWAY, Merchant (R. G. Shaw & Co.), Winchester House, London, E.C.

JAMES HAMILTON, Director The Burmah Oil Company, Limited, 175, West George Street, Glasgow.

H.B.H. PRINCE FRANCIS OF TECK, K.C.V.O., D.S.O., 38, Welbeck Street, London, W.

Bankers.

NATIONAL PROVINCIAL BANK OF ENGLAND, LIMITED, Head Office, 114, Bishopsgate Street Within, London, E.C., and Branches.

BANK OF SCOTLAND, Edinburgh (Head Office); Glasgow; London.

THE IMPERIAL BANK OF PERISA, 25, Abchurch Lane, London, E.C.

ASHBURST, MORRIS, CRISP & CO., 17, Throgmorton Avenue, London, E.C.

Solicitors for the Company.

Solicitors for the Vendors.

THE BURMAH OIL COMPANY, LEITH, AND THE COSCROSS STRAITS, LEITH—BOYDS, MILLER & THOMPSON, Glasgow.

THE LONDON STRATHOONA—SKENE, EDWARDS & GARBSON, W.S., Edinburgh.

Brokers.

J. & A. SCHEMMELEUR, 27, Theobalds Street, London, E.C.

S. M. PENNEY & MACGIBBOURNE, 24, George Square, Glasgow.

Auditors.

BROWN, FLEMING & MURRAY, C.A., 175, West George Street, Glasgow.

Secretary.

S. ARTHUR SMITH.

Offices.

WINCHESTER HOUSE, OLD BROAD STREET, LONDON, E.C.

Indeed the precautions taken over the issue suggest that there was apprehension, that the market was misread and that insufficient attention was paid to Scottish interest. Thus although it was decided not to underwrite the issue, a common practice in oil issues, £200 000 of the preference shares and £200 000 of the debentures were placed with clients of Scrimgeours and Penney and McGeorge prior to the general issue, the majority of which were taken up in Glasgow, not London.¹²² Burmah shareholders were allotted 250 000 out of the 400 000 preference shares available, which only left 150 000 for the general public. As Burmah between 1907 and 1909 was paying a 30 per cent dividend, its reputation was high in investing circles, due to 'a policy matured by care and foresight by men of wide experience'.¹²³ As Burmah was guaranteeing the preference shares for five years, this was a crucial factor in their success, making the terms attractive to investors, who otherwise would not have received dividends till the Company was earning, which was the original intention of Wallace in January. The yields of 6 per cent and 5 per cent on preference shares and debentures respectively were normal for oil company stocks between 1890 and 1914. In April 1909, brokers George Whitehead and Chown were quoting 3¼-4½ per cent on high class investments and 4½ per cent and above on second class stock.¹²⁴

At first an ordinary share capital of £2 000 000 had been proposed, then reduced to £1 000 000, which might have indicated terms too favourable to the vendors, an accusation subsequently made by the *Petroleum Review*.¹²⁵ In fact for the vendors the ordinary shares were the fruits of their endeavours. The ordinary capital did not contribute to the cash available for development, that was subscribed by the public for fixed interest rates on favourable terms in expectation of commercial success. *The Daily Chronicle* moderately described the issue as 'an attractive investment, although they have, of course, an element of speculation'.¹²⁶ *The Morning Post* was more critical about the unfavourable moment 'for launching a Persian venture' and thought that 'something more modest would have done for a start in that unexploited region of the world'.¹²⁷ Only *The Daily Express* referred to a connection between the Admiralty interest in fuel oil and the formation of the Company.¹²⁸

For D'Arcy the 'Big Company' was now constituted and though he may have felt that he might have obtained a better deal in view of the public's response to the issue,¹²⁹ he had recouped his outlay and made a 'profit' of 170 000 Burmah shares [some £895 000 in value] for his associates and himself. Like his search for oil, the financial hunt was over. D'Arcy had not quite retired from the scene for, as he wrote to Preece at the beginning of May,

'You are quite wrong in thinking that I now do not care very much about these things as I am just as keen as ever - and even more so - as I should not like to see the Co. or the Concession get into a tangle or a mess after the years you and I have spent on it to get it right and this is independent of the considerable interest I still have in the Concession as a shareholder of the BOC. So please remember that I am always glad to help and have promised the Burmah people that I would.'¹³⁰

He concluded with the familiar anguish of the financier, a comment on Lloyd George's celebrated and contentious Budget of 29 April, with its Supertax and Land Values, putting it into his own personal perspective, 'the Budget is awful and will end in driving all capital out of the country'. It was ironical in spite of all D'Arcy's earlier efforts and the fortitude of Reynolds in discovering the oil, that it was the British Government which was eventually in 1914 to provide a sufficiently strong financial base on which the Company with its concession could really establish itself. In the intervening years the Company struggled to organise itself and equip itself with the productive and refinery facilities required to market its petroleum products.