2 Sterling and Britain's confrontation with nationalism in Iran

> Payments from the Anglo-Iranian Oil Company form a major item in [Britain's] revenue and balance of payments, and a short fall in them, resulting from an interruption in the smooth working of the AIOC's operations, would have disastrous effects on her economy.
>
> Sir Reginald (James) Bowker, Assistant Under-Secretary of State, British Foreign Office[1]

> . . . it was false to assume an identity of interests between the Western world and Persia over how much oil should be produced and to whom it should be sold on what terms. The Persians could get all the oil and foreign exchange they needed from much reduced operations, whereas our needs were both larger and different in nature. For all these reasons the United Kingdom had to keep control of the real resources involved.
>
> Leslie Rowan, Second Secretary, British Treasury Office[2]

By the late 1940s, Britain and Iran had endured more than a century and a half of political and economic contact. Because Iran was located on the western border of India, the prize colony of the British empire, it became embroiled in a struggle between Britain and Russia for control over central Asia for much of the nineteenth century – popularly known as the Great Game. Owing to Russia's position along Iran's northern border, as well as repeated demonstrations of Czarist ambition southward, the Iranian government encouraged British investment in the region with the hope that a financial stake in Iran would give Britain a reason to defend the country against Russian encroachment. The Anglo-Iranian Oil Company's development of Iran's oil industry turned out to be the most lucrative and the most strategically important of any British venture there. As the sole concession holder, the AIOC exploited and marketed all of the country's oil, which helped Britain win two world wars and financed the company's share of Iraqi and Kuwaiti petroleum development.

1 "Draft Brief for the British Delegation to the Washington Talks on Persia," Foreign Office Minute by Bowker, April 6, 1951, NA, FO 371/91470.
2 British Record of the first meeting of the Anglo-American talks on Iran, April 9, 1951, NA, T 236/4425.

The British government's stake in the AIOC, as well as the company's total control of Iran's petroleum industry, made both the government and the firm targets for criticism by many Iranians after World War II. Angered by the fact that the British government was earning more in revenue on taxes and dividends from the AIOC than Iran was receiving in taxes and royalties from its own resources, the Iranian government demanded that the company's concession be renegotiated to give Iran a greater share of the profits. The new contract, signed in 1949, did not satisfy Iran's increasingly nationalistic parliament, the Majlis, and in May 1951, the country's newly appointed prime minister, Muhammad Mossadegh, led the government in nationalizing Iran's oil industry. For Britain, this turn of events was nothing less than catastrophic. In part because the loss of Iranian oil undermined Britain's capacity to defend and shore up sterling, the British government – first under Clement Attlee and then under Winston Churchill in October 1951 – worked hard to find a way to reestablish the AIOC's former position in Iran.

Neither Britain nor Iran would accept the other's control of Iranian petroleum. Because the commodity represented one of the largest items in the sterling area's balance of payments, British policy-makers in both the Labour and Conservative governments of this period were convinced that Iran's seizure of AIOC operations there would devastate the pound. These officials argued that it was critical for a British company to control Iranian oil, not only because Britain could buy it with sterling – as opposed to spending scarce dollars on oil from American firms – but also because an efficiently managed, British company would produce enough oil to protect Britain's balance of payments. A haphazardly run, Iranian-controlled oil industry would not. Furthermore, a British company might be willing to consider British foreign exchange concerns when setting production quotas, while the Iranian government would not. Of course, Iranians believed that they had every right to do what they wanted with their own oil and resented the treatment that they received from Whitehall and AIOC officials. Britain's refusal to entertain a fifty–fifty profit-sharing agreement with the Iranian government demonstrated to many Iranians that Britain was unwilling to view them as a partner in the exploitation of their petroleum. Iran was insulted by British offers for a new agreement that, while accepting nationalization "in principle," left management of the Iranian oil industry in British hands. For most Iranians, at least by the early 1950s, nationalization meant the ability to control their own resources without interference from foreigners, particularly British ones.

But Britain refused to accept the idea that nationalization meant the ability to tear up a binding agreement with impunity. Officials at Whitehall insisted that if Iran did not adequately compensate the AIOC, or received better terms on a new agreement than governments that respected their contracts, the effect on Britain's credit and standing throughout the world would be disastrous. Such an outcome would undermine Britain's invisible earnings and, thus, sterling's value as well. As a result, while the British government tried to encourage confidence in the pound through typical macroeconomic measures such as raising interest rates and controlling wages and spending, it also tried to do so with a foreign policy designed to project an image of Britain around the world as a country that would defend its economic interests. British officials dealt with their Iranian counterparts with this in mind, a stance that set them on a collision course with American Cold Warriors who believed that, if Iran fell to communism, the consequences would be devastating not only for Britain but for the entire Western world.

From the US perspective, it was more important to keep Iran and its oil from falling under Soviet influence than it was to support the Anglo-Iranian Oil Company, which leading US officials believed to be an anachronism. In fact, what mattered most to Washington was that Iran remain friendly to the West and that its oil be produced and sold by one or more American and Western European companies. Iran's geographic location along the southwestern border of the Soviet Union, in addition to its possession of a vital strategic commodity, made the country an important component in US Cold War planning. Along with Greece and Turkey, Iran formed part of the Northern Tier of nations under Western influence that would, in the hopes of US policy-makers, contain the Soviet Union from the south. And Washington grew more vigilant about the Soviet Union's expansionist aspirations after a succession of communist "victories" and threatening actions in Europe and Asia during the late 1940s. The US government, whether led by Democrat Harry Truman or Republican Dwight Eisenhower, would not abide communist incursions in the Middle East.

Given that the British government shared Washington's anti-communist agenda in the Middle East, US officials grew increasingly frustrated with what they perceived to be Whitehall's inability, or refusal, to soften Anglo-Iranian's hard line in its negotiations with Iran. In fact, British officials believed that the revised concession agreement that was signed by representatives of the company and Iran, but rejected by the Majlis, was fair. They considered the offer to be generous, given the standards in the Middle East at the time, and feared that surrendering any more profits would damage Britain's balance of payments. When it seemed, though, that the intransigence of Anglo-Iranian directors was beginning to harm the British national interest by jeopardizing the entire concession, Whitehall reexamined the government's relationship to the

firm and became directly involved in the negotiations with Iran. Officials viewed the stakes for Britain as too high to let Anglo-Iranian representatives pursue a course that would never return their company, or any other British oil firm for that matter, to Iran.

As in the Anglo-American dispute over British discrimination against dollar oil, the British government's effort to defend its ability to use Middle Eastern petroleum to protect the pound precipitated a clash with the United States. Similar to what happened during the sterling–dollar oil controversy in the 1940s, Washington officials believed that Britain's narrow economic aims – in this case driving an outdated, unenlightened, colonial foreign policy – sabotaged Western influence in the Middle East. The continued failure of Britain and Iran to reach an oil agreement, which brought the latter's petroleum industry to a virtual standstill, created the kind of socioeconomic instability that US policy-makers insisted was ripening the country for communist insurgency. The view in London was that American officials were willing to sacrifice both the Anglo-Iranian Oil Company and sterling on the altar of their zealous anti-communist crusade, one that British policy-makers thought oversold the communist threat in Iran. As examined through the sterling lens, the oil crisis demonstrates how two allies, one in economic ascendance, one in economic decline, could come to blows over the execution of ostensibly shared foreign policy goals.

Using the British government's sterling policy to study Britain's relationship with Iran during the nationalization crisis also reveals the degree to which Iran, although not a formal possession painted red on the map, was perceived in London as a British colony of sorts. The British government exploited Iranian oil in the same way that it exploited the Indian economy: as a vehicle to benefit Britain's financial welfare, often at the expense of what Iranians and Indians wanted for themselves.[3] This chapter seeks to reexamine British imperial goals in Iran by exploring the oil nationalization question in the context of the British foreign economic agenda during this period. At the same time, it demonstrates the larger point that the link between Whitehall's sterling and Middle Eastern oil policies was not simply a phenomenon of the immediate postwar era.

2.1 The Anglo-Iranian Oil Company, Britain, and Iran, 1900–1946

The history of the Anglo-Iranian Oil Company begins at the end of 1900, when General Antoine Kitabgi, an influential confidant to the Persian

[3] For the Indian case, see Tomlinson, *The Political Economy of the Raj*.

prime minister, sought a British capitalist willing to invest in Persian oil.[4] Kitabgi's associate in Paris, Sir Henry Drummond Wolff, a former British minister in Persia, brought the confidant's interest to the attention of a wealthy but modest mining entrepreneur, William Knox D'Arcy. After months of being courted, and many more months of conducting negotiations in London, Paris, and Tehran, D'Arcy agreed to the terms of a concession with the Persian ruler, Muzaffar al-Din Shah. Signed in May 1901, the deal would pay the Persian government £20,000 in cash up front, £20,000 in shares, and 16 percent of the net profits from petroleum sales. Because the fledgling venture desperately needed financing after several years of unsuccessful exploration, it joined forces with the Burmah Oil Company, a well-established and capital-rich Scottish firm, to form the Concessions Syndicate Ltd. The British Admiralty, anxious for a reliable source of petroleum, had encouraged the union, and, in 1908, the Syndicate's team of geologists struck oil. D'Arcy's company and Burmah Oil officially merged to become the Anglo-Persian Oil Company (APOC) and gave birth to a new era in the international oil industry, one that would focus primarily on the Middle East.[5]

Early on, the unforeseen costs of developing the Persian concession left the APOC strapped for cash and paved the way for the British government's investment in the firm. The First Lord of the Admiralty and future Prime Minister, Winston Churchill, persuaded the government to acquire a majority stake in the APOC in 1914 to protect the British government from possible price exploitation by the major petroleum companies, especially since the Admiralty had recently converted its navy from coal-fired ships to lighter and faster oil-fueled vessels.[6] As discussed in chapter 1, Sir John Bradbury, the Joint Permanent Secretary of the Treasury, worked out the details of the government's relationship to the firm, establishing a somewhat loose arrangement, but leaving room for government intervention in the company's activities in certain cases, as when questions of foreign policy arose.

Whether the government's shareholding position in Anglo-Persian helped or hurt either Britain or the company in the long run is a matter of debate. The arrangement financially benefited the government, but its stake in the firm proved to be a diplomatic liability, one that would eventually have commercial ramifications. Middle Eastern oil-producing countries could not help but view Whitehall as a "self-interested

[4] Iran was referred to as Persia until 1936, when the country changed its English name to Iran. Thus, the Anglo-Persian Oil Company became the Anglo-Iranian Oil Company.

[5] Ferrier, *The History of the British Petroleum Company, Volume I*, 15–113.

[6] Ibid., 158–201; Monroe, *Britain's Moment in the Middle East*, 98–99.

shareholder" and the company as an agent of British imperialism.[7] In the nationalist hothouse of post-World War II Iran, there is no question that the relationship placed both the British government and the firm at a disadvantage.

Iran had first forced the APOC to change the terms of its original concession during the early 1930s. The country's ruler at the time, the autocratic Reza Shah, a former commander of Persia's fearsome Cossack Brigade, had ascended the throne by way of a military coup in 1921 and proceeded to undertake a series of economic and social reforms. These reforms, which included placing the nation's education and judicial systems under state control and forbidding Iranian women to wear veils, constituted the first steps in the ruler's plan to westernize Persian life. Other projects, such as building roads and railways, demanded high oil revenues that were greatly reduced by the oil glut and worldwide economic depression of the late 1920s. As a result, the Persian leader sought to renegotiate the original D'Arcy agreement. He believed all along, like the Iranian nationalists of the 1950s, that Anglo-Persian and the British government were cheating his country out of its rightful earnings. Thus, after four years of fruitless discussions, he cancelled the concession. Only upon the involvement of outside parties, including Iraqi Prime Minister Nuri al-Said, a leading figure in the Arab world, did the two sides reconvene to discuss a new agreement. It was signed in 1933 and gave Iran an initial £1 million payment, a royalty of 4 shillings per ton of oil based on volume sold, 20 percent of the dividends paid to the company's shareholders over £671,250, and other benefits.[8] The concession was supposed to last for sixty years, but, in the end, the company had bought itself only another fifteen years of contractual peace.

While the AIOC did not experience any disturbances in its concessionary relationship with Iran until the late 1940s, World War II disrupted the country by precipitating a joint British–Soviet occupation. Anxious about developing a supply route from the Persian Gulf and worried about Germany staging an invasion of the Soviet Union from Iran, the British and Soviet governments asked Reza Shah to expel all Germans from the country in 1941. When he balked, Britain occupied the south and the Soviet Union took over the north, overthrowing the Iranian ruler and installing his son Muhammad Reza Shah in the process. The two powers then signed an agreement with the new ruler that stipulated that they would not keep their troops in Iran for longer than six months after the war. They promised, moreover, to shield the country from the economic

[7] Monroe, *Britain's Moment in the Middle East*, 98–99.

[8] Bamberg, *The History of the British Petroleum Company, Volume II*, 33–50.

strains that their occupation and the conflict would inevitably produce.[9] The former condition proved much easier to uphold than the latter.

During this period, Britain sought to maintain as stable a monetary relationship with Iran as possible. In 1942, the two governments struck a currency deal that, owing to wartime pressures on Britain, Iran was able to tilt to its advantage. For its part, Britain sought to exchange an unlimited amount of sterling for rials, the Iranian currency, to pay for war-related production. In addition, it wanted to do so at a "more reasonable" rate than it had done previously. In return, Whitehall agreed to replace with gold – on a quarterly basis – 40 percent of Iran's sterling balances, which were growing rapidly as a result of the war. The British government also consented to exchange sterling for any dollars that Iran required to buy goods from the United States.[10] The agreement lapsed when Britain withdrew its forces in 1946, but Abul Hussein Ebtehaj, the brilliant and independent governor of Iran's central bank, the Bank Melli, ensured that an accord equally favorable to Iran, at least in terms of dollars, would replace it.[11] He used the Anglo-Iranian Oil Company as leverage, refusing to provide the firm with the rials that it needed to function until the Bank of England signed a "Memorandum of Understanding" with its Iranian counterpart, ensuring that the country would continue to receive enough dollars to import what it needed from the United States.[12] Ebtehaj's hard bargaining over Iran's currency relationship with Britain foreshadowed what was in store for Whitehall and the AIOC on the question of oil.

Economic change in conjunction with greater political freedom produced extraordinary social and political ferment in Iran during the war, catalyzing the nationalist movement that would eventually challenge the AIOC's position in the country. Wartime production expanded the working class and accelerated the process of urbanization, which in turn fed the growth of a variety of social groups. Trade unions reasserted themselves, and middle-class professionals became politically engaged. Meanwhile,

[9] Nikki R. Keddie, *Roots of Revolution: An Interpretive History of Modern Iran* (New Haven: Yale University Press, 1981).

[10] "Anglo-Persian Financial Agreement: Gold Clause," undated and unsigned, NA, T 236/223.

[11] Frances Bostock and Geoffrey Jones (eds.), *Planning and Power in Iran: Ebtehaj and Economic Development under the Shah* (London: Frank Cass, 1989) offers the most detailed portrait of the Bank Melli's governor and Iran's future chief economic planner.

[12] The Treasury wrote that the "very strong" bargaining position of the Iranian government, due to the fact that Iran was "the major source of sterling oil," justified making a currency arrangement with Iran that was more generous than that with any other country. See Note by the Treasury for the Cabinet Overseas Negotiations Committee, June 18, 1949, NA, T 236/3197 and "Report by the Working Party on Persia," Cabinet Overseas Negotiations Committee, ON (WP)(49)321, September 28, 1949, NA, T 236/3198.

competing groups and organizations communicated with larger audiences through protest and a flourishing free press. In the south, where the AIOC ran the country's oil industry, the British government was able to keep leftists and emerging nationalists at bay by backing the region's more conservative elements, such as landowners and tribal and religious leaders.[13] But Whitehall would not be able to hold the nationalists off for long.

In the parliamentary elections of 1943, Muhammad Mossadegh, the politically independent, European-educated aristocrat, who had served in a number of government posts in the 1920s, reentered politics. While not a member of the country's main nationalist organization, the Iran Party, he shared many of its views. One of the major issues on which he ran for office was an end to the government's longstanding policy of granting major concessions to foreign powers – namely Britain and Russia – with the goal of playing one off the other.[14] Having won a seat in the Majlis in 1943, Mossadegh would within several years join other like-minded deputies in not only denying the Soviet Union an oil concession but also challenging the existing concession of the Anglo-Iranian Oil Company.

2.2 From renegotiation to nationalization, 1947–1951

The British government's tax and dividend policies during and after World War II led to an increasing disparity between what Britain and Iran received on the sale of Iranian oil. Both the Conservative and the Labour governments increased taxes on corporate profits: the former to pay for the war and the latter to finance the welfare state afterwards. To help combat the inflationary pressures unleashed by postwar readjustment and Labour's full-employment agenda, the Chancellor of the Exchequer, Sir Stafford Cripps, encouraged British companies to limit the dividends they paid to their shareholders, hoping that such a gesture would persuade trade unions to curb their wage demands. Because of the structure of the Anglo-Iranian Oil Company's concession agreement with Iran, both the tax hike and the dividend limitation policy reduced Iran's potential oil revenue. At the same time, the higher tax rate increased the income received by the British government from the profits of the AIOC, such that in 1945, Britain received in taxation almost three times as much as Iran received in taxation and royalties on the sale of Iranian crude and products (see Table 2.1). Of course, Cripps's dividend limitation measure also reduced the British government's earnings

[13] Keddie, *Roots of Revolution*, 113–119.

[14] Elm, *Oil, Power, and Principle*, 135, 189.

Table 2.1 *Iran's oil production, AIOC net profits, British taxes, and payments to Iran, 1932–1950*

Year	Oil production (000s barrels)	AIOC net profits (£000s)	British taxes (£000s)	Payments to Iran (£000s)
1932	49,471	2,380	190	1,525
1933	54,392	2,654	460	1,812
1934	57,851	3,183	770	2,190
1935	57,283	3,519	400	2,221
1936	62,718	6,123	1,170	2,580
1937	77,804	7,455	2,610	3,525
1938	78,372	6,109	1,690	3,307
1939	78,151	2,986	3,320	4,271
1940	66,317	2,842	4,160	4,000
1941	50,777	3,222	3,280	4,000
1942	72,256	7,790	6,600	4,000
1943	74,612	5,639	12,070	4,000
1944	102,045	5,677	15,720	4,464
1945	130,526	5,792	15,630	5,624
1946	146,819	9,625	15,590	7,132
1947	154,998	18,565	16,820	7,104
1948	190,384	24,065	18,030	9,172
1949	204,712	18,390	16,930	13,489
1950	242,457	33,103	36,190	16,032

Sources: Elm, *Oil Power and Principle*, 38, Bamberg, *History of the British Petroleum Company, Volume 2*, 325, and DeGolyer and MacNaughton, *Twentieth Century Petroleum Statistics*, 9.

on Iranian oil because of its shareholding position within the firm. But this was no consolation to Iranians who were dismayed by the income disparity between Britain and Iran on the latter's resources.

On October 22, 1947, the Majlis passed a bill that paved the way for the Iranian government to open discussions with AIOC representatives regarding its grievances with the firm. Prompted by the Soviet Union's attempt to establish a joint Soviet–Iranian oil company, the new law prohibited the government from either granting petroleum concessions to foreigners or forming oil companies with them. The law also instructed the government "to undertake such negotiations and measures as may be necessary to secure the national rights, in all cases where the rights of the people have been violated in respect of the natural wealth of the country including its underground resources," focusing particularly on oil in southern Iran where the AIOC had its concession.[15] Because of

[15] Quoted in Elwell-Sutton, *Persian Oil*, 119.

the high price of oil in 1947 and 1948 – and because of increases in the British government's taxation of Anglo-Iranian – Britain was taking progressively larger shares of the profits on the sale of Iranian oil.[16] As the Majlis's criticism of the AIOC grew, Iran pressured the company to find a way to remedy what it viewed as the firm's violations of the country's rights concerning its own resources.[17]

The Iranian government presented the AIOC with a 50-page, 25-point memorandum detailing the injustices which required redress. In addition to its unhappiness with the consequences of Britain's taxation and dividend policies, the government complained about the small number of skilled Iranians employed by the company, especially in management positions. It also criticized the poor working conditions suffered by those who performed the firm's lowest-skilled labor. Furthermore, the memorandum assailed Anglo-Iranian's practice of selling discounted oil to the British Admiralty and US petroleum companies at the expense of the Iranian treasury. Another contentious issue was how unfavorably the Iranian government believed its agreement with the AIOC compared with those of other oil-producing states, such as Venezuela, which split the profits on the sale of its oil fifty–fifty with subsidiaries of Standard Oil of New Jersey and Royal Dutch-Shell. Iranians also did not appreciate the AIOC's habit of refining a large percentage of the country's crude overseas – instead of at the local Abadan refinery – without giving Iran a share of the profits from the overseas sales of the refined products. Finally, the memorandum pointed out that the "gold guarantee clause" of the 1933 agreement had to be adjusted to account for the declining value of sterling against gold, which had reduced Iran's royalty payments over the years.[18]

British officials, especially those at the Treasury, kept an eye on the AIOC's conversations with the Iranian government because of the connection between Iranian oil and sterling. In fact, Sir Wilfred Eady, the Treasury's joint second secretary, wanted the company to preserve the basic terms of the 1933 concession agreement. In August 1948, he told Neville Gass, Anglo-Iranian's managing director, that the Iranian government "should be satisfied with the progressively increasing amount of royalty" that would come from an expansion of the international oil trade and that Iran was not "entitled to any larger share of profits" than it had already been earning. He also maintained that the high price of

[16] Anglo-Iranian earned a net of £30 million in 1947 and was projected to earn twice that amount in 1948. See No. 334 from the Foreign Office to Tehran, April 27, 1949, NA, T 236/2817.

[17] Elm, *Oil, Power, and Principle*, 52.

[18] Ibid., 5; Bamberg, *The History of the British Petroleum Company, Volume II*, 387–389.

oil was "one of the great handicaps to world recovery."[19] Two months later, Eady explained to Abul Hussein Ebtehaj that, while the British government realized that its dividend limitation policy "had, in a sense, 'deprived' the Iranian Government of some share in the increased profits which the war had brought the company," he was "opposed to any fundamental change in the financial basis of the concession." Thus, any adjustment in the agreement designed to compensate for Iran's lost dividends would have to be temporary. The next day, Ebtehaj, a fervent defender of Iran's economic interests, responded that he was "very dissatisfied" with the 1933 concession agreement and believed that, because of the "enormous importance" of Iranian oil to Britain as a dollar earner, the AIOC should have been "very generous" in its treatment of his country's demands.[20] It was precisely because of the importance of Iranian oil to the British balance of payments that Mary Loughnane, a principal at the Treasury, "very much" hoped that, if the company did have to revise the 1933 concession agreement in Iran's favor, the directors would "give away as little as possible." She believed that "any increase in expenditure in Persia must worry" the British government because "every additional pound paid to Persian account is potentially an equivalent drain on [Britain's] dollar resources." Loughnane was particularly concerned by the fact that rising expenditure by British oil companies in the Middle East was "going to place an increasingly heavy burden on [the country's] balance of payments."[21]

While Treasury officials were the most outspoken about the damage that a change in the AIOC's concession could do to the British economy, members of the Foreign Office expressed similar concerns. E. A. Berthoud, the Foreign Office's assistant under-secretary at the Economic Relations Department, serves as a notable example. In August 1948, he agreed that the British government should not discourage the AIOC "from making a reasonable increase in royalty rates" but added that Whitehall had to consider the consequences of such an increase for Britain's economy. He explained that the higher Iran's royalty rate rose, the higher Britain would have to boost the level of its exports to pay for Iranian oil, suggesting that such an adjustment would be difficult to make: "The Persian oil fields," he wrote, "are our major overseas asset on which we depend to a considerable extent for achieving our own ultimate economic balance." Therefore, Berthoud believed that any generosity

[19] August 9, 1948, BP 8334.
[20] Eady to Sir H. Wilson Smith, October 26, 1948; Memorandum by Eady, October 27, 1948, NA, T 236/1337.
[21] Draft letter to Bevin, undated, but most likely written in March 1949, NA, T 236/2817.

on the part of the AIOC toward Iran should not lead to a permanent rise in the company's costs.[22] The following April, as the AIOC and the Iranian government continued their efforts to reach an accord, the assistant under-secretary told Jemal Emami, a member of the Majlis's Oil Committee and a delegate to the oil talks, that the British government "could not ignore the repercussions" for Britain's trade balances "resulting from increased payments" to Iran for its oil. Emami responded that the matter was "entirely separate" from Iran's negotiations with the AIOC, but that the Iranian government would be willing to review ways that it could help protect Britain's balance of payments. Commenting on his conversation with Emami in a note to Assistant Under-Secretary of State Michael Wright, Berthoud wrote that, because the company's negotiations would certainly lead to "large additional payments" to Iran, the British government would have to take another look at Anglo-Iranian financial agreements – in other words, make them more favorable to Britain.[23] A departmental brief for a meeting with AIOC representatives revealed further concern within the Foreign Office about the financial impact on Britain of a new oil accord with Iran: "We might, however make it clear that we hope the AIOC's Head Office will keep both us and the Treasury informed of the course of the negotiations and of any concession which they may have to make which will involve substantial changes in the sale of dollar oil and our balance of payments."[24] Later, when Iran nationalized its oil industry, other members of the Foreign Office expressed similar worries.

Generally speaking, however, under the leadership of Ernest Bevin, the Foreign Office encouraged the AIOC to reach a deal with Iran that offered more generous terms than provided under the existing concession agreement. In February 1949, the foreign secretary sent a note to Stafford Cripps, arguing that the Iranian government had "some legitimate grievance on the United Kingdom fiscal score" and that it was important, "both from the political point of view and for the future of the Company," that Iran "be satisfied that they are receiving an equitable return from the exploitation of their oil resources."[25] Little more than a month later, Sir William Strang, the permanent under-secretary of state, wrote to Cripps to reiterate Bevin's opinion on the matter. He explained that, while Bevin did not think that Iran "should necessarily be given all

[22] Berthoud to Sir Orme Sargent, August 27, 1948, NA, FO 371/68731.
[23] Berthoud to Wright, a "Record of Conversation with Mr. Emami, Persian Government Delegate to Anglo-Iranian Oil Company," April 8, 1949, NA, T 236/2817.
[24] January 25, 1949, NA, FO 371/75495.
[25] February 18, 1949, NA, T 236/2817.

they ask for," he did "feel strongly" that the country "should be given a more equitable arrangement than that now offered by the Company."[26]

Bevin's position, in part, reflected an effort to reconcile the contradictions between his personal commitment to the British welfare state and the less than palatable way that the AIOC treated Iran, especially its workers. The foreign secretary argued that "a British company ought to be a model employer and should go out of their way to improve upon [minimum conditions] and establish every possible relationship with the people in order to develop confidence between them and the company" – something he felt that the AIOC under the direction of William Fraser did not do.[27] That Bevin sent both correspondences regarding the AIOC's negotiations with Iran to the chancellor of the exchequer demonstrates that the Treasury may have been the most hesitant – save, perhaps, for the Ministry of Fuel and Power – about the AIOC ceding a larger share of its profits to Iran. Indeed, such an attitude squared with the Treasury view that British economic interests should dominate Britain's foreign oil policy, even if that meant ruffling a few feathers, whether in the Middle East or across the Atlantic.

After five months of negotiations, the AIOC and Iran signed a new agreement on July 17, 1949. Known as the Supplemental Agreement, the deal satisfied Ernest Bevin's goal of increased payments from the company to Iran. It raised the country's royalty rate from 4 to 6 shillings per ton and guaranteed the Iranian government a minimum annual payment of £4 million, something that E. A. Berthoud found "most undesirable" in terms of Britain's economic interests.[28] Based on these and other changes to the terms of the 1933 concession, Iran's earnings from the AIOC's operations jumped from what would have been £9,172,245 to £18,667,786 for 1948 and from £13,489,271 to £22,890,261 for 1949.[29] Accounting for variables in foreign exchange, the country stood to receive between 32 and 37.5 percent of the profits from the AIOC's worldwide operations, a figure that Mustafa Elm asserts is a far cry from the fifty–fifty split that Venezuela had achieved six years earlier.[30] In fact, Venezuela received 50 percent of the profits earned on the sale of its *own* oil only, not on the sale of petroleum that Standard Oil of New Jersey and Royal Dutch-Shell produced and refined around the world.

[26] March 29, 1949, NA, T 236/2817.
[27] Quoted in Louis, *The British Empire in the Middle East*, 56–57.
[28] "Record of a meeting in the Foreign Office on the 19th May with the Anglo-Iranian Oil Company," NA, T 236/2817. Berthoud believed that even £2.5–3 million was too high.
[29] Bamberg, *The History of the British Petroleum Company, Volume II*, 398.
[30] Elm, *Oil, Power, and Principle*, 55.

With the Supplemental Agreement, the Iranian government would, therefore, earn around 50 percent of the profits from the company's operations in Iran itself, which did make the contract comparable to that which Venezuela signed with its concessionaires, at least in terms of the way the revenues were divided. But, as Wm. Roger Louis has noted, there is a substantial psychological difference between a contract that uses complex calculations to produce royalties equivalent to 50 percent of a company's profits and one that emphasizes notions of profit-sharing between partners, even if the division of revenue is roughly the same.[31] That the AIOC historically kept its books in "deep secrecy" did not inspire confidence in Iran that the company was motivated by fairness or equity.[32] Consequently, while Bevin could be pleased that the AIOC demonstrated greater generosity toward Iran, the company's increase in payments did not persuade Iranians that they were "receiving an equitable return from the exploitation of their oil resources," as Bevin had wanted.[33]

Iranians who were aware of the terms that the AIOC had offered criticized both the company and the British government for not offering more. Even Iranian Finance Minister Abbas Golshayan, who signed the Supplemental Agreement, grumbled privately that the Shah and the prime minister had pressured him into accepting a contract less favorable than he could have won if they had left him alone. He secretly complained that "the British want the whole world for the furtherance of their own policy."[34] In his memoirs, Manucher Farmanfarmaian, the former director of the National Iranian Oil Company, assails the AIOC's William Fraser for having presented the Supplemental Agreement to Iranian officials "as a *fait accompli*" and issuing ultimatums during their negotiations.[35] An article in the semi-official government newspaper *Ittila'at*, written a few months before the Supplemental Agreement was signed, reflected what many Iranians felt in 1949. Its author, Mas'udi, pressed the AIOC to treat his country as the "American companies" had treated Venezuela, as a nation that was "in actual fact, a partner" with its concessionaires. He also celebrated "the feeling of assistance and cooperation" in Venezuela as a result of the sense of partnership that the oil firms fostered. Mas'udi then turned to the AIOC's long history in Iran, arguing that the AIOC should not have bargained with the government

[31] Louis, *The British Empire in the Middle East*, 646.
[32] Manucher Farmanfarmaian and Roxane Farmanfarmaian, *Memoirs of a Persian Prince* (New York: Random House, 1997), 210.
[33] Bevin to Cripps, February 18, 1949, NA, T 236/2817.
[34] Quoted in Elm, *Oil, Power, and Principle*, 55.
[35] Farmanfarmaian and Farmanfarmaian, *Memoirs of a Persian Prince*, 218.

as if it had been a "new customer." After all, he explained, the company had received a great many benefits during its fifty-year participation in Iranian oil.[36] Indeed, during that time, the AIOC was able to use the profits that it had collected on Iranian petroleum to help establish the Iraqi and Kuwaiti oil industries, where the AIOC operated in conjunction with other firms. The company repeatedly argued in its conversations with the Iranian government that, owing to the vastly different "economics and conditions" of the Venezuelan petroleum industry, it could not discuss the Iranian case in a similar fashion. Besides, AIOC directors declared, the terms that they were offering to Iran were as good as any in the Middle East.[37] Mas'udi addressed this issue, contending that arrangements between other Middle Eastern oil producers and their concessionaires were irrelevant as far as Iran was concerned because the oil industries in those countries were newer and, thus, demanded the kinds of higher costs that the AIOC no longer had to incur in his country. Therefore, the company could afford to be more generous with the Iranian government than other companies had been with their Middle Eastern partners. Like Mas'udi, well-informed Iranians had an answer for each argument that the AIOC used against signing a contract based on profit-sharing, but the firm's directors remained unpersuaded.

Despite the dissatisfaction that many Iranians expressed about the terms of the Supplemental Agreement, Whitehall considered it fair. Members of the Foreign Office believed that it would have been "unwise to press the company to go higher." The rationale was that, had the AIOC offered more, the firm would have found it difficult to compete in world markets, losing sterling sales as a result, with "serious repercussions" for Britain's balance of payments.[38] According to a telegram from the Foreign Office to the British Embassy in Tehran, "all concerned in London" were "in agreement" that the company's offer was "a fair one in comparison with oil concessions elsewhere."[39] At this point, it is clear that the company received the British government's complete support regarding the Supplemental Agreement. To a certain degree, this support was connected to the convergence of Britain's balance-of-payments interests and the interests of a commercial enterprise that wanted to maintain high profits.

The British government's defense of the AIOC's position also derived from a paternalistic attitude at Whitehall and the company that the British

36 "Press Extracts No. 370," May 30, 1949, NA, T 236/2818.
37 An account of the "Company's Activities in Persia during the Last Fifty Years," undated, from the files of Neville Gass, January 1951–December 1951, BP 9233.
38 Foreign Office Minute, April 21, 1949, NA, FO 371/75496.
39 No. 334 on April 27, 1949, NA, T 236/2817.

knew best how to safeguard Iranian welfare. On a number of occasions, Anglo-Iranian executives based their opposition to a fifty–fifty profit-sharing agreement on the fact that Iran's revenues would depend too much on the ever-changing price of oil.[40] They insisted that the Supplemental Agreement, with its flat rate system and guaranteed minimum payments, would "give [Iran] a stable income, fluctuating as little as possible."[41] Consistent revenues, the argument went, would ensure the country's political stability, something that would benefit both Iran and the AIOC.[42] A contract that helped stabilize the Iranian government was important to British policy-makers because, as some of them said, Iranians were a "volatile and unstable people" whose government was "inefficient" and lacked "leadership."[43] But Manucher Farmanfarmaian believes that stability would have best been achieved by negotiating a fifty–fifty agreement, which, by creating "harmony" and a "sense of equal partnership" between oil-producing states and their concessionaires, reconciled "the conflicting demands of economics and politics, of private enterprise and national pride."[44] A certain amount of prejudice prevented many figures at both the AIOC and Whitehall from viewing Iranians as equals or partners. After Iran nationalized its oil industry, preconceived notions of Iranian inefficiency would inform the conviction at Whitehall that some British company, be it the AIOC or any other, had to control Iranian oil to protect Britain's balance of payments. Most British officials believed that they *knew* what was best for Iran, and what was best for Iran from the Western perspective was, not coincidentally, what was best for Britain.

British prejudices aside, Iranian politics did, in fact, enter a period of great tumult and ferment after World War II. Factionalism within the Majlis hampered political stability, with six different prime ministers holding office between 1946 and 1951. Diverse coalitions, representing a vast array of interests within Iranian society, were constantly shifting and created a sort of parliamentary equilibrium that enabled the Shah to assert his authority. Once content to be a reigning, but not ruling, constitutional monarch in the early years after World War II, the Shah, bolstered by his expansion of the army, became involved in policy-making

40 From an account of the "Company's Activities in Persia during the Last Fifty Years," BP 9223.
41 Part of a response by W. D. Heath Eves to a question at the Near East Conference, Princeton University, June 2, 1951, regarding AIOC policy in Iran, BP 66237.
42 Foreign Office Minute by D. P. Reilly, January 18, 1951, NA, FO 371/91244.
43 Shepherd to Furlonge, June 5, 1951, FO371/91545; Le Rougetel to Attlee, August 1, 1949, NA, T 236/2818.
44 Farmanfarmaian and Farmanfarmaian, *Memoirs of a Persian Prince*, 214.

by the late 1940s. In February 1949, he paid for his political activism with an attempt on his life by a would-be assassin affiliated with pro-labor groups and the rising religious opposition. The Shah's subsequent efforts to increase his power by suppressing challenges to his authority – in ways reminiscent of his autocratic father – made him a lightning rod for the grievances of a coalescing reformist movement that found expression in a political party called the National Front. Led by the "incorruptible populist" Muhammad Mossadegh, the National Front sought not only to achieve a legitimate form of constitutional government but also to wrest control of the nation's oil industry from Britain. These goals accommodated neither the Shah's authoritarian behavior nor his embrace of the Supplemental Agreement, both of which eroded his popular support.[45]

Given the anti-British sentiment that dominated the sixteenth session of the Majlis (February 1950–May 1951), the Supplemental Agreement stood almost no chance of being ratified. Most Iranians viewed the British as puppet masters who pulled the country's political and economic strings. Thus, to take a position that could in any way be interpreted as pro-British would be to commit political and, in some cases, literal suicide.[46] While Iranians often exaggerated the degree of control that the British government and the AIOC actually exerted over the nation, government officials and company representatives did have enormous influence over the political and economic life of Khuzistan, the southern province where the AIOC operated its concession.[47] Furthermore, Whitehall held some sway over the Shah, and Iran's wide use of sterling ensured a certain measure of financial control from London. For many Majlis deputies, then, the Supplemental Agreement represented the perpetuation of an intolerable status quo, and they never would have considered voting for it. Those deputies who did contemplate supporting the agreement would have been under an extraordinary amount of pressure not to do so. In this environment, the accord was virtually dead on arrival.

Regardless, in mid-1950, the Shah appointed General Razmara, a "no-nonsense" military strongman, to the job of prime minister to push the Supplemental Agreement through the Majlis – an effort that ended in failure and, eventually, the nationalization of Iran's oil industry.[48] When the agreement came up for debate, first in October and then in December

[45] Ervand Abrahamian, *Iran between Two Revolutions* (Princeton University Press, 1982), 240–261.
[46] Yergin, *The Prize*, 451. [47] Abrahamian, *Iran between Two Revolutions*, 241.
[48] Ibid., 263.

of 1950, the sessions became little more than forums for National Front deputies and the clergy to attack the British and demand the nationalization of Iranian oil. On December 26, with opposition at a fever pitch and no majority to support the Supplementary Agreement, Razmara was forced to withdraw it before a vote could be called.[49] Two significant events sealed the accord's fate. First, four days after Razmara removed the oil bill from the floor of the Majlis, Saudi Arabia and Aramco announced that they had signed a historic deal to split the company's profits equally, rendering the AIOC's terms obsolete and sending a shockwave through the Middle East by establishing the fifty–fifty principle in the region; second, Razmara was assassinated on March 7, 1951, only days after he had publicly supported the Supplemental Agreement before the Majlis. His killer, who belonged to an Islamic group led by the nation's most vocal and best-known religious figure, Ayatollah Kashani, ensured that the "British stooge," Razmara, would no longer serve the "enemies of Islam," as Kashani referred to both the prime minister and the British.[50]

At this point, political events in Iran moved with almost unimaginable speed. On April 28, the National Front's Muhammad Mossadegh rode a tidal wave of popular support to the country's premiership, and on May 8, the Majlis Oil Committee unanimously approved a nine-point resolution that mandated the nationalization of Iranian oil. By July, Mossadegh had broken off negotiations with the AIOC, and the British government helplessly watched Iran confiscate Britain's greatest overseas asset. Pulling no punches, US Secretary of State Dean Acheson would later remark: "Never had so few lost so much so stupidly and so fast."[51]

Leading US officials accused the British government of standing idly by while the Anglo-Iranian Oil Company's inflexible directors foolishly surrendered their concession, an assertion that is only partly true. Early in the AIOC's dispute with Iran, British officials did, in fact, follow their traditional hands-off approach to the company, merely wanting to be kept informed of the financial terms of any new settlement, given the economic implications for Britain. Because of their concern for Britain's balance of payments, officials at Whitehall initially supported the Supplemental Agreement and were loath to see the AIOC give away any more than it already had. Consequently, they saw little need to meddle in the firm's affairs on this issue, even though some figures outside the Treasury, such

[49] Elm, *Oil, Power, and Principle*, 70–71; Bamberg, *History of the British Petroleum Company, Volume II*, 404–405.
[50] Quoted in ibid., 266.
[51] Dean Acheson, *Present at the Creation: My Years in the State Department* (New York: W. W. Norton & Company, 1969), 503.

2.1 The Iranian flag is raised over the general management offices of the Anglo-American Oil Company after the firm's nationalization, June 1951. At the entrance are members of the Iranian commission for nationalizing oilfields.

as Ernest Bevin, would have liked the government to exert more general control over it. Once the agreement and the Razmara leadership appeared to be in serious trouble, though, especially after Aramco and Saudi Arabia announced their fifty–fifty deal, Whitehall demonstrated greater interest in becoming more involved in the company's business than it ever had previously, more so even than during the Anglo-American dispute over sterling and dollar oil one year earlier.[52]

[52] Steve Marsh argues – but overstates his case, I think – that British officials strategically exploited the government's hands-off relationship with the company to its advantage in dealing with both Iran and the United States. See "Anglo-American Crude Diplomacy," 35–36. This interpretation leads him to contend, in his book, *Anglo-American Relations and Cold War Oil*, that the "conventional claim that the AIOC was to blame principally for British mishandling of the oil crisis" is wrong and that the British government "had more responsibility than hitherto acknowledged." 4. The notion that the AIOC has been held primarily responsible for the debacle in Iran seems to be a straw man more than anything else.

By October 1950, two months before Razmara pulled the Supplemental Agreement from the Majlis floor, the Foreign Office had seen enough. With the AIOC refusing payments to Iran until it signed a new deal, the country spiraled into a financial crisis, undermining the stability of the Razmara government. The Foreign Office began to take seriously Iranian calls for nationalization and, consequently, pressured the AIOC to "find something to offer" to secure passage of the Supplemental Agreement, even if the company found it "somewhat painful" to do so.[53] That Ernest Bevin took the lead in this matter is not surprising, given his desire for the AIOC to demonstrate greater concern for Iran's social welfare. But even the usually hard-headed director of the company, William Fraser, agreed that the AIOC would have to do more to get the Supplemental Agreement ratified, remarking that he "would not hesitate at finding further sums of even several million pounds if the right form and method could be devised."[54] These gestures proved to be too little too late, however.

While the AIOC, under pressure from the Foreign Office, did offer the Iranian government further incentives to adopt the Supplemental Agreement, the fact remains that the company did not alter the basic structure of the accord, which was a significant impediment to its ratification. Only one high-ranking figure at the company seemed to understand this fundamental point: Sir Frederick Leggett, the firm's labor advisor. He met with L. A. C. Fry of the Foreign Office's Eastern Department in February 1950 and said, "What was required was a fresh start, on the basis of equal partnership. Unless the company realized that, and were sincerely prepared to go forward in that direction, they might sooner or later find themselves without any installations in Persia."[55] He was no doubt correct, but, by the autumn of 1950, it seems that the Majlis would have found anything short of nationalization unacceptable.

At the beginning of 1951, the Foreign Office continued its efforts to influence AIOC policy, but it did not find support for its interventionism among Treasury officials. At a meeting in mid-January, Foreign Office representatives worried that the company now had to "fight for its life" in Iran. They said, "it might . . . be good tactics" for the AIOC "to offer to re-negotiate with the Persians, and meanwhile make preparations for giving

[53] Minute by Wright, October 25, 1950, NA, FO 371/82376.
[54] Ibid.; Louis, *British Empire in the Middle East*, 642–647. Louis attributes Fraser's amenable attitude to his anticipation of a fifty–fifty agreement in Saudi Arabia, which is the most plausible explanation for his uncharacteristic change of heart, 646.
[55] Quoted in ibid., 650.

them short-term aid." These officials believed, moreover, that the AIOC should consider hiring more Iranians for high-level positions within the company to counter accusations of British or "foreign" control of Iranian resources. They speculated that this might involve creating an AIOC subsidiary in Iran and "offering the Persians a share in the control of a new company, and possibly a fifty–fifty share of its profits, on the Aramco model." Such an arrangement would mean scrapping the Supplementary Agreement altogether, as the company's labor advisor, Sir Frederick Leggett, recommended. The Treasury's Martin Flett responded that the Foreign Office's suggestions were "not something [the government] could dictate to the Company." Flett and his colleagues explained that the government "did not normally interfere in the Company's commercial activities, and that the Company must deal with the Persians as they saw fit." As a result, the Treasury was "reluctant to attempt to influence" the AIOC at that time.[56] Little more than a week earlier, another Treasury official wrote that the government should not "press" AIOC directors "to agree to any measure which they are not willing to take."[57] Although Ernest Bevin did not attend this meeting, he must have been agitated when he saw these remarks, since he complained bitterly about the government's lack of control over the company despite its majority shareholding position.[58]

Because of the importance of Anglo-Iranian to British national welfare, however, Treasury representatives did, in fact, leave room for greater government involvement in the company's affairs and eventually came around to the Foreign Office point of view. Even at the January meeting discussed above, Treasury representatives recognized the "political dangers of the situation" and therefore considered doing more to remedy it.[59] On a separate occasion, one Treasury official acknowledged that a major function of the department was to ensure that the compromises that British companies sought to make with oil-producing states were "not of the 'too little too late' variety," and that "by being inadequate" they did not "jeopardize both the interests of the companies themselves and [Britain's] national interests."[60] By March, around the time of Razmara's assassination, Treasury officials began expressing concern about the company's direction and what the British government could do about it. D. R. Serpell wrote to Martin Flett that he did "not feel confidence"

[56] Record of Meeting at the Treasury, January 13, 1951, NA, FO 371/91522 and NA, T 236/2820.
[57] Rudd to Reilly and Butler, January 4, 1951, NA, T 236/2820.
[58] Louis, *British Empire in the Middle East*, 656.
[59] Record of Meeting at the Treasury, NA, T 236/2820.
[60] Rudd to Reilly and Butler, NA, T 236/2820.

in the way that the company handled its problems or the way it worked with government agencies. He added, "AIOC are now, it is clear, looking more to HMG for advice and assistance, and I should like to press again for urgent consideration of the way in which Persian and other oil problems – are to be dealt with." On the note itself, Flett, the avid anti-interventionist, commented, "I agree with him throughout."[61] Martin Flett reflected the general attitude of the British government when he wrote, "Our Middle East oil interests are of such paramount importance to us that we cannot simply leave these problems to be dealt with by the individual companies as purely commercial matters."[62] Less than a year removed from its conflict with the US government over sterling and dollar oil, Whitehall again found itself in the position of being forced to reconcile Britain's national interest with the AIOC's status as a semi-private company. And, yet again, concerns about national welfare trumped the historically laissez-faire attitude of the government towards the firm.

It is unusual that the Treasury, which stopped at nothing to defend sterling in the post-World War II era, took so much longer than the Foreign Office to recognize that active government involvement in the AIOC's dispute with Iran would be necessary to help save the economically vital concession. In November 1950, it was a member of the Foreign Office who, in response to a letter castigating the company board for its policies in Iran, wrote:

> A recent survey of the UK oil balance of payments . . . reveals that we depend upon the British oil industry to an alarming extent to maintain our favourable overall balance of payments. The recent improvement in the latter balance has been primarily on the invisible account, to which oil has made by far the largest contribution. Our dependence on Persian and Venezuelan oil, not only for strategic but also for financial reasons, is only too apparent.

The official, P. E. Ramsbotham, explained that these concerns may not have been "sufficiently appreciated" by company directors and that the Foreign Office should advise them that, if they had "additional concessions up their sleeve," then they should be "offered immediately."[63]

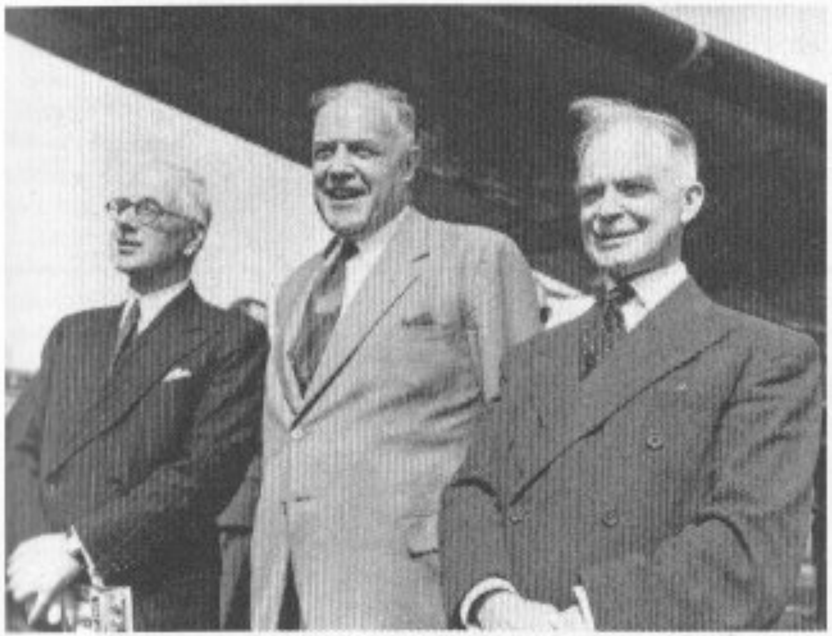
One would have expected such statements to come from the Treasury at this time, but no one at the department said anything similar until the following spring. Clearly, Treasury officials viewed the principle of the government's non-intervention in Anglo-Iranian's commercial affairs as sacred. But would they have blindly followed this dogma at the expense

[61] March 15, 1951, NA, T 236/2821. [62] Ibid.
[63] Statement by P. E. Ramsbotham, November 22, 1950, with a copy sent to Young at Treasury, NA, FO 371/82377.

of Britain's balance of payments? It seems that they believed in January that the company could still secure a deal with Iran that did not sacrifice too large a percentage of its profits or relinquish British management of the Iranian oil industry, a settlement that would benefit not only the company, but also Britain's balance of payments. That the AIOC board began "looking more to [the British government] for advice and assistance" certainly helped the Treasury get over its reluctance to become involved in company policy. In the end, what the disagreement between the Treasury and the Foreign Office really reveals is the differing opinions of the two departments about the degree to which both the stability of Iran and the company's concession were in danger – and whether company directors could rescue the concession without government help. Only when Treasury officials realized that the AIOC was jeopardizing both the concession and Britain's balance of payments by scuttling opportunities for a settlement did they adjust their rigid adherence to a hands-off approach to the firm. In April 1951, E. E. Bridges did not hesitate to remind the AIOC board of "the vast importance of the Company's operations to the economy of the United Kingdom, and indeed to the sterling area as a whole."[64] At the very least, the dispute between the Foreign Office and the Treasury in the winter of 1951 reminds us that the British government was not monolithic and that its decision-making on Iran was the product of interdepartmental debate.

In the spring and summer of 1951, the AIOC and the British government, which was now directly involved in the efforts to resolve the oil crisis, strove to reach an agreement with Iran that impossibly tried to reconcile the country's desire for nationalization with Britain's reluctance to relinquish control of Iran's oil industry. William Strang of the Foreign Office reported at the end of March that William Fraser "had declared that he was not afraid of 'nationalisation' and was prepared to consider any arrangement with the Persian Government which left management in the Company's hands – or indeed any proposal the Persian Government cared to make."[65] By the end of the summer, three missions, led respectively by the AIOC's deputy chairman, Basil Jackson, an American mediator, Averell Harriman, and a British government negotiator, Richard Stokes, had gone to Tehran to try to achieve some kind of modus vivendi. Jackson offered Iranian officials a form of nationalization that represented nothing more than window-dressing on a plan that left key areas of Iran's oil industry under British control, which the Iranian

[64] Bridges to the AIOC, April 12, 1951, NA, T 236/5879.
[65] "Record of a Meeting held in the Foreign Office," March 20, 1951, NA, FO 371/91525.



2.2 From left to right: Sir Donald Fergusson, Permanent Secretary to the Ministry of Fuel and Power, Richard Stokes, the Lord Privy Seal, and Sir Francis Shepherd, British Ambassador to Iran, at London Airport before flying to Tehran, August 1951.

government found objectionable.[66] Harriman, who had handled a host of complex problems in his long and diverse career in the US government, ostensibly went to Tehran as a kind of "honest broker," but he aimed to persuade Muhammad Mossadegh to adopt a more compromising position in advance of the Stokes mission.[67]

As for Stokes, he came armed with an eight-point memorandum that the British government hoped would finally end the impasse. Its basic features were as follows: first, the newly formed National Iranian Oil Company (NIOC) would take over the AIOC's assets for unspecified compensation. Second, Britain would establish a "purchasing organization" to manage the Iranian oil industry under the authority of the NIOC. Third, the purchasing organization would then agree to buy and market "large quantities" of Iranian oil over a "long period of years." And, finally, the purchasing organization would split the profits on the sale of Iranian

[66] Bamberg, *History of the British Petroleum Company, Volume II*, 422–430.
[67] Yergin, *The Prize*, 459–462.

2.3 Iranian Prime Minister Muhammad Mossadegh and Lord Privy Seal Richard Stokes during the latter's mission to Iran, August 1951.

oil with the NIOC fifty–fifty.[68] Of course, like Jackson's proposal, the eight-point memorandum left Britain virtually in control of Iranian oil, which did not satisfy Iran's demand to manage its own petroleum industry without interference from foreigners. Stokes and Harriman, moreover, quickly discovered in conversations with Mossadegh and other influential Iranians that the prime minister could not agree to any settlement that left the British in Iran without risking his political and personal survival. Consequently, Harriman realized that, no matter how much he cajoled Mossadegh, his mission would end in failure, something to which he was

[68] "Memorandum by the British Delegation," August 11, 1951, NA, FO 371/91583.

not accustomed.[69] Stokes, because of his exasperation with Mossadegh, did not prove to be an ideal choice to lead the negotiations in the first place.[70] He left Tehran at the end of August in frustration, and the British government suspended its talks with Iran the following month. What became clear was that as long as both Britain and Iran were intent on maintaining control of Iranian oil, the two countries would continue to talk past each other and were unlikely to reach an accommodation.

The end of the AIOC as it had existed in Iran for half a century came with the eviction of its British staff in October 1951. While the British government considered the use of force to maintain a British presence at the company's refinery on Abadan Island – something it had threatened to do in the early months of the crisis – cooler heads prevailed. Instead, the AIOC complied with the Iranian government's orders to evacuate all of its British employees from the country by October 4, as described in the Introduction. The British ship *Mauritius* carried the firm's remaining staff from Abadan to safety in Iraq, a nation over which Britain still wielded considerable influence. But Britain's failure to maintain control over Iranian oil, and the enormous refinery that processed it, signified more than a blow to the nation's prestige. It also represented a strike to Britain's finances at a moment of profound economic weakness, the nation's third balance-of-payments crisis in five years. This crisis would further entrench British officials in the notion that some British oil company had to return to Iran to help protect Britain's balance of payments.

2.3 The balance-of-payments crisis of 1951 and the importance of British control over Iranian oil

In 1950, the British government had much to cheer about regarding the balance of payments. A worldwide economic recovery opened markets for British manufactured goods, and, in contrast to previous periods of rapid international economic growth, the relative price of primary products fell. In addition, the expansion of world trade and US private investment helped to alleviate the nagging postwar dollar shortage problem. As a result of the higher profits earned by British multinational corporations, particularly oil firms, the country's invisible earnings rose.[71] The upshot of these favorable trends was that, in 1950, Britain was able to run a trade

[69] Yergin, *The Prize*, 459–462. [70] Louis, *British Empire in the Middle East*, 681.

[71] M. F. G. Scott, "The Balance of Payments Crises" in G. D. N. Worswick and P. H. Ady (eds.), *The British Economy in the Nineteen-Fifties* (Oxford: Clarendon Press, 1962), 205, 213.

surplus of £300 million, and, in the following year, the nation's reserves were three times higher than they had been at the nadir of the financial crisis in 1949.[72] Britain had, in fact, become a net creditor rather than a net debtor with the rest of the world.[73] Unfortunately, this return to equilibrium was short-lived and merely represented the calm before the storm.

The escalation of the Korean War, which had started in June 1950, precipitated a severe balance-of-payments crisis in Britain in 1951 that Winston Churchill described as a "'financial super-crisis'" that "threatened to destroy the value of sterling."[74] Rearmament in the United States, Britain, and elsewhere, as mandated by NATO, dramatically increased the demand for raw materials and drove up prices. The conversion of British domestic industries to military production reduced manufacturing exports, thereby forcing Britain to draw from its reserves to pay its rising import bill. Making matters worse, Marshall Plan aid ended in 1951, and the United States did not deliver on its informal promise to underwrite the balance-of-payments costs of Britain's ballooning military budget.[75] Real trouble came when the sterling area countries that benefited from the spike in the price of raw materials increased their imports of finished goods just as the price of their raw material exports started falling, further shrinking Britain's reserves.[76] In December 1951, the newly appointed Conservative Chancellor of the Exchequer R. A. Butler wrote, "If we lose even half as many dollars in the first half of 1952 as we have lost in the second half of 1951, the reserves will be well below danger point by the end of June . . . We must, therefore, devote all our efforts to securing that steady increase in the reserves that alone will restore real confidence in sterling at the earliest possible moment."[77] Butler believed that Britain would have to maintain a surplus of roughly £300 million a year, either by increasing visible and invisible earnings or by reducing overseas payments to achieve this goal.[78] At the time, the loss of Iranian oil was estimated to have reduced the country's invisible income by £100 million.[79] With what appeared to be a current account deficit of £419

[72] Cairncross, *The British Economy since 1945*, 101.
[73] Scott, "The Balance of Payments Crises," 207.
[74] Peter Burnham, *Remaking the Postwar World Economy: Robot and British Policy in the 1950s* (New York, Palgrave Macmillan, 2003), 14.
[75] Cairncross, *The British Economy since 1945*, 99–104.
[76] Katz, "Sterling's Recurring Postwar Payments Crises," 220–221; Scott, "The Balance of Payments Crises," 213.
[77] Butler to MacEntee, December 14, 1951, NA, T 172/2122.
[78] Cabinet Conclusions, CM 57 (52), May 29, 1952, NA, CAB 128/25.
[79] Note of Meeting at Treasury, October 3, 1951, NA, POWE 33/1676. The number was reduced to £65 million at the end of the year when Anglo-Iranian provided a more accurate picture of the replacement cost of crude and products.

million, the balance-of-payments picture in 1951 looked bleak, causing the Treasury to write, "Persia is of decisive importance, and may indeed represent the difference between a just manageable position and a completely hopeless one."[80] It is impossible to understand fully British policy during the Iranian oil crisis without considering this economic context, as it undoubtedly motivated Britain to defend its income-generating assets abroad with an even greater sense of urgency.

As both the Iranian oil and British balance-of-payments crises reached critical mass during the spring and summer of 1951, Whitehall focused its attention on the connection between Iranian petroleum and Britain's financial wellbeing. The £100 million annually that British officials estimated they had forfeited to Iran as a result of its incapacitated oil industry represented 4 percent of Britain's entire balance of payments.[81] Considering all of the items that contribute to the sum total of visible and invisible trade, this number is significant. It is also important to keep in mind that, although 4 percent may seem like a small part of the overall balance-of-payments picture, Britain's reserve position was so delicate that policy-makers believed that the slightest adverse change on the debit side of the account augured trouble. As a result, one member of the Foreign Office wrote that Britain "should have to think very carefully before making large-scale concessions, either financial or of control" of Iranian oil.[82] The Persian Oil Working Party, the governmental committee that was established to deal with the AIOC's difficulties in Iran, drafted instructions for British negotiators that listed four objectives "of major importance" to Whitehall. One of these objectives was "safeguarding the United Kingdom balance of payments." The memorandum read: "Any loss of profit resulting from high payments to Persia will, of course, reduce the contribution to the balance of payments proportionately; but from the point of view of saving dollars the essential requirement is to keep oil flowing from Abadan under the control of a British company."[83]

For Whitehall, the Abadan refinery, the world's largest and Britain's greatest overseas investment, was the critical issue – even more than Iranian oil itself. After all, by 1952, the nation was able to make up the loss of Iranian crude by acquiring oil from other sterling sources. The

[80] HM Treasury, *United Kingdom Balance of Payments, 1946–1957* (London: Her Majesty's Stationery Office, 1959), 16; "Balance of Payments: Brief for Chancellor's Visit," August 28, 1951, BE G1/120. More recently compiled figures for the period show a less bleak picture. See Appendix 1.
[81] "Persian Oil and the Balance of Payments," June 9, 1951, BP 100738, Anglo-American meeting at the Foreign Office, April 2, 1951, NA, FO 371/91470.
[82] No. 1612 from the Foreign Office to Washington, March 31, 1951, NA, FO 371/91470.
[83] "Persia – Instructions to Negotiators," undated, but most likely written in May or June 1951, BP 100738.

Kuwait Oil Company (KOC), half-owned by the AIOC and half-owned by Gulf Oil, a major American multinational oil firm, greatly stepped up its production and provided a majority of the sterling area's substitute crude (see Table 4.1 on p. 207).[84] Replacing the petroleum products that came from Abadan proved to be much more difficult and costly. The Iranian refinery churned out roughly 20 million tons of chemicals annually, helping to satisfy a large portion of the Eastern Hemisphere's skyrocketing postwar demand by producing items such as heating oil, gasoline, airplane fuel, and bitumen, a chemical mainly used in asphalt road surfacing.[85] Since refinery-building was such a slow, expensive, material- and labor-intensive process, Anglo-Iranian and other British companies had to spend an exorbitant number of dollars to procure products from existing, American-controlled facilities, such as Saudi Arabia's Ras Tanura, to compensate for Abadan's shut-down. If British firms did not acquire petroleum products from dollar sources to replace the lost sterling output, they would have had to forfeit valuable markets that would have been impossible to win back. In May 1951, the Treasury estimated, based on Abadan's yield in the previous year, that the loss of Iranian products would have cost $504 million to replace.[86] Later, the department calculated that, in the second half of 1951, Abadan's shut-down bled $169 million from the sterling area's reserves.[87] The nationalization crisis clearly undermined Whitehall's efforts to equalize the sterling area's trade with the dollar world, explaining why the balance-of-payments issue greatly influenced British official thinking regarding Iran during this period.[88]

Britain was fortunate that it was able to replace Abadan's production at all, even from dollar sources. The world's refining capacity was pushed to its limits when Abadan stopped running, exerting considerable strain on existing facilities.[89] As discussed in chapter 1, petroleum products were considered a large enough drain on dollars that the British government allocated scarce dollar resources to British oil companies after World War II to build refineries for future dollar-saving. In that same spirit, Whitehall approved plans for Anglo-Iranian to begin construction on a facility in Aden, Britain's colony on the southern tip of the Arabian

[84] One consequence for Kuwait of its role in replacing Iranian crude was that its oil industry developed at a faster rate than expected and quickly produced enormous sterling revenues for the country.
[85] Unsigned memorandum, dated June 4, 1952, BP 118974.
[86] Reilly to Serpell, May 3, 1951, NA, T 236/3899.
[87] Meeting at the Treasury, February 24, 1954, NA, T 236/3900.
[88] See Appendix 2 for figures demonstrating the steep rise in the dollar cost of oil at the time.
[89] Unsigned memorandum, dated June 4, 1952, BP 118974.

2.4 An aerial view of the Abadan oil refinery.

Peninsula, to make up for the loss of Abadan.[90] With both the dramatic increase in Kuwait's crude production and the building of a new oil refinery in Aden, the British empire demonstrated an impressive ability to adjust to the difficulties that confronted it, solving problems in one area by exploiting the resources of another.

Maintaining British control over production at Abadan and in the Iranian oil fields was crucial for British officials because they recognized that Britain's economic interests did not always coincide with those of Iran. In fact, they were "diametrically opposed" in many cases, according to

[90] Speaking to Butler, "AIOC Refinery – Aden: Works Scheme Case," March 14, 1952, NA, POWE 33/1981. See BP 69123 for a correspondence between the AIOC's Basil Jackson and the Ministry of Fuel and Power's Victor Butler on this issue.

Allan Christelow, the former under-secretary of the British Treasury delegation to Washington and the former financial counsellor to the British Embassy there. In a paper prepared for Britain's negotiations with Iran in the spring of 1951, Christelow expressed his worry that the Iranian government would choose to develop its oil industry at a pace that showed no consideration for matters that Whitehall deemed important, such as fuel for the British navy and the stability of the British economy. He pursued this line of thinking further: "Put in extreme terms, what we want to do is to develop the Persian fields as rapidly as physically possible, the optimum being the exhaustion of the fields by the date of expiration of the concession in 1993." On the other hand, he maintained, Iran would want to develop its oil fields "at the rate which best suit[ed] general Persian development." Christelow then discussed the issue of pricing and profits, explaining that while both Britain and Iran would want to "maximise the price at which oil is sold to the rest of the world," it was in Britain's best interests to minimize the price of oil that it obtained from Iran by "maximising its share of the profits of the oil company operations." Iran would obviously want to do the opposite.[91] The consensus at Whitehall was that, if a British firm did not manage the Iranian oil industry, Britain's economic interests would be put in a vulnerable position.

Not only did fears about Iran's natural inclination to pursue its own interests motivate the British desire to control Iranian petroleum, but anxieties about Iran's inability to run its own oil industry also proved critical. In a Persian Oil Working Party memorandum on "The Persian Social and Political Scene," a section devoted to the "Persian Character" reads:

> Although the Persians display a veneer of Western civilisation their character still derives from their long history of autocratic rule and from their Islamic background . . . The ordinary Persian is vain, unprincipled, eager to promise what he is incapable or has no intention of performing, wedded to procrastination, lacking in perseverance and energy, and amenable to discipline. Above all he loves intrigue, and readily employs prevarication and dishonesty whenever there is even a remote possibility of personal gain. Although in conversation an accomplished liar, he does not expect to be believed . . .[92]

In line with some of these sentiments, the Foreign Office expressed concerns about the inefficiency of the Iranian oil industry under "Persian management."[93] Similarly, Ernest Northcroft, the AIOC's representative in Tehran from 1945 to 1951, regretted that the European efficiency

91 "The Persian Oil Negotiations," April 25, 1951, NA, T 236/4427.
92 May 25, 1951, BP 100738.
93 Persia (Official) Committee, PO (52) 3, January 25, 1952, NA, CAB 134/1147.

with which the company operated the Abadan refinery sometimes ignored "Persian susceptibilities."[94] Because AIOC board members considered Iranians to be inefficient, they were rarely given management positions at the company, though there were exceptions.[95] And because hardly any Iranians occupied management positions at the company, logic – circular as it was – dictated that Iran could not possibly hope to run its oil industry without Western help. The characterization of Iranians as unfit to manage their own industry owing to a variety of culturally determined personality flaws, which all added up to the larger trait of Iranian "inefficiency," indeed reflected the prevailing view of all Middle Easterners among many British officials. It is no wonder that Whitehall refused to relinquish control of Iranian oil, not only for the sake of Britain's economy but for the sake of Iran's as well.[96] After all, most British officials and company employees were also good paternalists, as those with an Orientalist worldview often were.[97] Thus, British policy-makers seriously considered the percentage of profits the AIOC could reasonably sacrifice to Iran in order to maintain control over the country's oil operations. In October 1951, Britain's ambassador in Tehran, Sir Francis Shepherd, wrote, "I think we should fight for retention by the Anglo-Iranian Oil Company, so far as possible, of the control of the industry they have built up. I would even go so far as to say . . . that from our point of view it might be worthwhile to sacrifice the 50/50 principle and go to say, 60/40 in order to retain the Anglo-Iranian Oil Company."[98]

During the previous June, the Persian Oil Working Party had discussed a memorandum in which the Ministry of Fuel and Power contemplated the pros and cons of such an idea in the context of Britain's balance of payments. The ministry calculated that at 50/50, Britain's trade account

94 Shepherd to Furlonge, June 5, 1951, NA, FO 371/91545.
95 In *The History of the British Petroleum Company, Volume II*, Bamberg writes, "For the Company . . . the efficiency and economy of its operations was a fundamental concern which it was reluctant to compromise by submitting to rigid regulations on employment" by the Iranian government, 360. Regarding the hiring of Iranians to management positions, Mustafa Fateh, whom the AIOC appointed assistant general manager of labor affairs at the Abadan refinery in January 1948, is the exception that proves the rule.
96 Martin Flett wrote to R. J. Bowker at the Foreign Office on May 24, 1951, "If [the Iranians] are reasonable there should be no difficulty whatever in persuading them that the retention of control in UK hands is in their best interests as well as ours, and that to attempt to run so vital and complex an industry themselves will mean the ruin of the whole Persian economy." NA, FO 371/91540.
97 For an indictment of the British attitude towards Iran at this time, see Richard Cottam's *Nationalism in Iran* (University of Pittsburgh Press, 1964), 273. Also see Wm. Roger Louis, "Musaddiq and the Dilemmas of British Imperialism" in James Bill and Wm. Roger Louis (eds.), *Musaddiq, Iranian Nationalism, and Oil* (Austin: University of Texas Press, 1988), 239.
98 No. 1580 from Shepherd to the Foreign Office, October 23, 1951, NA, T 236/4443.

would have forfeited £15 million more than it would have under the Supplemental Agreement; at 60/40 (Iran/AIOC), £34 million would have been lost; and at 75/25, the figure jumped to £86 million. While the ministry believed that proceeding beyond 50/50 was risky, because "any situation in which the local government was taking more than 50%" would "make it very difficult to keep effective control in British hands," it decided that 60/40 "might be worth considering." The department also concluded that 75/25 sacrificed too much on the credit side of Britain's balance of payments to explore the idea seriously.[99]

Some officials worried about the effect on other concessionary agreements of the AIOC's return to Iran with a contract that undermined the fifty–fifty profit-sharing principle in Iran's favor. In June 1951, a representative of the Ministry of Fuel and Power's Petroleum Division told Anglo-Iranian's Neville Gass that some members of the Treasury believed that if the AIOC conceded more than 50 percent of its profits to Iran, other countries where the company had interests, such as Iraq and Kuwait, would demand similar terms. They argued that based on balance-of-payments considerations, "the stage could be reached where it would be less costly to forego Persian oil, if this were to make it possible to avoid a higher level of royalty payments to Kuwait and Iraq – rather than to agree to higher payments to Persia with corresponding payments also to Kuwait and Iraq."[100] This sentiment was confirmed in a note that the Treasury's N. M. P. Reilly sent to a colleague a few months later in which he wrote, "any settlement with Persia is bound to set in train a series of reactions which would almost certainly eventuate in other concessionary countries obtaining similar terms."[101] A year later, another Treasury official insisted that a "bad agreement with Persia" would lead to "the substitution of a similar bad agreement with Iraq," with the net effect on Britain's balance of payments being "very grave indeed."[102] Consequently, the Treasury concluded that, although a resumption of British control over Iranian oil was in Britain's best economic interests, if that control were gained by striking a deal with Iran that undermined Anglo-Iranian's other Middle Eastern concessions, then the effects suffered by Britain's balance of payments might demand that Britain forfeit Iranian oil altogether.

Policy-makers at Whitehall also refused to accept unfavorable terms because of the link they made between international confidence in sterling

[99] "The Cost of Proceeding Beyond a 50/50 Split of Profits with Concessionary Countries," POWP (51)17, June 14, 1951, BP 100738.
[100] Gass to Snow, June 6, 1951, BP 66900.
[101] Reilly to Serpell, September 24, 1951, NA, T 236/4440.
[102] Armstrong to Shuckburgh, December 18, 1952, NA, FO 371/98704.

and the ability of the British government to enforce the terms of British contracts around the world. In November 1951, the Treasury's Leslie Rowan explained the potential consequences for sterling of allowing Iran to appropriate Anglo-Iranian's interests with impunity:

> The position of sterling depended to an extent . . . upon our invisible earnings. The oil industry accounts for a very large proportion of these earnings but they also arise from such things as banking, insurance, etc. Fundamentally they depend on the respect throughout the world for British skill and the integrity of contracts. If we were even to start to begin negotiations with Musaddiq on a basis which implied that we were prepared to see British interests exappropriated [*sic*] without compensation and to accept a settlement under which the exappropriating [*sic*] government became entitled to substantially better terms than a government which respected its contracts, the effects on our credit and standing throughout the world would be catastrophic. They would almost certainly nullify any measures which His Majesty's Government was proposing to take to re-establish the position of sterling.[103]

The Foreign Office's William Strang was equally concerned about this issue. He argued that, since Britain depended "so vitally for survival upon respect for foreign investment and the observance of commercial understandings," it was a "very serious matter that her vital interests may be attacked in defiance of international law by governments who can rely confidently upon the absence of an effective international remedy."[104] David Serpell at the Treasury wondered "where the loss of oil in present terms would end," comparing British acquiescence in Iran to "dropping a pebble into a pool of water – the ripples kept going out."[105] Whitehall could not back down: such a display of weakness would put all of the country's Middle Eastern interests at risk, the upshot of which would be not only direct and immediate damage to Britain's balance of payments, but indirect and long-term damage as well.[106] If the British government appeared soft in Iran, the larger effect on other British investments around the globe would create, policy-makers feared, an international lack of confidence in sterling that would do untold harm to the British economy. Consequently, the British government drew a line in the sand that it would not allow Iran to cross, a position that its US allies believed

[103] Unsigned Foreign Office Minute, November 6, 1951, NA, FO 371/91612.
[104] "Some Notes on the Persian Oil Dispute and its Implications," Foreign Office Minute, October 23, 1951, FO 371/91611.
[105] First meeting of Anglo-American talks on Iran at the State Department, April 9, 1951, NA, T 236/4425.
[106] "Balance of Payments Aspects of the American Proposals," undated and unsigned memorandum (most likely November 1951), NA, T 236/4443.

reflected a Victorian mentality that was out of touch with political trends in the post-World War II Middle East.

2.4 US anti-imperialism, anti-communism, and Anglo-American conflict, 1950–1953

While American missionaries traveled to Iran as early as the 1830s, official US involvement there did not begin until World War II. Seeking to establish its influence on behalf of the war effort, Washington must have been thankful that a century of private US contact created a "reservoir of good will" between Iran and the United States, forging a reputation for Americans in Iran that was "positive and warm."[107] In 1942, the US government started sending Lend-Lease aid to Iran to bolster the nation's economic and political stability, and, the following year, American financial and military advisors arrived at the request of Iranian officials who were anxious about the Anglo-Soviet occupation caused by the war. US policy-makers were more than happy to oblige the Iranian appeal for assistance, in part to safeguard American oil interests on the other side of the Persian Gulf in Saudi Arabia. According to Secretary of State Cordell Hull, these interests demanded that no single power, not even an ally as close as Britain, should be allowed to dominate Iran. Consequently, one of the chief US goals there was to preserve the country's independence.[108]

The perceived danger of communism after World War II, both domestic and international, gave American officials added incentive to remain involved in Iranian affairs. First and foremost, the Soviet Union's refusal to remove its troops from northern Iran six months after the end of the war, as delineated by the tripartite agreement that Moscow signed with both London and Tehran, unsettled the US government. This unease intensified when it became clear that Soviet leaders had used their army's presence in Iran's northern province of Azerbaijan to help support a revolt there. Furthermore, Iran's far-left Tudeh Party was growing in popularity, with American intelligence sources determining that it was receiving support from Moscow.[109]

[107] James A. Bill, *The Eagle and the Lion: The Tragedy of American–Iranian Relations* (New Haven: Yale University Press, 1988), 16–17.

[108] Ibid., ch. 1. Also see Mark Hamilton Lytle, *The Origins of the Iranian–American Alliance, 1941–1953* (New York: Holmes and Meier, 1987), ch. 7.

[109] Francis J. Gavin, "Politics, Power, and US Policy in Iran, 1950–1953," *Journal of Cold War Studies* 1, 1 (1999), 65. For the most thorough discussion of the Tudeh Party, see Abrahamian, *Iran between Two Revolutions*, ch. 6.

While US-instigated pressure from the UN Security Council eventually forced the Soviet army to withdraw from Iran in 1946, communist actions in Europe and Asia throughout the rest of the decade persuaded Washington that the Soviet Union was bent on expanding its influence across the globe.[110] In contrast to its failed efforts in Iran, the Soviet government managed to keep its troops in Eastern Europe after World War II and turn the countries there into client states to create a buffer against any new incursions from Western Europe. At the same time, it tried to assert its authority over the Dardanelles straits between the Black and the Mediterranean seas, while the communist-led National Liberation Front was gaining strength in Greece. In 1948, Moscow blockaded non-communist West Berlin, attempting to hold that part of the city hostage by choking off all ground traffic. One year later, Mao Zedong's communist forces assumed control of China, and the Soviet Union successfully tested an atomic bomb. Finally, in 1950, the communist government of North Korea launched an invasion of Western-backed South Korea, sparking a land war in Asia. By the time of the Iranian oil nationalization crisis in 1951, the Cold War was in full swing, and the Truman Administration would not tolerate a Western defeat in a region as strategically important as the Middle East.

Consequently, when Saudi Arabian ruler Ibn Saud sought a more lucrative concession agreement with American-owned Aramco in 1950, the US government encouraged the firm's partners to satisfy his demands quickly. The result, as mentioned earlier, was a contract between Saudi Arabia and Aramco that split the profits on the sale of Arabian oil equally between the two parties. It is impossible to overstate the impact of the notion of fifty–fifty profit-sharing on the international oil industry, first when it appeared in Venezuela in 1943 and then when it arrived in the Middle East with the Aramco deal.[111] How much the landlord and the tenant – the oil-producing country and the foreign company that extracted, refined, and sold the petroleum – would receive on "rents" from the commodity's exploitation was a question that concerned issues not only of money, but also of power and pride. Until the emergence of fifty–fifty, there seemed to be no satisfactory guideline for the distribution of rents.[112] The elegance of fifty–fifty lay in the fact that by making partners of the landlord and tenant, this profit-sharing formula dealt

[110] Lytle, *The Origins of the Iranian–American Alliance*, chs. 9–10.

[111] Irvine H. Anderson details the fifty–fifty principle in the Saudi Arabian context in "The American Oil Industry and the Fifty–Fifty Agreement of 1950" in Bill and Louis, *Musaddiq, Iranian Nationalism, and Oil*, 145–163.

[112] For an analysis of rents and the impact of the fifty–fifty principle on the oil industry, see Yergin, *The Prize*, ch. 22.

with the intangible issue of national pride that accompanied the material bottom line. Assistant Secretary of State for Near Eastern, South Asian, and African Affairs George McGhee, a former oilman himself, phrased it best when he wrote that fifty–fifty "had an aura of fairness understandable to the ordinary man."[113]

Many American officials embraced the fifty–fifty principle because it fit well with their vision of American policy toward the colonial and semi-colonial world during and after World War II. This vision revolved around the twin themes of self-determination and capitalist development. "Self-determination of all peoples," one of the Fourteen Points that Woodrow Wilson advanced after World War I, was reiterated in the Atlantic Charter signed during World War II. Franklin Roosevelt, moreover, promoted an anti-colonial agenda over the objections of Winston Churchill throughout Second World War.[114] Washington's anti-colonial campaign continued in the postwar era, focusing particularly on the discriminatory sterling area. Of course, as in Woodrow Wilson's time, American anti-colonialism constituted a mixture of altruism and self-interest, the aim of which was not only freedom for African and Asian colonies, but also open markets for American exports. At the end of the decade, the United States launched the Point Four program to provide relief and development aid around the world. According to Dean Acheson, the program was designed to help "free peoples through their own efforts" to "produce more food, clothing, housing, and power to lighten their burdens," paving the way for the US government's more aggressive forays into Third World development during the 1960s based on ideas conceived by American economist and future national security advisor Walt W. Rostow.[115] Regarding the Middle East, George McGhee, an official sympathetic to non-Western nationalist movements – and one who well represented the development impulse at the Department of State during this time – asserted that "it was essential to assist the peoples of the Middle East to improve their living standards and social and political institutions and to acquire self respect and their proper place among the nations of the world."[116] For policy-makers such as McGhee, by providing oil producers with a larger share of the profits from the exploitation of their petroleum – and by

[113] George McGhee, *Envoy to the Middle World* (New York: Harper and Row, 1983), 335.
[114] Wm. Roger Louis, *Imperialism at Bay: The United States and the Decolonization of the British Empire, 1941–1945* (New York: Oxford University Press, 1978).
[115] Acheson, *Present at the Creation*, 265; W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, third edition (Cambridge University Press, 1990).
[116] Hare to Rusk, December 19, 1949, Annex 1, "Statement by the United States and the United Kingdom Groups," Introductory Discussions, November 14, 1949, *FRUS, 1949, Vol. VI*, 61–64.

giving them a greater sense of control of their own destiny – the fifty–fifty principle embodied much of what the United States sought to accomplish in the developing world in the post-World War II era. US officials approached the Anglo-Iranian dispute over oil from this perspective.

In part, maintaining the fifty–fifty principle as the status quo in the Middle East motivated Washington's desire to put its stamp on any solution to the Anglo-Iranian oil dispute. To some degree this position was based on the dogmatic belief of US policy-makers that fifty–fifty represented the perfect solution to the problem of dividing rents. But to a larger degree these officials feared that allowing Iran to receive more than 50 percent of the profits would damage the position of all of the multinational petroleum firms in the region by triggering successive waves of renegotiations. Before Averell Harriman went to Tehran in the summer of 1951, American oil firms insisted that he take a "tough line" on fifty–fifty, worrying that if they eventually had to cede increasingly larger shares of their profits, then "the industry would in a fairly short time find itself without the necessary risk capital to undertake new expansion."[117] Indeed, according to George McGhee, Harriman insisted to Iranian officials that "they could not expect to get better terms than the other nations of the Middle East."[118] Even McGhee agreed that Britain and Iran should not break the fifty–fifty barrier because of the "jeopardy" in which such an agreement would place the firms that operated in the region.[119] Not surprisingly, the United States, the country that established the new status quo, did not want to see another party disturb it. Such an occurrence would have undermined its moral authority and undercut the financial position of its companies. Naturally, this is exactly how British officials felt after Aramco struck its deal with Saudi Arabia at the end of December 1950.

In the latter half of that year, when the British government and the Anglo-Iranian Oil Company anxiously awaited ratification of the Supplemental Agreement, US officials, led by George McGhee, pressed Whitehall and the firm to be more generous with Iran, especially because of the negotiations taking place in Riyadh. As early as January 1950, McGhee told AIOC representatives at a meeting at the State Department that "conditions had greatly changed in the Near East since most contracts were signed" and that "it was therefore necessary for oil companies to deal with the situation realistically by recognizing the legitimate

[117] No. 332 from the British Delegation at the United Nations to the Foreign Office, October 12, 1951, NA, T 236/4442.
[118] No. 2302 from Franks to the Foreign Office, July 25, 1951, NA, FO 371/91568.
[119] Ibid.

demands of oil producing states."[120] As the Supplemental Agreement languished in the Majlis that year, the British government and the AIOC clung to their belief that the accord was fair, given the standards of the Middle East at the time, causing the Department of State to grow frustrated with the inflexibility of the British position. Richard Funkhouser of the Office of African and Near Eastern Affairs wrote: "We have no doubt in our minds that Persian Gulf oil operations have been and continue to be *exceptionally profitable* from a commercial standpoint, particularly AIOC operations. It is sophistry to suggest oil companies can't pay and do much more."[121]

US officials had warned Britain that Aramco might sign a deal with Saudi Arabia that would render the Supplemental Agreement obsolete. In August 1950, the petroleum attaché to the US Embassy in Egypt, Albert F. Lager, told E. W. Noonan of the British Middle East Office in Cairo that he believed that "an increase in ARAMCO royalty" was "in the offing."[122] In November, Noonan pointed out that Whitehall had been alerted to the fact that Saudi Arabia had "just put forward demands so far reaching that if the Persians heard of them the Supplemental Agreement would never go through."[123] In the end, McGhee and his colleagues were right, and they did not hesitate to let their British counterparts know it. One can only conclude that complaints in London about not having been informed by US officials of the details of the new deal were merely a case of sour grapes.[124]

American policy-makers displayed a somewhat self-satisfied attitude toward Britain regarding both Aramco's success in Saudi Arabia and the AIOC's failure in Iran, one that was informed by a belief that the United States was a progressive force in world affairs and Britain was an obstacle standing in the way of progress. These officials saved most of their wrath for the company and its directors, but they also blamed Whitehall for either supporting the company or not doing enough to influence its policy, especially given the British government's majority ownership. Edward S. Crocker, the US Ambassador in Iraq, believed that the stability of the Middle East had been "dangerously and almost wantonly undermined by anachronistic policies pursued by AIOC

[120] Memorandum of conversation on discussions with Anglo-Iranian officials by Richard Funkhouser, January 24, 1950, *FRUS, 1950, Vol. V*, 15.

[121] September 14, 1950, *FRUS, 1950, Vol. V*, 97–99.

[122] Noonan to Nuttall, August 22, 1950, NA, FO 371/82375.

[123] Memorandum by E. W. Noonan on the Anglo-Iranian Oil Company, November 15, 1950, NA, FO 371/82377.

[124] One member of the Foreign Office commented, "Neither we nor the British Oil Companies in the Middle East were warned or consulted." Quoted in Louis, *The British Empire in the Middle East*, 597.

leadership, supported by portions of [the British government] and not effectively checked or controlled by [the Foreign Office]."[125] In a broad policy paper dealing with American and British interests in the Middle East, the Department of State's leading area representatives described AIOC policy as "reactionary and outmoded" and "responsible to a great degree" for "lowered Western prestige" in both Iran and the Middle East. It also characterized the company as "one of the greatest political liabilities" affecting Anglo-American interests in the region and bemoaned the fact that the Foreign Office had "scant influence" upon the AIOC despite its shareholding position.[126] The American Ambassador in Iran, Henry F. Grady, who shared George McGhee's sympathy for burgeoning nationalist movements in Africa and Asia, wrote at the end of October 1950 that, "had it really wanted to do so," the British government "would have more actively encouraged" the AIOC to "sweeten" the Supplementary Agreement.[127] Contrasting the experience of Whitehall and the AIOC in Iran with that of the US government and Aramco in Saudi Arabia, McGhee describes in his memoirs how the Aramco partners, initially reluctant to sign a fifty–fifty contract, became "convinced" of the appropriateness of a "share and share alike deal" after discussions with the Department of State about the shifting winds in the postwar Middle East. He then commends the Aramco leadership for its "high order of business statesmanship" and implies that the way that the US government and Aramco resolved matters in Saudi Arabia was a model to be emulated.[128] The British certainly got the message, as revealed in one Anglo-Iranian memorandum: "[US officials] felt very satisfied with their own policy, exemplified by the 50/50 profit-sharing agreement concluded in Saudi Arabia and thought that we, on the other hand, were being slow and were not keeping up with the development of feeling in Persia."[129]

It is important to note that the US government paved the way for the fifty–fifty deal between Aramco and Saudi Arabia by giving Aramco a tax credit for the extra revenues that the company would have to disburse under the new agreement. The AIOC's deputy chairman, Basil Jackson, commented on the implications of the policy: "while the Company and its landlord are both better off, this happy result has been obtained at the

[125] Crocker to the Department of State, March 29, 1951, *FRUS, 1951, Vol. V*, 292–293.

[126] Agreed Conclusions and Recommendations of the Conference of Middle East Chiefs of Mission, Istanbul, February 14–21, 1951, *FRUS, 1951, Vol. V*, 50–76.

[127] Grady to Acheson, October 31, 1950, *FRUS, 1950, Vol. V*, 612–613.

[128] McGhee, *Envoy to the Middle World*, 325.

[129] "Persia – Instructions to Negotiators" (second draft), undated (but most likely late May or early June 1951), BP 100738.

cost of the American taxpayer. This is the transaction which is held up to the world as a model of American generosity, but one wonders whether the people who really pay the piper would share this view if they realised just what has happened." Recounting that the United States had put pressure on Britain to do the same, Jackson argued that "such a system would hardly be received by the House of Commons, affecting as it would a corporation which was making millions, with approbation if some of the legitimate costs of operation were transferred to the hard-pressed British taxpayer."[130] Indeed, the US Congress held hearings on the propriety and legality of the government's deal with Aramco and Saudi Arabia, the upshot of which was the preservation of Aramco's tax break.

While British officials chafed at what they considered self-righteous utterances from across the Atlantic, by late 1950 and early 1951 many agreed with the negative American assessment of the AIOC board and took the kind of aggressive action regarding the company that American officials had advocated all along. Oliver Franks, the British Ambassador in Washington – who undoubtedly received an earful from US officials – wrote in April 1951:

> The real trouble with the AIOC is that they have not got far enough past the stage of Victorian paternalism. This is an admirable attitude, but it just does not, or so it seems to me, make the grade in present circumstances. In fact, AIOC has done a great many very good things in Persia but to say "What a good boy am I" gets them nowhere either in Persia or in this country. Paternalism is out of fashion in this decade.[131]

That same month, Permanent Secretary to the Treasury Edward Bridges informed William Fraser that Whitehall would have to depart somewhat from the "procedure laid down" in the Bradbury letter that established the nature of the company–government relationship. He explained that the government's reluctance to interfere in the firm's negotiations with Iran was the "right policy in the situation as it existed in the past." However, given the changes that had occurred in Iran, as well as the "political, economic and strategic implications of the highest importance" of Iranian oil to Britain, rigid adherence to that policy was no longer feasible.[132] Bridges's colleague Martin Flett complained, "There have been occasions in the recent past when AIOC have kept HMG in ignorance of steps whose repercussions extended far beyond a narrow interpretation of their business interests."[133] In a demonstration of Whitehall's new

130 Jackson to Heath Eves, March 21, 1951, BP 66255.
131 Franks to Strang, April 21, 1951, NA, FO 371/91529.
132 Foreign Office Minute, Strang to Morrison, April 3, 1951, NA, FO 371/91621.
133 Flett to Brittain, March 6, 1951, NA, T 236/3451.

activist approach to the AIOC, British officials helped to decide the composition of the delegation that would represent the firm in Tehran later that April to negotiate a settlement.[134] Never one to mince his words, Basil Jackson decried the government's dealings with the company and wrote, "The only man who appears to me to follow a policy which one can even begin to understand is Attlee . . . It is pretty appalling to think that really great interests are dealt with at such levels by people who have no elementary comprehension of business principles, or any other for that matter!" Jackson was so disgusted with Whitehall's handling of the oil crisis that he even used his doctor to provide an excuse for not joining the Stokes mission that traveled to Iran at the end of the summer, a deception that he regretted he could not undertake more often.[135]

British officials were equally disgusted with the AIOC's leadership, prompting them to consider replacing William Fraser because, as the Treasury's Edward Bridges put it, he "was lacking in the wider political qualities that were necessary for the difficult period ahead."[136] William Strang wrote that the company's representatives had "never been very fertile in ideas or wide-ranging in their vision," and, agreeing with him, E. A. Berthoud thought that the British government might sell its company stock "to other British groups which would nominate new directors to the board and bring fresh life to that body."[137] Although neither of these extreme options was pursued, the mere consideration of them reveals how much the British government's conception of its relationship with the company had changed in only one year. Had Whitehall followed such a course much sooner, it might have averted the crisis in Iran. As discussed earlier, however, the evidence suggests that Whitehall did not want to interfere in the AIOC's negotiations with Iran before the latter part of 1950 because it believed not only that the Supplemental Agreement was reasonable for its time, but also that any further financial concessions by the company would have jeopardized the nation's balance of payments.

US officials were all too aware of the emphasis that the British government placed on the economic consequences of any unfavorable settlement with Iran. In November 1951, Dean Acheson articulated the British position with great precision in a letter to the Department of State

134 Foreign Office Minute by Makins, June 1, 1951, FO371/91542; Foreign Office Minute by Strang, June 4, 1951, NA, FO 371/91541.
135 Jackson to Wylie, September 4, 1951, BP 87230.
136 Strang to Bridges, October 27, 1951, NA, FO 371/91607; Minutes of a meeting held in Sir Edward Bridges's room, October 23, 1951, NA, FO 371/91607.
137 His comments were written regarding Nuttall to Flett, October 17, 1951, NA, FO 371/91621.

during a visit to London. He wrote that Britain's "overseas interests and the invisible items in her balance of payments are of overwhelming importance to her" and that the British argued that the country could not "recover from the course of action which [would] destroy the last vestige of confidence in British power and in the pound." Consequently, he said, "the cardinal purpose of British policy is not to prevent Iran from going Commie; the cardinal point is to preserve what they believe to be the last remaining bulwark of British solvency; that is, their overseas investment and property position." Acheson then described an encounter that he had with a British official who said that if the choice before the United States was that either "Iran goes Commie or [Britain] goes bankrupt," then he hoped that the secretary of state would agree that the former was "the lesser evil."[138]

US policy-makers thought that this characterization of the British position created a false dichotomy. They argued that Britain had an important stake in whether Iran fell under communist rule because the interests of all of Western capitalism were at risk. Therefore, Britain had to consider the larger implications of what Washington saw as an imperialistic foreign policy underpinned by narrow economic interests: "We fully understand the importance of the AIOC to the UK economy," officials at the Department of State wrote. "We would expect, however, because of the overriding importance to the UK, the US and the whole free world of continued peace and stability in the area and the continued flow of oil into world commerce, that the UK will not allow these objectives to be subordinated to commercial or balance of payments considerations."[139] Whitehall turned the argument around, asserting that the United States had just as much interest in protecting British access to Iranian oil as Britain did since "its loss would weaken the whole sterling position and might well affect the British rearmament effort" and, thus, the West's ability to fight communism. Furthermore, US taxpayers might be "compelled to replace British exchange losses," suggested one British official.[140]

The conflict between the Department of State's focus on the communist threat in Iran and Whitehall's aversion to signing a concession agreement that it believed would undermine the British economy lay at the heart of Anglo-American tensions over the oil crisis. The British boycott of Iranian oil, supported by the major American multinational oil companies, left Iran destitute. As a result, the overriding fear among

138 Acheson to the State Department, November 10, 1951, *FRUS, 1951, Vol. V*, 278–281.
139 "United States Views on Questions Raised During Discussions with the British on Iran," Burrows to the Foreign Office's Eastern Department, April 19, 1951, NA, FO 371/91471.
140 No. 1628 from Middleton to the Foreign Office, November 6, 1951, NA, T 236/4444.

US officials was that the continued lack of an oil settlement would either plunge Iran into the kind of economic chaos that would "inevitably lead to the loss of Persia to the West," or, at the very least, create political confusion for the communist-influenced Tudeh Party to exploit.[141] For their part, British policy-makers thought that the United States oversold the possibility that Iran would turn communist if they held out for an agreement that they considered reasonable. Understanding the political climate in the United States, the Foreign Office characterized the Department of State as "obsessed by their overriding fear of Communism, a fear aggravated by the attitude of Congress which would blame the State Department for any Soviet advance in the Middle East as they have done over China."[142] Because London did not take the communist threat as seriously as Washington did, it was prepared to "play'" with Iran for much longer than the United States, certain that Mossadegh would be "compelled to accept a satisfactory arrangement sooner or later."[143]

Whitehall was also aggrieved by the fact that the American government's "obsession" with communism led to what it perceived to be an insensitivity to Britain's energy and economic vulnerabilities. Victor Butler, an under-secretary at the Ministry of Fuel and Power, mirrored British statements made during discussions on the prospective Anglo-American petroleum agreement in 1944–1945 when he complained, "[George McGhee] seems to be totally unaware that the value of the Persian concessions to our economy is infinitely greater than the value of Middle Eastern concessions held by American oil companies is to the US economy. About 60% of the world's production of oil is produced in the USA whereas we have virtually no oil in the UK and not very much in the Commonwealth."[144] B. A. B. Burrows, a counsellor at the British Embassy in Washington, told members of the Department of State that British officials felt the US government was sometimes guilty of not paying "sufficient attention" to the "importance of protecting British interests."[145] Furthermore, Burrows's colleague, P. E. Ramsbotham, complained that the American fear of communism tended to make the United States "disregard the greater risks of repercussions of a bad settlement with Persia" in Britain's "other and more important

141 Minute of a meeting in Washington, February 1, 1952, NA, FO 371/98608.
142 Persia (Official) Committee: Comments on the State Department's Views of the Persian Oil Problem, PO (52) 3, January 25, 1952, NA, CAB 134/1147.
143 "Meeting between British and American Representatives at the State Department," Memorandum by Roundtree, January 9, 1952, *FRUS, 1952–1954, Vol. VI*, 821–823.
144 Butler to Bowker, February 13, 1951, NA, T 236/2821.
145 Minutes of a meeting at the State Department, February 11, 1952, NA, FO 371/98608.

concessionary areas."[146] But a Foreign Office telegram to the British ambassador in Washington put the finest point on the difference between the British and American perspectives:

> The main difficulty in reaching an agreed view with the United States Government about a possible basis for an oil settlement is the different weight which the two Governments attach to overseas investments. Such investments are our life blood. We are therefore bound to view with the utmost misgiving any proposals for a settlement with Persia which would put a premium on confiscation and not only encourage other governments to upset existing agreements but also put at risk all United Kingdom foreign investments on which we so largely depend for the vital invisible element in our balance of payments.[147]

The economic disagreements that emerged during the sterling–dollar oil controversy of the 1940s had come into full view once again over Iran.

Another source of tension between British and US policy-makers was their conflicting view of Iranian nationalism, a problem recognized by officials on both sides of the Atlantic.[148] After his visit to Iran in the summer of 1951, Averell Harriman asked in frustration why Britain could not accept Iranian nationalism as "real and substantial." He said that, based on his experience and that of his advisors, he "felt sure that the nationalist feeling in Persia was a real force and not just something quickly whipped up and quickly allayed," which the British had suggested.[149] Officials such as Harriman, George McGhee, and Henry Grady believed that Britain had to make sacrifices to placate a genuine and entrenched nationalist sentiment, rather than ignore it in the belief that it would eventually disappear. Early in 1952, Secretary of Defense Robert Lovett commented on what he considered the retrograde attitude of Anthony Eden, the new Conservative foreign secretary: "I have a feeling that a considerable amount of education is going to have to be done to overcome his tendency to live completely in the past and to forget or underestimate the enormous changes which have occurred since the war in the rest of the world."[150]

In contrast to the Americans, the British considered Iranian nationalism to be based not "on any real national fervour," but rather on an "attempt by the ruling classes to divert attention from their own

[146] Ramsbotham to Brook, May 22, 1953, NA, POWE 33/2087.
[147] No. 520 from the Foreign Office to Franks, January 26, 1952, NA, FO 371/98684.
[148] George Middleton wrote to the Eastern Department of the Foreign Office that "the main point of difference lies in differing assessments of the importance of Iranian nationalism as a political factor," November 19, 1951, NA, FO 371/91472.
[149] No. 3116 from Washington to the Foreign Office, September 26, 1951, NA, T 236/4441.
[150] Lovett to Eisenhower, January 24, 1952, *FRUS, 1952–1954, Vol. VI*, 859–861.

shortcomings by ascribing all ills to foreign domination."[151] William Strang argued that the National Front represented only a minority of Iranians and used "intimidation in silencing all voices of reason."[152] These views led officials at both Whitehall and the AIOC to criticize some US policy-makers for their approach not only to Iranian affairs but also to the developing world in general. Basil Jackson half-heartedly complimented Dean Acheson for his "pretty good job" as secretary of state, but lambasted the "tremendous number of young and relatively inexperienced do-gooders whose universal panacea for international unrest appears to be to spend money in the backward countries."[153] In the same vein, Francis Shepherd described Henry Grady as "desperately anxious to be the saviour of Persia in the same way that he believes himself to have been the saviour of Greece and, to a lesser extent, India."[154] When the Foreign Office's G. W. Furlonge looked back on US "efforts at mediation" in 1951, he took Shepherd's statement one step further, arguing that such efforts were shaped by the Department of State's Greece–Turkey–Iran desk's need for "Iranian love" and added that the attitude of McGhee, Grady, and others was influenced by their "sneaking admiration" for Mossadegh.[155] Because of Whitehall's frustration with what it perceived to be a wholly unrealistic attitude on the part of the Americans, Labour Foreign Secretary Herbert Morrison suggested to McGhee that British officials knew better how to handle Iran based on their "long experience of the Middle East and of the difficulties of dealing with the various countries in the area."[156]

These differing views of Iranian nationalism had two important consequences, the first of which was that the United States was able to maintain Iranian goodwill, thereby enabling US officials to play the role of honest broker between Britain and Iran. Loy Henderson, Henry Grady's successor as the American Ambassador in Tehran, asserted that if the United States were to become as "unpopular" as Britain in Iran, then the West might lose "its last chance of keeping Persia out of the communist camp."[157] The Truman Administration placed great weight on its role as neutral arbiter because it felt the oil crisis had to be resolved peaceably. US policy-makers thought that any hostile action by the British could lead to a Soviet invasion of the Middle East and possibly a global war

[151] British Delegation to the Foreign Office, October 12, 1951, NA, T 236/4442.
[152] No. 1755 from Strang to Washington, April 28, 1951, NA, FO 371/91528.
[153] Jackson's notes from his visit to the United States, November 2, 1949, BP 16987.
[154] Shepherd to Furlonge, May 14, 1951, NA, FO 371/91535.
[155] Furlonge to Stevens, January 24, 1957, NA, FO 371/127087.
[156] Quoted in McGhee, *Envoy to the Middle World*, 331.
[157] Middleton to Bowker, September 1, 1952, NA, FO 371/98697.

for which the United States and the West were militarily unprepared in 1951.[158] But US "neutrality" on the oil issue greatly upset British officials because Iran interpreted such neutrality as "disapproval" of Whitehall's policies.[159] The impression of US disapproval, the British believed, only fed Iranian obstinacy. Ernest Bevin wrote to Dean Acheson: "I must tell you that one of our main difficulties in dealing with this intractable problem has arisen from a belief persistently held by many Persians that there is a difference of opinion between the Americans and the British over the oil question."[160]

The second consequence of the divergence in the British and American views on Iranian nationalism was that by October 1951, when Muhammad Mossadegh appeared before the United Nations to plead Iran's case to the world, the US government thought that Britain would have to do more than simply "pay lip service" or "make a bow" to nationalization, as it had advocated for most of 1951.[161] In fact, American officials reached the conclusion that "no arrangement" was possible that would permit the return of AIOC to Iran "in any form" or that would allow another British firm to operate there. They were "convinced" that neither Mossadegh's government nor "any other" could "yield on this point." Consequently, the United States conceived a plan with the Iranian prime minister that had these features: (1) the sale of the Abadan refinery to a non-British, "preferably Dutch," foreign oil company; (2) NIOC control over "all aspects of production of crude oil"; (3) the elimination of all claims and counterclaims by both Britain and Iran; (4) AIOC purchase of a "major portion" of Iranian oil at prices that the company considered "financially attractive"; and (5) a financial arrangement between the AIOC, the new refinery owner, and the NIOC that would preserve the fifty–fifty profit-sharing principle, thereby protecting "existing arrangements in other oil producing countries."[162]

Mostly for financial reasons, Whitehall found the American proposal to be, on the whole, "quite unacceptable."[163] At a meeting at the Foreign Office, British officials argued that the scheme would "not satisfy" the

[158] Gavin, "Politics, Power, and US Policy in Iran, 1950–1953," 62–74.
[159] "Persia – Instructions to Negotiators," Persian Oil Working Party Papers, undated (probably late May/early June), BP 130738.
[160] No. 2898 from Bevin to Acheson, NA, FO 371/91555.
[161] For example, see "Anglo/US Talks on Persia in Washington (III)," April 13, 1951, BP 100557 and No. 1079 from Franks to the Foreign Office, April 12, 1951, NA, FO 371/91470.
[162] Webb to the US Embassy in Britain, October 30, 1951, *FRUS, 1952–1954, Vol. X*, 249–255.
[163] Minutes of a meeting held in the Secretary of State's room at the Foreign Office, November 1, 1951, NA, FO 371/91608.

nation's balance-of-payments requirements. In addition, they believed that the "effect on British credit and overseas interests would be very bad," and, given that the country's "balance of payments situation was extremely serious," it "could not afford to bear additional burdens."[164] Because Britain was in the midst of a major financial crisis, new Conservative Chancellor of the Exchequer R. A. Butler said that Whitehall would have to tell US officials that Britain's "economic viability was at stake," something that the United States government should have considered "more important" than either Iran's economic independence or its economic welfare.[165] Britain had used these arguments over the previous two years to defend its interests in Iran, so they must have sounded familiar to Washington. The United States had reached an impasse, unable to bridge the British and Iranian positions after months of effort.

US officials grew concerned about Britain's weakening position in the Middle East and the consequences for Western interests in the region. In a draft study written at the end of 1951, the National Security Council concluded that the United States needed to review and restate its policy in the Middle East because of Britain's "declining ability" to "maintain and defend" those interests. The study's authors believed that the "decline of British capabilities" was "in important measure a reflection of the nationalist aspirations of the Middle Eastern states – accompanied and intensified by the desire to end what they regard as unjust exploitation."[166] In May 1952, the Department of State's Policy Planning Staff described the "general picture" in the Middle East as one of "continuing weakness." While acknowledging Britain's primary responsibility for the region's security, members of the staff feared that the nation's capabilities were "wholly inadequate to defend the Middle East against Soviet aggression." Thus, the United States would have to "provide more assistance and bring its influence to bear" to stabilize the region.[167] In a phone conversation with Harry Truman three months later, Henry Byroade, who succeeded George McGhee as the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs, expressed the bigger fear that Britain's "general economic and financial situation," coupled with its "deteriorating political position" in the Middle East, would lead to a "general withdrawal" from the area. Such an outcome, he assessed, would leave the United States with "some very fundamental decisions" as to how to fill the vacuum in order to

[164] Ibid. [165] Ibid.
[166] "Draft Study by the National Security Council," December 27, 1951, *FRUS, 1951, Vol. V*, 257–264.
[167] "Memorandum Prepared by the Policy Planning Staff," May 21, 1952, *FRUS, 1952–1954, Vol. IX*, 232–233.

protect US interests there. At the end of the conversation, Byroade referred to Iran, specifically, characterizing the situation as "extremely serious." Truman responded that, "if it proved impossible to get together with the British" on the issue, then the United States "would have to see what [it] could do unilaterally."[168] The US government never had to resort to such measures.

By late 1952, US disillusionment with Muhammad Mossadegh, the British realization that a communist coup in Iran was a legitimate possibility, and a dramatic increase in American military strength led to a convergence of US and British policies. In October 1951, Winston Churchill had brought his Conservative Party to power in Britain after a campaign in which he castigated the previous government for its weakness during the oil crisis. A Victorian in mind, body, and soul, the new prime minister seemed even less willing to bargain with Mossadegh than had his predecessor. Nonetheless, British and US officials came together to draft a proposal dealing with terms of arbitration for compensating the AIOC in January 1952. Mossadegh's rejection of this proposal and future ones caused Washington to lose all patience with the prime minister, about whom the Department of State was developing serious doubts.[169] Furthermore, Mossadegh's position within his own country weakened as he took extraordinary measures to consolidate his authority – after briefly resigning from office during a power struggle with the Shah in July. Mossadegh's growing number of opponents, both outside the National Front and within the party itself, criticized these moves and complained about his failure to bring an end to the nation's economic difficulties. The prime minister's eroding base of support led him to rely more and more upon the Tudeh Party, which had taken to the streets on his behalf during his week-long absence from power in July.[170] Churchill had seen enough to persuade him that Iran could, in fact, succumb to communism, as US officials had argued all along.[171] At the same time, by mid-1952, the massive arms buildup spurred by the recommendations of National Security Council Paper 68 (NSC-68) two years earlier put the United States in a position to take more risks in the Middle East. As a result, the Truman Administration pursued a more aggressive approach toward

168 Memorandum of Conversation, August 8, 1952, *FRUS, 1952–1954, Vol. IX*, 262–263.

169 Oliver Franks reported to the Foreign Office that the Department of State "continued to feel that Musaddiq's Government was most undesirable and they had strong doubts whether it was possible to negotiate with him. They also agreed with us that his régime was an ineffective barrier against Communist penetration, but they now feared that any change would probably be for the worse," January 21, 1952, NA, FO 371/98684.

170 Heiss, *Empire and Nationhood*, ch. 6.

171 Louis, "Musaddiq and the Dilemmas of British Imperialism," 242.

Mossadegh, feeling confident that it could handle the potential military consequences of such a policy.[172] The United States was no longer a neutral party in the dispute between Britain and Iran, a shift in mindset that culminated in the Anglo-American overthrow of Mossadegh and the installation of the Shah as the nation's ruler.

The Anglo-American plan to topple Muhammad Mossadegh had begun to be conceived during Truman's last months as president, but it was not executed until well into the Eisenhower Administration's first year in office.[173] Given that during the run-up to the 1952 presidential election the Eisenhower campaign criticized Truman's failure to "contain" communism and announced its intention to implement a foreign policy that would "roll it back" around the world, one might assume that Mossadegh's overthrow was the result of Eisenhower's vision of a more aggressive role for the United States in international affairs. Reading back the administration's future efforts to destabilize governments unfriendly to US interests might also lead to this conclusion. The documentary record reveals, though, that by the autumn of 1952, had any further attempts to negotiate a settlement with Mossadegh failed, the Truman Administration was prepared to use covert action or direct force to prevent a communist government from establishing itself in Iran.[174] Truman and his advisors simply left office before they got their chance to carry out the developing Anglo-American plan.

With little skill and much luck, the plan just barely succeeded in removing Mossadegh from office in the summer of 1953. After a major bungle in July triggered the Shah's flight from Iran and forced the Anglo-American choice for prime minister, the anti-communist, nationalist General Fazlullah Zahidi, to go underground, US-organized mobs flooded the streets in mid-August to demonstrate on behalf of the army-backed Shah. In no time, Mossadegh was arrested, Zahidi became prime minister, and the Shah returned to rule the country. All that was left to do was resume the flow of Iranian oil to the West. But, for British officials, matters were not quite so simple. They demanded that bringing Iranian oil back on line had to do as little damage to sterling as possible, a policy that led them to take positions that would continue to hamper

172 Gavin, "Politics, Power, and US Policy in Iran," 74–76.

173 There is no doubt that it was a joint effort. Wm. Roger Louis discusses the heavy British involvement at the planning stages in "Musaddiq and the Dilemmas of British Imperialism," 253–255, a point confirmed by a classified Central Intelligence Agency history of the coup by Dr. Donald N. Wilbur, entitled "Overthrow of Premier Mossadeq of Iran, November 1952–August 1953," CS Historical Paper No. 208, written in March 1954, published in October 1969, and reported by the *New York Times* on April 16, 2000.

174 Gavin, "Politics, Power, and US Policy in Iran," 79–80.

Anglo-American relations as the two countries tried to restart the Iranian oil industry with a consortium of multinational oil firms.

2.5 The Consortium Agreement, sterling, and British policy, 1953–1954

Two different considerations inspired the idea of a consortium of several oil companies from several different countries producing and marketing Iranian oil: first, that Iran, even without Mossadegh as prime minister, would never again allow the AIOC or any other British company to assume a dominant position in the Iranian petroleum industry; and second, that multinational participation in Iranian oil represented good, common-sense, risk management. The United States had argued for a much-reduced role for the AIOC in Iran since the end of 1951, which the British had refused to accept. Two years later, Whitehall and the company board were forced to acknowledge that there was "no practical probability that [the AIOC would] be able to get back 100% into Persia."[175] The idea of having other firms participate in Iranian oil to distribute risk was not new either. As early as 1945, US officials and oil company executives believed that, because the Soviet Union posed a threat to the Middle East and Iran, Britain and the AIOC should consider American involvement in the Iranian petroleum industry. They argued that the AIOC's "concessionary security" would be "substantially increased by the establishment of sound American interest in the country," a point that Basil Jackson thought "reasonable" if the Soviet threat were indeed real.[176] It was no doubt dangerous for Britain to have had so many of its eggs in one basket, as one Treasury official recognized when he commented on the country's "dangerous dependence" on Iranian oil.[177] Consequently, the "main objective" of the consortium plan, according to Royal Dutch-Shell director Sir Francis Hopwood, was "to protect the world oil industry against the serious consequences" of Iranian oil falling into "undesirable hands."[178]

While Whitehall accepted the idea of a consortium, it wanted to ensure that any new arrangement would do no further harm to Britain's balance of payments, given the damage already perpetrated by the crisis itself. The Treasury's William Armstrong told a group of American oil representatives that these concerns "remained a basic principle of

[175] Foreign Office Minute by Belgrave, December 22, 1953, NA, FO 371/110046.
[176] No. 172 from Jackson to Fraser, January 25, 1945, BP 70986.
[177] Working Party on the Oil Expansion Programme, Meeting on October 24, 1950, GEN.295/67th, NA, T 236/2885.
[178] Hopwood to Fraser, March 2, 1954, NA, FO 371/110048.

policy."[179] After the AIOC had been evicted from Abadan in October 1951, the Ministry of Fuel and Power considered a consortium arrangement in which the firm would be a 60 percent shareholder in a crude-producing company and an 80 percent shareholder in a refining company. The two firms would be registered in Britain and purchase oil from Iran in sterling, splitting the profits equally with the Iranian government, the upshot of which would be that Britain would "suffer very little loss" to its balance of payments.[180] But the two points that Whitehall deemed virtually non-negotiable were the currency with which the consortium paid Iran for its oil and the nationality of the operating (or Group Services) companies, both of which would affect the sterling area's balance of payments.

Whitehall wanted the consortium to pay for Iranian petroleum in sterling for practical reasons and for the advantages that would accrue to the Empire-Commonwealth.[181] Iranian oil, like almost all Middle Eastern oil, was sold in the Eastern Hemisphere either to sterling area members or to non-dollar, non-sterling countries that had easier access to pounds. Therefore, purchasing oil from Iran in dollars or anything else would represent a drain on the sterling area's balance of payments because Britain would have to convert pounds into foreign exchange. Britain also wanted the consortium to conduct its business in sterling because the currency would benefit from the increase in value that would come with its widespread use.[182] In 1947, the Foreign Office wrote to its representatives stationed around the globe: "We must maintain confidence in our currency and make sure that as many countries as possible are willing to take sterling from other countries as well as from the sterling area in payment for their current exports: this is necessary if we are to keep our own economy running, and to avoid a heavy blow to world trade."[183] British officials also argued that they could not "justify to other oil-producing countries in the sterling area any arrangement under which Persia received more favourable treatment than they, only a

[179] Meeting at the Treasury, February 24, 1954, NA, T 236/3900.
[180] Note by the Ministry of Fuel and Power for the Persian Oil Working Party, POWP (51) 24–30, October 30, 1951, NA, T 236/2827.
[181] In *Oil, Power and Principle*, Mostafa Elm argues that Britain insisted that the consortium pay Iran in sterling "to compel Iran to import items from the sterling area even when such items were not competitively priced," 323. The documentation presented here demonstrates that sterling recycling explains only part of why Britain insisted on payment in pounds.
[182] In 1951, the Treasury wrote that the AIOC "must deal in sterling to help preserve sterling's position in international trade," Memorandum for "Lord Privy Seal's Mission to Persia," undated (most likely July), NA, T 236/4437.
[183] Telegram No. 54, August 16, 1947, BE/OV44/16.

fraction of whose oil [could] be sold for dollars."[184] Iran's use of sterling had also historically provided a good outlet for sterling area exports, a boon for the pound and the Empire-Commonwealth. For products that it could not buy in the sterling area, though, Iran needed dollars, which Britain had once provided under the Memorandum of Understanding signed during the war but suspended during the oil crisis. For the sake of the balance of payments, it wanted to avoid signing a similar accord under a new oil settlement, but rather agree to one that was not nearly as generous.

Whitehall was concerned with dollar expenditure in Iran, both by the country itself and by the US companies that would operate as part of the consortium.[185] Consequently, it sought to establish financial relationships with the Iranian government and the consortium's American firms that would favor sterling. British officials wanted a new currency deal with Iran that allowed the country to convert only 40 percent of its sterling into dollars and gold and to purchase in dollars only products that were unavailable in the sterling area. They also raised the possibility of not permitting Iran to convert sterling to pay down dollar debts.[186] The Treasury's William Armstrong explained to the US Treasury representative in London, "we [have] to proceed at present on the basis that sterling was not yet convertible and that we could not tell when convertibility would come."[187] Plus, Whitehall felt that Iran could not receive better foreign exchange terms than "either of the other great oil producing Middle Eastern countries," Iraq and Kuwait, both of which were members of the sterling area.[188]

With the US firms, Whitehall revisited the issues raised during the controversy over sterling and dollar oil at the end of the 1940s. Updating and restarting the Abadan refinery was going to cost dollars since American materials and engineering firms would have to be used. For this reason, and because the taxpaying, Iranian subsidiaries of the US firms would be registered in the United States, the American oil coming out of Iran would have a higher dollar content than other Middle Eastern

184 No. 2925 from the Foreign Office to Washington and Tehran, June 23, 1954, NA, T 236/4701.

185 The consortium's American members included Standard Oil of New Jersey, Standard Oil of New York, Standard Oil of California, Gulf, and Texaco. Royal Dutch-Shell and the Compagnie Française des Petroles (CFP) also participated.

186 No. 281 from Makins to the Foreign Office, undated (most likely mid-June 1954), NA, T 236/4700.

187 Armstrong's note for the record, April 21, 1954, NA, T 236/4699.

188 "Persia: Currency Arrangements," discussing proposals set out in OME (54) 9, March 9, 1954, NA, T 236/4699.

oil, according to Armstrong.[189] In addition, the shift in production from countries such as Iraq, Kuwait, and Saudi Arabia back to Iran would also cost the sterling area dollars, the greatest problem being the transfer of currency from sterling area countries, Iraq and Kuwait, to Iran.[190] If Britain were going to allow the US companies to sell Iranian petroleum in the sterling area – and to sell it for sterling to third countries – officials at Whitehall felt that something had to be done to compensate for these dollar costs.

Treasury officials and representatives of the US companies conducted negotiations to resolve these issues. For all intents and purposes, they constituted a sequel to the discussions on sterling and dollar oil discussed in chapter 1. The Treasury made various demands of the companies, the most controversial of which concerned where the firms would obtain the sterling to pay the cost of their operations in Iran. Rather than allow the US companies to use sterling earned from sales of Iranian oil to pay these costs, Treasury officials wanted them to obtain sterling from Britain in exchange for dollars.[191] US representatives threatened to walk out before they met what they considered to be such an unreasonable demand.[192] They were already reluctant to become involved in Iranian oil, as they had been throughout the crisis, because of fears of "trespassing" on the "preserves" of other companies, worries about what might happen to their own concessions, and anxieties about not having the markets to absorb so much extra petroleum in a period of oil glut. They had only agreed to participate in the consortium because the US government encouraged them to do so in the belief that American involvement would help achieve a settlement.[193] Britain backed down, allowing the firms not only to use sterling revenues to maintain their operations in Iran but also to convert sterling earned in sales outside the Empire-Commonwealth into dollars.[194]

The British government's desire to maintain strict control over the flow of currency in and out of the sterling area meant that it would work

189 "Persian Oil Settlement: US Companies' Currency Problems," Note of a meeting held in the Treasury, March 25, 1954, NA, T 236/3901.

190 "Persian Oil Settlement: Effect on the Balance of Payments," Appendix I, "Factors affecting Balance of Payments Result," March 6, 1954, NA, T 236/3900; Raeburn to Armstrong, June 19, 1954, NA, T 236/3902.

191 "Persian Oil Settlement: US Companies' Currency Problems," Note of a meeting held in the Treasury, March 25, 1954, NA, T 236/3901.

192 Catherine R. Schenk discusses these issues in "Exchange Controls and Multinational Enterprise."

193 No. 474 from Makins to the Foreign Office, March 22, 1954, FO371/110049; Makins's record of conversation with Eugene Black, December 13, 1951, FO371/91617; Foreign Office Minute by Dixon, May 15, 1953, NA, FO 371/104616.

194 Schenk, "Exchange Controls and Multinational Enterprise," 31–32.

assiduously to have the consortium's operating companies registered in the United Kingdom. The Foreign Office explained that Iran's ability to exchange sterling for dollars – and the ability of the American companies to accept pounds for the sale of Iranian oil in the sterling area and to third countries – were the two main concerns: "If we are to permit use of sterling in this way we feel we must at least have control of foreign currency and especially dollar expenditure of Group Services companies. This is the purpose of making companies British. We do not see how this purpose could be secured in any other way . . . certainly at this stage we do not regard the position as expendable."[195] Whitehall also did not want the companies registered in Iran for fear of rendering them vulnerable to Iranian law and Iranian exchange and trade controls, neither of which might consider the best interests of the companies or of sterling.[196]

Issues other than exchange control also motivated Whitehall's demand that the operating companies be registered in Britain. The Treasury's A. K. Potter believed that "no other country outside the USA would be in as good a position as the UK to afford the company diplomatic support in a dispute with Persia." Registering the companies in the United States to secure future American diplomatic support was out of the question, though, because of the currency issues involved. Potter argued that another benefit of making the firms British was that it would "predispose" them to "order British goods and employ British nationals as much as possible."[197] Furthermore, a firm registered in the United Kingdom would be subject to British taxation, providing a boost to the balance of payments. And finally, there was the issue of prestige. The Foreign Office's L. A. C. Fry wrote: "The oil industry in Persia was begun and developed to a very high point of efficiency by a British Company . . . the fact remains that the House and British public opinion at large certainly expect that, when the industry is started again, the British should have an unmistakable part in it."[198]

As British officials anticipated, Iranian representatives to the consortium negotiations were not pleased with the idea of either receiving sterling for Iran's oil or having the operating companies registered in the United Kingdom.[199] Dr. Ali Amini, the Iranian finance minister and the

[195] No. 378 from the Foreign Office to Stevens, April 20, 1954, NA, FO 371/110061.
[196] No. 366 from Stevens to the Foreign Office, April 23, 1954, NA, FO 371/110061.
[197] Potter to Armstrong, December 17, 1953, NA, T 236/3900.
[198] Foreign Office Minute, May 11, 1954, NA, FO 371/110062.
[199] In "Notes on Possible Oil Settlement," the section on "Payments in Sterling" opens, "The Persians will strongly resist any arrangement that appears to leave them dependent on the will of London for their supplies of dollars and other currencies," March 6, 1954, BP 79661.

chairman of the Iranian delegation to the talks, raised his concerns with Jersey Standard's Orville Harden, a member of the consortium's negotiating team. Regarding the currency question, the US oilman remarked that in the case of the group's British interests, "there could be no question" about payment for Iranian oil in sterling. As for the US companies, he explained that, because the "outlet for dollar oil in the Eastern Hemisphere was very limited," they had no choice but to sell Iranian petroleum for sterling to maintain the product's competitiveness. Plus, the British government would certainly not wreak havoc on the sterling area's balance of payments by converting the sterling that the American companies earned on Iranian oil into dollars, just so that Iran could receive dollars for its petroleum.[200]

The currency issue was settled much more easily than that of the nationality of the operating companies. Abdullah Entezam, Iran's foreign minister, argued that the country would resist "any form of foreign domicile," especially British, and that "belligerents" would attack a British-registered consortium as a "reconstitution of the Anglo-Iranian Oil Company in a new guise," possibly undermining the whole settlement."[201] At the consortium negotiations, Harden explained that, to keep dollar expenditure "within proper limits," Whitehall insisted that the Group Services companies be registered in Britain. Another member of the Iranian delegation wondered why the official home of the companies could not be in Iran or anywhere else for that matter if "satisfactory currency arrangements were worked out." According to Royal Dutch-Shell's John Louden, another member of the consortium negotiating team, Whitehall felt that such an arrangement would not provide "the necessary jurisdiction" to manage the dollar drain.[202] Harden added that the US companies had agreed to support the British position on this issue in order to secure the conversion facilities and oil outlets that the British government provided to enable the American firms to sell Iranian oil in the sterling area and to third countries.[203] In the end, he told Ali Amini that he would have to take the matter up with the British ambassador.

US Treasury Secretary George Humphrey was livid about what he thought were the unreasonable limitations that the British government was putting on Iran's ability to convert sterling to dollars. The Foreign Office's Roger Makins recounted the pointed remarks that Humphrey made to him in a conversation at the end of June 1954:

[200] "Notes of a Second Meeting Held on 17 April, 1954 at the White Palace," BP 94788.
[201] No. 398 from Stevens to the Foreign Office, April 27, 1954, NA, FO 371/110061.
[202] "Notes of Fourth Meeting Held on 22nd April, 1954," BP 94788.
[203] "Notes of Seventh Meeting Held on 28th April, 1954" and "Notes of Eighth Meeting Held on 2 May, 1954," BP 94788.

> The situation was that the Anglo-Iranian Oil Company had lost their concession in Persia and had no hope at all of getting it back. . . If after all that the United States Government and the United States oil companies had done to save the situation in Persia, we were to try to insist on controlling Persia's commercial policy, there would be an outcry in Congress which would destroy all chances of success in the wider plans for international economic cooperation which we had in mind. He thought that this attempt to dictate to the Persians where they should buy was just as out of date and unacceptable to the Persians as the idea that any British company could resume control of oil operations in Persia.[204]

Two weeks later, Humphrey continued his critique. According to Makins, he said:

> if the US were not allowed to trade with Persia on even terms after all they had done to bring about an oil settlement he would regard it as "unfair" and would consider that we were exacting "our pound of flesh" . . . he wanted to assure me that there would be a lingering feeling of resentment and that if we squeezed the last ounce out of them on this occasion they would remember it and be equally hard traders when the next occasion came along. . . while they might have to lump it they would not like it and would remember it for next time.[205]

To justify the restrictions, Makins informed Humphrey that, as a result of the crisis in Iran, Britain had spent $500 million on American oil and the AIOC had lost valuable markets to competitors. He also explained that restarting the flow of Iranian oil would cost the sterling area reserves a net of $40 million in the first year and $55 million by the third year of the new contract. But Humphrey was "incredulous," unable to see, given the large amount of money that the US companies would pay to the AIOC, how the sterling area would sustain that kind of dollar loss.[206]

In interdepartmental memos, British Treasury officials accused Humphrey of simply not understanding the issues involved.[207] Responding to criticisms of Britain's sterling convertibility policy on Iran, members of the Foreign Office told US representatives that Iranians "themselves had more than once described the arrangements as fair and just."[208] The Treasury's E. W. Playfair wrote that American policymakers were "out to pick on" Britain "wherever" they could, and he described the attitude across the Atlantic as a "normal reflection of the Washington mood," calling it a "twang on the harp of colonialism."[209]

204 No. 291 from Makins to the Foreign Office on June 28, 1954, NA, T 236/4731.
205 No. 1462 from Makins to the Foreign Office, July 13, 1954, NA, T 236/4731.
206 No. 291 from Makins to the Foreign Office, June 28, 1954, NA, T 236/4701 and Makins to Humphrey, July 3, 1954, NA, FO 371/110039.
207 Playfair to Petch, July 13, 1954 and Playfair to Petch, July 14, both T 236/4731.
208 No. 2907 from the Foreign Office to Washington, June 22, 1954, NA, FO 371/110009.
209 Playfair to Rowan, June 23, 1954, NA, FO 371/110009.

British officials were sensitive to the fact that members of the US government viewed their foreign economic policies as regressive, whereas they considered them to be a legitimate defense of the sterling area's economic interests. It was a clash driven by modern-day economic interests, but also influenced by deeply rooted perceptions of one another. George Humphrey, who was a key player during the Suez crisis of 1956, did, in fact, exact his revenge "when the next occasion came along."

US officials were no less angry about the demands that the Anglo-Iranian Oil Company made in terms of its percentage share of the consortium and the compensation that Iran and the other consortium members owed the firm for giving up its former concession. Fraser wanted the AIOC's stake in the new corporation to be no less than 50 percent, and he wanted Iran to give the company 110 million tons of free oil, valued at $1,460 million, over a period of twenty years. In addition, Fraser thought that the consortium members should pay the AIOC the equivalent of $1,270 million to participate in Iranian oil. Commenting on these figures, US Secretary of State John Foster Dulles remarked that Anglo-American efforts to resolve matters in Iran "appeared to be obstructed by a totally unrealistic attitude on the part of the AIOC." He said that Fraser's proposals "would be completely unacceptable to any Persian Government," as they already were to the American oil companies that had agreed to join the consortium.[210] Frustrated and upset, Dulles told British officials that "a turning point had been reached, not only in the oil dispute, but in the policy of Anglo-American solidarity in Middle Eastern affairs," and that if they could not come to an agreement over Iran, then he thought that the United States would have to take its "own line" in the region "more often" and rely on its "own judgment in dealing with Middle Eastern countries and problems."[211] Roger Makins was greatly concerned about the feeling in Washington at this point and wrote to the Foreign Office: "I can only say that if negotiations do break down there will be no sympathy or support in any American heart for what will universally be regarded as the obstinacy and unreasonableness of the AIOC, and that nobody here believes that Her Majesty's Government could not bring their influence to bear on the company."[212] Recognizing that the AIOC board was once again jeopardizing the British national interest because of its intransigence over Iran, Whitehall intervened to handle the question of compensation on behalf of the company.[213] The

210 No. 348 from Washington to London, March 17, 1954, BP 79661.
211 No. 349 from Washington to London, March 17, 1954, BP 79661.
212 No. 449 from Makins to the Foreign Office, March 17, 1954, NA, PREM 11/726.
213 No. 1152 from the Foreign Office to Washington, March 25, 1954, NA, PREM 11/726.

result was that a settlement between the consortium and Iran was finally reached at the end of the summer.

The oil crisis concluded in October 1954, when the Majlis and the Iranian Senate ratified the consortium agreement. The new accord created a holding company, Iranian Oil Participants Ltd (IOP), which would be registered and headquartered in Britain. Under the IOP were two operating companies that would run the oil industry in the southern part of the country where the AIOC formerly had its concession. The operating companies, with two Iranian directors on both boards, would manage the oil fields and the Abadan refinery for the National Iranian Oil Company, the owner of the assets. While the two companies were incorporated in the Netherlands, they were registered and headquartered in Iran. Iranian Oil Services Ltd, which provided supplies, engineering services, and non-Iranian staff for the operating companies, represented the third arm of the consortium and was incorporated in Britain and had its headquarters in London. The AIOC, renamed British Petroleum later that year, would have a 40 percent stake in the consortium, with Shell receiving 14 percent, the five American firms 8 percent each, and the Compagnie Française des Petroles 6 percent. Regarding compensation, Iran would pay the AIOC £25 million ($70 million) in ten equal installments, and the consortium members would give the firm an initial payment of £32.4 million ($90.7 million) over the first year and then an amount of crude oil equivalent to £182 million ($510 million). Iran and the consortium would split the profits on Iranian oil fifty–fifty.[214] All transactions would be settled in sterling and Britain would be able to maintain exchange control through the IOP and reap the balance-of-payments benefits that came with having Iranian Oil Services Ltd registered in the United Kingdom.[215] Whitehall, moreover, maintained its right to convert only 40 percent of sterling held by Iran into dollars.

Despite forfeiting 60 percent of its interest in Iranian petroleum, the AIOC emerged from the oil crisis in good shape. The firm's ability to develop other sources of crude, especially in Kuwait, meant that regaining 100 percent of what it had lost in Iran would have overloaded the company with more supply than its markets could absorb, a problem that it had already been trying to resolve.[216] Also, the firm would no longer have to depend so heavily on a single processing plant for its products, diversifying a refinery-building program that had begun in the late 1940s and continued with its project in Aden. In addition, the terms that the

[214] Bamberg, *The History of the British Petroleum Company, Volume II*, 507–509.
[215] No. 845 from the Foreign Office to Tehran, August 3, 1954, NA, FO 371/110070.
[216] Bamberg, *History of the British Petroleum Company, Volume II*, 510–511.

AIOC and the other consortium partners secured in their new agreement with Iran left the British company better off than if Muhammad Mossadegh had accepted one of the proposals that the group offered in the desperate months of early 1953. Had Iran settled with the consortium a year earlier, its partners would have been forced to serve merely as the country's purchasing and distributing agents rather than managing the country's oil industry as it did in the post-Mossadegh era.[217] Finally, the AIOC escaped from the crisis without having to split the profits on its worldwide operations, a much greater financial sacrifice than the 60 percent share of Iranian oil that it relinquished in 1954.

Ultimately, the Iranian oil crisis did not cause the economic imbroglio in Britain that many officials at Whitehall feared, either during the crisis itself or afterwards. In fact, at the end of 1952, the British government had to reduce its projected annual dollar-loss estimates on oil from $350 million in 1951 to $120 million for 1953. According to one economic historian, Britain's overall gold and dollar reserves rose "practically without interruption" from September 1952 to June 1954.[218] The improvement in the dollar balance on petroleum was the result not only of Britain's ability to obtain sufficient amounts of crude from sterling area oil producers Iraq and Kuwait, but also of the country's improved refining capacity, embodied mostly by the AIOC's new facility in Kent.[219] That said, Britain's invisible earnings fell from £330 million to £260 million in 1953–1954, to a large degree because of "heavy," one-time payments that the AIOC had to make to Kuwait and Iraq in accordance with new concession agreements precipitated by the renegotiations in Iran and Saudi Arabia.[220]

While one might expect that the increase in annual disbursements to Middle Eastern oil producers would result in an interminable detriment to the sterling area's balance of payments, the Treasury's A. H. M. Mitchell argued that Whitehall should anticipate the sterling area's "net oil receipts to start rising again" once the "heavy initial cost" of restarting the Iranian oil industry was met and "the arrears of increases in tax payments and oil royalties to the Middle East" had been "cleared off."[221] On the other hand, Peter Vinter at the Treasury wrote that it was "far from easy to obtain estimates of the impact on the balance of payments of the settlement with Persia and of the revenue negotiations which are still

[217] Ibid. [218] Scott, "The Balance of Payments Crises," 218.
[219] Minute by Ramsbotham, December 29, 1952, and Potter to Norris, December 19, 1952, both NA, FO 371/99168.
[220] Kahn to France and Gilbert, October 14, 1955, NA, T 234/266.
[221] Mitchell to Kahn and Rickett, August 16, 1955, NA, T 236/4602.

proceeding, or are about to begin, with Iraq and Kuwait."[222] Such uncertainty meant that the British government would have to remain vigilant about its access to Middle Eastern oil at prices that it deemed reasonable, especially if the "over-riding duty which faced the Government," according to R. A. Butler, "was the restoration of a long-term balance in payments between the sterling area and the rest of the world."[223]

Donald Fergusson once feared that, if oil-producing countries ever thought that the British government was diverting companies, such as the AIOC, from the dual objective of satisfying the welfare of their firms and the welfare of their oil-producing hosts "in the interest of the British Exchequer or British balance of payments or other British economic policies which ran contrary to their own interests there would be trouble."[224] Indeed, trouble occurred in Iran, in part, because policy-makers at Whitehall believed that Britain's and Iran's economic interests were not complementary. For them, the process of renegotiating the 1933 concession contract, or its successor, the Supplemental Agreement, was a zero-sum game between Britain and Iran in which the stability of sterling was at stake. A paper by Standard Oil of New Jersey on the lessons of the AIOC's experience in Iran includes a section that accuses the company of being "too much influenced by the British tradition of Colonial government" and asserts that the "London management certainly did not regard the Persian Government as its 'operating partner.'"[225] Indeed, many at Whitehall, along with the AIOC's leadership, did not view Iran as a legitimate partner when it came to the exploitation of that country's oil. The Treasury's Allen Christelow wrote:

In a world where primary resources become ever scarcer and ever more important we cannot continue to agree that economic development of the rest of the world may rightly be handicapped or frustrated because a primitive people who are admitted sovereign power over a given resource choose to limit or forbid or mismanage development of that resource. The United Kingdom, given its own lack of primary resources, must inevitably be one of the first countries called upon for the unpopular task of challenging any such thesis. We therefore need to move from a stage where stigmatization as imperialism of such measures as we take for the development of scarce real resources is not allowed to pass unchallenged but where our moves are put in their proper light as measures necessary for

222 "Balance of Payments Prospects in 1955," November 9, 1954, NA, T 229/826.
223 Cabinet Conclusions, CM 57 (52), May 29, 1952, NA, CAB 128/25.
224 Fergusson's commentary on Bridges's "Note for Record," February 8, 1949, NA, T 236/4748.
225 Ramsbotham's comments on "Some Observations on the Anglo-Iranian Experience: Indicated Policies to Lessen Possibility of Repetition," March 13, 1952, NA, FO 371/98709.

the allocation of the resources of the world in accordance with the needs of the maximization of real income for the world.[226]

At a time when strengthening the pound was a primary goal of Britain's external economic policy, Whitehall would not allow nations that produced sterling oil, or controlled its transportation from East to West, to undermine that goal. It also refused to be labeled "imperialist" for doing so.

226 "The Persian Oil Negotiations," April 25, 1951, NA, T 236/4427.