basis of the posted price, not the real market price, and obtaining tax relief on that basis. In terms of the tax laws, this was flagrantly improper. The producer countries were now really receiving taxes based not on profits, but on sales; and this relief allowed companies to pay lower U.S. taxes than any group of industries. In 1972, for instance, Exxon paid out of its global income only 6.5 percent in U.S. taxes, and Mobil only 1.3 percent. In the mid-sixties the Internal Revenue Service tried to question the pricing system, which was costing huge sums to the Treasury. But the attorney representing the five American sisters, John J. McCloy (who will emerge later in Chapter Eight) reminded the then Secretary of State, Dean Rusk, of the real rationale of the tax allowance: 'If the companies did not provide the necessary revenues by paying substantial taxes to producing countries, large amounts of direct foreign aid might well be required.'[1]

Thus the role of the oil companies in foreign policy was firmly underlined: they were given private privileges to enable them to be the paymasters of the Arab states. It was from the State Department's point of view a neat, even brilliant solution for they could overtly support Israel, and covertly support the Arabs, effectively bypassing Congress. But it was a solution which also served greatly to increase the power of the oil companies, to which the government had virtually delegated part of its foreign policy. It was a power which they were not slow to exploit.

[1] Multinationals Report: 1975, p. 93.

6

Iran and Democracy

Never had so few lost so much so stupidly and so fast.

Dean Acheson, 1974[1]

This last British empire, the empire of oil, has 'paid' better than any other.

John Strachey, 1959[2]

Sir William Fraser, who took over from Cadman as chairman of BP in 1941, was a man with few doubts about the special national role of his company. He was a silent, craggy Scotsman, with an intimidating Glasgow accent and a bleak sense of humour. Men in government were inclined to accept the fact that he knew more about oil than anyone else. He had been born into oil: he inherited from his father the biggest company in the then-prosperous Scottish oil-shale industry, and later merged it with six other companies into BP, to provide them with Scottish outlets. He thus moved into BP fortified with a block of shares and soon joined the board. He first became a key figure as the money-man for Sir John Cadman, helping to negotiate the new agreement in Iran in 1933, but he lacked Cadman's breadth of outlook. After the war Sir William was slow to recognise the changing shape of the world around him, particularly after Britain had given independence to India in 1947—a fact which fundamentally changed the military position in Iran next door. Sir William was convinced that BP could and should hold on to its monopoly of Iranian oil, defying the growing nationalist temper, and his intransigence led to the biggest political upheaval in the history of oil, which was further

[1] Dean Acheson: *Present at the Creation*, Signet, New York, 1974, p. 650.
[2] John Strachey: *The End of Empire*, London, 1959, p. 173.

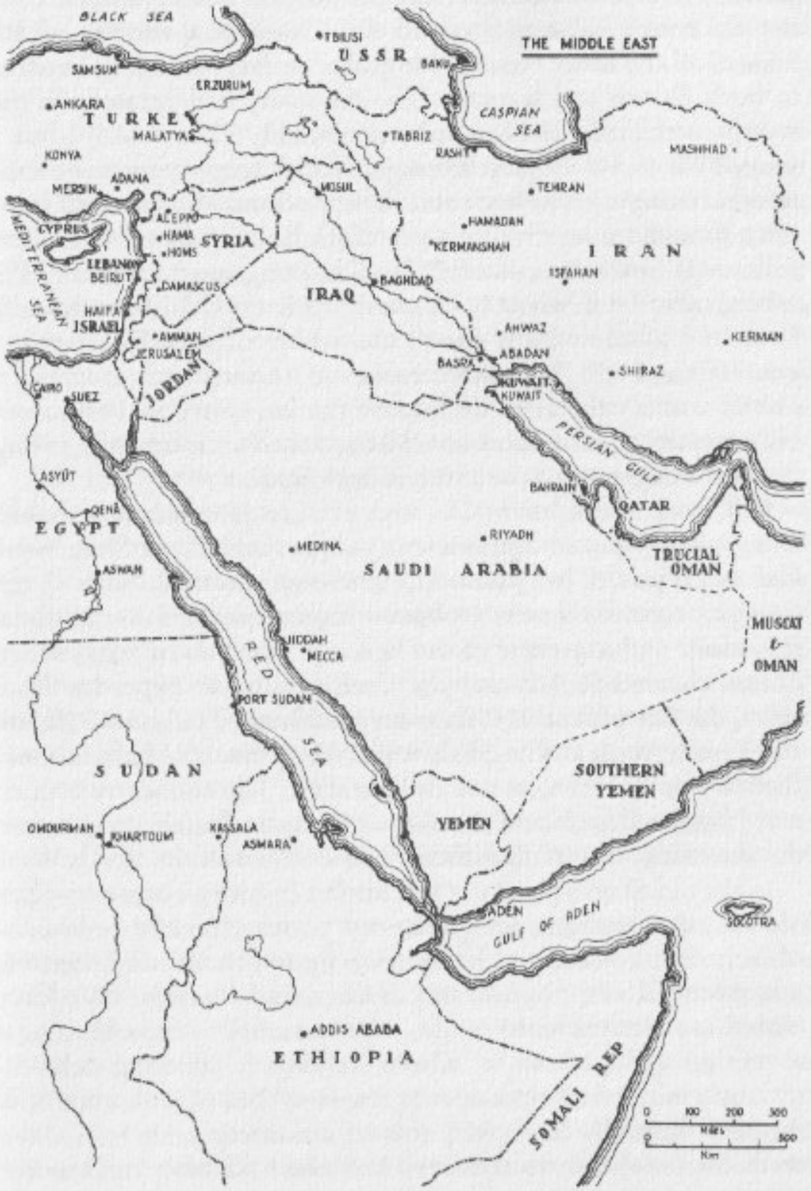
to alter the balance of power in the Middle East. It also sharply raised the questions that were inherent in the character of BP, with its half-government ownership. Who was really in charge of oil policy? And was the government prepared to use force to protect its interest?

It began as an exclusively British dilemma. BP had emerged after the war with a far greater importance to Britain, as the cornerstone of Middle East oil. In spite of its remarkable failure to exploit Bahrain and Saudi Arabia, BP had spread out from its original territories in Iran and Iraq down the Persian Gulf to Kuwait, and it was reaping still greater profits for its shareholders, notably the British government. Ever since 1923 it had needed to raise no more outside capital, ploughing back its own profits to build up a world-wide marketing and fleet of tankers, and after the Second World War it regularly declared dividends of thirty percent.

BP was now in a much more promising position than its old rival, Shell, which had no oil in the Middle East except for its share in the Iraq consortium. Shell's oilfields in Mexico were nationalised, while its fields in Venezuela which had been so crucial in the war, now had a limited life compared to BP's vast reserves in Iran and Kuwait. The departure of Deterding, however welcome, had left Shell to be run by his minions and yes-men, with a cautious committee at the top. It did not begin to recover its confidence until the arrival of a tough Welshman, Sir George Leigh-Jones, who dominated the company in the post-war years.

But BP, with its Middle East strongholds, had acquired a confident regimental character of its own, happily combining a sense of public service with the fruits of huge profits, and untroubled by the political outbursts and anti-trust crusades that embarrassed the American sisters. Sir William referred to civil servants contemptuously as 'The gentlemen in Whitehall'. Sir Charles Greenway became Lord Greenway, Sir John Cadman became Lord Cadman. The British government were glad to accept the profits, and were told as little as possible. The two government directorships were regarded as sinecures for retired public servants; in 1951 they were held by Field Marshal Lord Alanbrooke, and Sir Thomas Gardiner, a former head of the Post Office.

Iran remained the jewel in the crown of BP, and its supplies



seemed limitless. During the war, after a period of uncertainty, production was pushed up to help fuel the allied armies; and in the first five years after the war production nearly doubled. As the old Empire disappeared, so the commercial empire of BP seemed all the more remarkable and necessary, bringing benefits to both British and Iranians. The company had created, in the words of the official biographer, 'not only a flow of oil but a way of life';[1] and the two thousand British employees saw themselves as bringing employment, houses, schools, hospitals to Iran; why should Iranians not be grateful? Yet, in the disaster that followed, in the words of Brigadier Longrigg, a former IPC official who later wrote a standard work on Oil in the Middle East, 'the whole of this effort, the whole of a half-century of generous and enlightened treatment of its own workers and the public was, in the final destiny of the company in Persia, not only treated as of no account, but attacked in terms suggesting not mere neglect but the crudest exploitation'.[2]

But from the Iranian side, this picture was unrecognisable. They were a proud and ancient people; and Reza Shah, who had seized power in 1921, was a fearsome monarch who—even though originally a mere trooper—soon acquired the traditional splendour and mystique of the Peacock Throne. In 1941, when Hitler invaded Russia and the Shah refused to expel his Nazi allies, the British and Russians invaded Iran to safeguard the oil and supply-routes. The Shah was exiled, first to Mauritius and then to South Africa, where he later died. The country was then ruled by the British and the Russians until after the war, when the Russians were with difficulty pushed out of the north.

In the old Shah's place the British put in his twenty-one-year-old son, then a slight, inexperienced youth who had been educated in Switzerland and had grown up in awe of his father. He was intended as a puppet, and in Churchill's words: 'We have chased a dictator into exile, and installed a constitutional sovereign pledged to a whole catalogue of long-delayed, seriously minded reforms and reparations.' But that was not how the new Shah saw it. As he put it to me thirty years later: 'We were an independent country, and then all of a sudden the

[1] Henry Longhurst: *Adventure in Oil: The Story of British Petroleum*, London, 1959, p. 137.

[2] Stephen Hemsley Longrigg: *Oil in the Middle East: Its Discovery and Development*, 3rd edition, London, 1968, p. 157.

Russians invaded our country and you British took my father into exile. Then we were hearing that the oil company was creating puppets—people just clicking their heels to the orders of the oil company—so it was becoming in our eyes a kind of monster—almost a kind of government within the Iranian government.'[1]

The fact that the oil concession was in the hands of a single British company made BP an easy scapegoat for anything that went wrong in the country. The mood of the Iranian parliament, the Majlis, was increasingly nationalistic in the post-war years, and the resentments became greater when the British Labour government limited all company dividends, thus cutting back the Iranian budget. Sir William Fraser when he visited Iran was aware that concessions must be made, and by 1949 BP had devised a 'supplemental agreement' which at the time offered a rather better deal to Iran than other Middle East countries.

But the Majlis refused to discuss it, and soon afterwards the 'fifty-fifty' deals began to be spread to the Middle East, first to Saudi Arabia, then to Iraq. Aramco insisted that they had warned Sir William of this impending precedent, but if so, he did little about it. In fact, the supplemental agreement was as generous as Aramco's, allowing for the subsequent Aramco discounts, but the simple slogan of fifty-fifty provided a new rallying-cry for the Iranians. The militancy was encouraged by an outspoken American Ambassador, Henry Grady, a first-generation Irish-American who did not conceal his hatred for the British imperialism[2] and who encouraged the Iranians—quite misleadingly as it turned out—to believe that the Americans would support them against the British.

And in the meantime an exotic new Iranian leader had emerged, Dr. Mossadeq. To the British public and the press this wild old man wearing pyjamas and perpetually weeping appeared so ridiculous, so fanatical and unashamedly emotional, that he represented the defiance of all reason. But he was in fact a shrewd politician from a rich landowning family, who perceived the nationalist mood. Since the ill-fated Mexican nationalisations of 1938, he was the first leader to dare to confront the oil companies. Mossadeq was appointed chairman of a

[1] Interview with author, February 4, 1975.

[2] See article 'What Went Wrong in Iran?': *Saturday Evening Post*, 30, January 5, 1952.

committee on Iranian oil policy, which insisted that BP's agreement did not safeguard Iranian interests, and became more militant after the announcement of Aramco's fifty-fifty deal in Saudi Arabia. By February 1951 Mossadeq was calling for nationalisation. Events then moved swiftly. The prime minister, General Razmara, insisted that Iran could not legally repudiate the concession. Four days later he was shot dead on his way to a mosque. Six weeks later, after strikes and martial law, the Majlis elected Mossadeq prime minister and voted for the immediate seizure of BP's oilfields.

The Iranian crisis thus suddenly became a challenge to Britain's world authority—in some ways more critical and unexpected than the Suez crisis five years later. The British Labour government were abruptly faced with the awkward question (which the Admiralty had raised forty years earlier, before Churchill had caused the government to buy its half-share of BP): should they intervene militarily to protect their investment? The argument that followed, still partly shrouded in secrecy, illuminated some of the fundamental problems of oil diplomacy. And it caused special embarrassment to a Labour government which had only recently itself nationalised major industries ('We would never have dared to nationalise oil,' an Iranian official told Eric Drake, the general manager at Abadan, and the present chairman, 'if Churchill had still been prime minister').

The Labour government faced the crisis without much warning, for their information from Iran was scanty, and largely dependent on BP. The Foreign Office was in some disarray, with a newly-arrived Foreign Secretary, Herbert Morrison. Though he had been a pacifist in the First World War, Morrison was now hawkish, full of admiration for his Victorian predecessor, Lord Palmerston, and indignant about the Iranian's ingratitude. His militancy was encouraged by Sir William Fraser of BP and also by the Minister of Defence, Emmanuel Shinwell, and by many of the Admirals and Generals. But there was a notable exception. Lord Mountbatten, who was at that time Fourth Sea Lord, was convinced that intervention would be disastrous for Britain's whole future in Asia. He had negotiated India's independence as the last Viceroy and so he carried special authority with the government.

Most officials in the Foreign Office, too, were against intervention, largely on the grounds that it would be impossible to

work the oilfields without the support of the Iranians, surrounded by a hostile country. Their position was supported by the Minister of State, Kenneth Younger. The Secretary for War, John Strachey, was also very sceptical of the need for force, and of the crucial importance of Iran. He was advised that the dispute must be settled quickly, either through force or otherwise, for three reasons. First Iran would be ruined, secondly both BP and the British economy would be crippled for lack of oil and thirdly, the Iranians could never themselves work the oilfields or the refinery. All three assumptions proved quite untrue.[1]

The cabinet were in some confusion, caught between conflicting advice from the military. A cruiser was sent out, HMS *Mauritius*, to patrol off the coast, and a parachute brigade was prepared. Morrison made a bellicose speech in parliament, but in the office he dithered. As one member of the Defence Committee now recalls it, 'it was a classic example of drift: it made me realise how governments can simply refuse to face up to contingencies.' Eventually on September 27 there was a crucial cabinet meeting: Herbert Morrison had returned that morning on the *Queen Mary* from the United States, where President Truman had made clear that he would not support the use of force. Morrison was still militant, and he was briefed on his way up from Southampton by Sir Roger Makins, a key diplomat at the Foreign Office. In cabinet, with the chiefs of staff present, Morrison expounded the case for intervention but he was cut short by Attlee, the Prime Minister, who had been concerned with Iran in Morrison's absence. Attlee insisted that force was quite out of the question, and no other member of the cabinet cared to challenge him. The government and BP thereafter prepared themselves for a more patient and subtle strategy.

In the meantime all attempts at negotiation had failed: the Iranians had formally taken over the great refinery at Abadan, all exports had stopped, and the British officials were harrassed and impeded. Eventually in October 1951, the last remaining British employees and wives gathered at the Gymkhana Club, and embarked on the *Mauritius*, which steamed slowly up the river while the ship's band played Colonel Bogey.[2]

The more liberal members of the Foreign Office were exasperated to discover that they had been trapped by the narrow-

[1] Strachey: p. 161.
[2] Longhurst, p. 144.

mindedness of Sir William: BP in fact had become a Frankenstein monster, beyond control of its makers. This is how Kenneth Younger summed up the situation (in a hitherto unpublished memo to Herbert Morrison, the Foreign Secretary) in October 1951, complaining about BP, *alias* Anglo-Iranian:

> The principal reason why our advance information was inadequate was the short-sightedness and the lack of political awareness shown by the Anglo-Iranian Oil Company. They were far better placed than anybody else to make a proper estimate of the situation but, as far as I am aware, they never even seriously tried to do so. Sir William Fraser is no doubt a very good business man in the narrow sense, but on every occasion when I have seen him, either at Ministerial Meetings or elsewhere during these months, he has struck me as a thoroughly second-rate intellect and personality. He has on many occasions explicitly stated in my presence that he does not think politics concern him at all. He appears to have all the contempt of a Glasgow accountant for anything which cannot be shown on a balance sheet. This is an attitude quite incompatible with the responsibilities of the head of a company like A.I.O.C. operating in so complex and unsettled an area as the Middle East.
>
> It may well be that the Supplemental Oil Agreement was quite a reasonable proposal when it was put forward, and it may in practice be as favourable to the Persians as a fifty-fifty arrangement. There can, however, be no doubt that it was drawn up in a manner which makes it seem far less favourable than the Aramco Agreement. It is quite astonishing to me that when the Aramco Agreement was published even so limited a man as Sir William Fraser did not immediately see the writing on the wall...
>
> This criticism of the A.I.O.C. does not, however, absolve the government from blame. H.M.G. hold 51 percent of the shares and nominate two directors. There is therefore no excuse for the government not having ensured adequate political direction of the company... Directorships have normally been used to give rewards for superannuated public servants, and once appointed they have not been expected to take a very active part in the affairs of the company. Indeed had they done so it would have been regarded as undue interference with a business operation. The two directors in the present instance are in any case not the sort of people who would have been appointed if the posts had been thought to carry with them major political responsibilities.

Sir William Fraser, however, was still firmly in command. He was confident that before long Dr. Mossadeq would topple, and the Iranians would be forced to negotiate. For oil was far their biggest export—far more profitable than caviar or carpets

—and their oil could no longer be sold. Early in the crisis BP had enlisted the support of the other six sisters, to make sure they would not buy 'hot oil' when it was nationalised, and on May 15, 1951, the State Department announced that the American oil companies had indicated 'that they would not, in the face of unilateral action by Iran against the British company, be willing to undertake operations in that country'. And BP were soon, with government help, able to enforce the boycott. When a Panamanian Ship, the *Rose Mary*, took on oil from Abadan, RAF planes forced it into Aden harbour, where its cargo was impounded. BP's attitude was supported first by the Labour government and then by Churchill's Conservative government which came to power in October 1951.

BP's position was helped because there was at the time no serious shortage of oil. BP quickly used its huge reserves of capital, conserved under Fraser's cautious regime, to expedite its production in other countries, particularly in Kuwait, which soon began to make up for the loss of Iran. The American companies flew out extra production equipment to Saudi Arabia and Kuwait. Each of the seven sisters had an interest in proving to the Iranians and to other potential miscreants that they could quite well do without their oil. Iran faced the bleak prospect of being permanently left out of the world's oil markets.

ACHESON *v.* ANTI-TRUST

To the American government, however, the situation looked different, and from the beginning President Truman was concerned about Britain's stubborn attitude. He warned Britain of the dangers of using force and had tried to mediate through a visit by Averell Harriman to Teheran. The Secretary of State, Dean Acheson, though theatrically Anglophile, was appalled by the uncompromising imperialism of the British, and when Mossadeq came to America to argue his case to the U.N. Security Council Acheson struck up a kind of comic friendship with the emotional old man, fascinated by his pixie quality and his bird-like movements.

Acheson had little sympathy for BP's predicament; 'their own folly had brought them to their present fix', he wrote later 'which Aramco had avoided by (in Burke's phrase) graciously granting what it no longer had the power to withhold.' He thought that the BP bureaucracy had poisoned the judgment of the British government, and committed them to 'rule-or-ruin'. He was also much more worried by the possibility of a Communist take-over, and not at all averse to a stronger American presence in Iran.[1] As the British continued their long boycott of Iranian oil, Acheson decided in October 1952 that the Americans should try an independent initiative. But it could only be done with the help of the American oil companies, who alone had the tankers to take oil from Iran. As in their tax arrangements with Aramco the previous year, the State Department were only too glad to use the oil companies as part of their bulwark against Communism.

But the timing was specially awkward, for it was now that the engines of anti-trust were stirring again. While the crisis was developing in Iran, a major conflict began to be fought out secretly in Washington, whose details have only recently come to light.[2] This conflict illustrated further basic dilemmas of oil policy: caught between the democratic principles of anti-trust and the imperatives of foreign policy; between the long-term strategy of governments and the short-term tactics of companies; and between the widening differences of British and American attitudes to the Middle East. The battles of words in Washington provided a fascinating counterpoint to the diplomatic battles between Iran and Britain.

The anti-trust mole had been dormant since Pearl Harbor. Thurman Arnold's anti-trust crusade, while noisy and well-mounted, had achieved very little beyond the humiliation of Teagle and Exxon. But the trust-busters had now acquired more staff and expertise, and they were given new boost by the national defence hearings after the war, which had unearthed the damaging facts about how Aramco overcharged the Navy, and by the disclosures of overcharging from the ECA. The Justice Department still had the subpoenas and documents that they had collected in 1940 and '41, and they began searching the company files again in 1946 and '47.

In December 1949 the Federal Trade Commission resolved to investigate the foreign agreements of the oil companies, and in

[1] Acheson: pp. 865–870.

[2] Much new material about Iran is contained in the Sub-Committee print published by the Senate Sub-Committee on Multinational Corporations in February 1974: *The International Petroleum Cartel, the Iranian Consortium and U.S. National Security,* to which I am indebted.

October 1951 their staff produced a report of historic importance. It was not published till a year later, in August 1952, (with some excisions about Iraq for national security which were only revealed twenty years later).[1] It was released not by the FTC but by the Senate Select Committee on Small Businesses, whose chairman was Senator John Sparkman (now chairman of the Foreign Relations Committee). Sparkman wrote a stirring introduction, strikingly bold compared to the Sparkman who is today chairman of the Foreign Relations Committee: 'practically alone among the great nations of the world', wrote the young Senator, 'the United States—through fact-finding and through enforcement of its anti-trust laws—endeavors to hold in check the power of giant organizations.'

The report thus made public was a political bombshell, and its title alone was a red rag to the companies, for it was called simply 'The International Petroleum Cartel'. It provided the first full account of the cartel agreements of the seven sisters, going back to the Achnacarry Agreement of 1928: it published the details of the Red Line Agreement, and analysed in detail the intricate sharing arrangements throughout the world. It was largely put together by a radical economist, John M. Blair (now Professor at the University of South Florida) who had painstakingly pursued the threads of evidence through the company files. The green paper-bound book of 400 pages (though long since out of print) has provided an indispensable source for critics of the oil industry ever since.

The gist of the FTC findings was that the seven companies controlled all the principal oil-producing areas outside the United States, all foreign refineries, patents and refinery technology: that they divided the world markets between them, and shared pipelines and tankers throughout the world; and that they maintained artificially high prices for oil. These formidable charges were now taken up by the Justice Department, determined to mount a new anti-trust case, at the precise moment when Dean Acheson was preparing his initiative in Iran.

The subsequent arguments provide a fascinating glimpse into the ideological strains that oil policy had brought about. In April 1952 Acheson, writing to the anti-trust division, admitted that the State Department should not interfere with anti-trust

[1] Multinationals Report: 1975, p. 101.

laws, but pointed out that the case against the oil companies might seriously impair American foreign policy aims and would probably weaken the political stability in the Middle East. But the Justice Department nevertheless went ahead, six months before the end of Truman's Presidency ('the only way to bring an oil case is if the President is not running for re-election', explained one of the staff, Ken Harkins, years later).[1] On July 17 the Attorney-General, James McGranery, announced a grand jury investigation into the international oil cartel, and the next month subpoenas were issued against twenty-one of the oil companies.

Acheson was now busily preparing his plan to enlist the American oil companies in a joint operation to rescue the situation in Iran. Attorney-General McGranery pointed out that the two conflicting policies 'presented a most formidable legal meal', and the trust-busters opposed the proposed new consortium as an 'unreasonable restraint of trade'. Acheson on his side was increasingly exasperated by the 'police-dogs from anti-trust', who 'wanted no truck with the mammon of unrighteousness.'[2] By January 1953, in the last days of the Truman administration, the two departments were at total loggerheads: and their two opposite viewpoints about the oil companies were both eloquently stated in reports to the National Security Council.

The first report, from the Department of State, backed by Defence and the Interior, spelt out boldly the case for strong government support of the sisters. The companies, it said 'play a vital role in supplying one of the free world's most essential commodities' and it boldly admitted: 'American oil operations are, for all practical purposes, instruments of our foreign policy towards these countries'. Moreover, the report continued, the oil companies played a significant role in the struggle of ideas with the Soviet Union so that 'we cannot afford to leave unchallenged the assertions that these companies are engaged in a criminal conspiracy for the purpose of predatory exploration'. The FTC Report had already been given regrettable publicity abroad, particularly in Venezuela and Britain, thus endangering the national interests of the United States; in Venezuela, the State Department reported, the oil companies' programmes had

[1] Mark J. Green: *The Closed Enterprise System* (Bantam Book) New York, 1972, p. 274.
[2] Acheson: p. 869.

been set back years by the allegations. A criminal anti-trust action against the oil companies would be far more damaging, encouraging other countries to believe that 'capitalism is synonymous with predatory exploitation'. The criminal action against the oil companies should be abandoned in favour of a civil action, which could avoid a trial and attendant publicity. And a new commission should study the inter-relationships of anti-trust, security and foreign policy, to ensure a co-ordinated policy towards the oil companies.

The Attorney-General wrote an equally incisive report arguing the opposite case: that the seven sisters, far from being crucial for national security, were profoundly damaging to it.

> It is imperative that petroleum resources be freed from monopoly control by the few and be restored to free competitive private enterprise ... Free private enterprise can be preserved only by safeguarding it from excess of power, governmental and private ... The world petroleum cartel is an authoritarian, dominating power over a great vital world industry, in private hands ... a decision at this time to terminate the pending investigation would be regarded by the world as a confession that our abhorrence of monopoly and restrictive cartel activities does not extend to the world's most important single industry.[1]

It was a new form of an old argument: how far should democratic institutions be abandoned in the defence of a democracy? Each side had telling points. It was true, as the State Department insisted, that the FTC revelations about the oil cartel were already encouraging producing countries to take bolder action against the companies. It was also true, as the Justice Department proclaimed, that a monopoly of oil production in the hands of seven companies did not square at all with the principles of a competitive, free-enterprise democracy. But between the two extreme positions, of either totally supporting the cluster of companies, or breaking them up, neither side really faced the problem, what the relationship between the companies and government should be. Yet both sides tacitly assumed that oil was far too important to be left to the oilmen.

It was Acheson's arguments, of course, that won the day. Six days after the reports were submitted, President Truman wrote to his Attorney-General saying that the interest of national

[1] Sub-committee Print: 1974, p. 29–32.

security might best be served by changing the criminal case against the companies into a civil case—with the proviso (soon abandoned) that the companies must agree to subpoenas. And soon afterwards, Eisenhower was President and Dulles was Secretary of State. There was now little doubt in Washington that the global battle against Communism must take precedence against any complications about anti-trust. Nevertheless, the civil action against the companies went ahead, with a warning from Dulles that proceedings should be conducted 'with due regard for all matters affecting the national security'. On April 21 the historic complaint was filed, against five defendants (Shell and BP being beyond the government's jurisdiction): the United States versus Exxon, Mobil, Socal, Texaco and Gulf. It charged them, on the evidence of the FTC report, with perpetuating the 'As Is' cartel that had been established twenty years before, in a world-wide pattern of control of foreign production, refining, patents, pipelines and tankers: 'The objective of the conspiracy was market stabilisation; its essential terms were market division and price fixing'.[1]

COUP + CO-OPERATION

In the meantime Sir William Fraser and the British government had been waiting for nearly two years for the expected collapse of Mossadeq. Eisenhower and Dulles were having little more successs in their negotiations than Truman and Acheson. Eventually in May 1953 Mossadeq wrote to Eisenhower complaining that his country was being ruined by the political intrigue of the British government and BP, and appealing for aid. Eisenhower did not reply for a month—which thoroughly unnerved Mossadeq—and then wrote back insisting that Iran must live up to her international obligations. Mossadeq was desperate; his nationalised oil company still could not sell anything abroad, and there was now growing unrest in the country.

Behind the scenes mysterious forces were at work in Iran, who were waiting for their moment. Early in the crisis, British secret agents had reported to London that there were many anti-Mossadeq elements in Iran who with encouragement, including cash, from Britain, could help bring Mossadeq down. The Foreign Secretary, Anthony Eden, however, would not

[1] Subcommittee Print: 1974, p. 125.

sanction a coup, and the project was passed on to the CIA in Washington, who were in turn hesitant to act without British support. Eventually the plan was sanctioned, not by Eden, but by Churchill, who happened to be in temporary command of the Foreign Office during Eden's illness in April 1953. The conspirators were duly assisted, master-minded by Kermit Roosevelt, and their chance soon came. Mossadeq took control over the army; the Shah tried to oust him, failed, and fled the country in August. Three days later the Shah's supporters, led by paid agents, took to the streets to fight Mossadeq's troops. Mossadeq was forced out of office, the Shah's man General Zahedi took over the government, and the Shah returned to his capital in qualified triumph—conscious that it was more the CIA's victory than his, though he did not care to admit it.[1] The cost of the covert operation, according to one source, was about $700,000.

Whether and when Mossadeq would have fallen without this covert intervention is hard to establish; but what is undisputed is that the Western powers did intervene, and hastened his end. It was a well-organised coup, and encouraged the CIA to further adventures, notably in Guatemala; but the West in the end paid a heavy price for it. For the Shah was thereafter determined to show his independence, and could never again dare to be seen as the pawn of the West.

The way was now open for the entry of the oil companies, but there was still great diplomatic concern, and a concerted Anglo-American policy now seemed urgent, for the Iranian experience had made both governments more aware of the vulnerability of all the Middle East oilfields. But while there were great differences within Washington about the role of the oil companies, there were even greater differences across the Atlantic. The British looked at the anti-trust campaign with incomprehension: why shouldn't companies and governments work together to protect the consumer? The British government proposed joint talks about Middle East oil, which were held between August and October 1953 in Washington.

The notes of the discussions, only recently declassified, reveal the extent of the cross-purposes. The British team, led by Harold Beeley (later Ambassador to Saudi Arabia and Egypt, and one of the ablest Middle East experts) was very conscious of

[1] See his autobiography, *Mission for My Country*, London, 1961, pp. 99–105.

Europe's dependence on Middle East oil: the problems, they insisted, were 'highly strategic and political, not just economic', and Britain was 'not primarily concerned in protecting the profit position of the British companies'. The British wanted co-ordination between companies and consuming government, and to improve relations with the oil producers to ensure a safe flow of oil. They even proposed, twenty years ahead of time, an International Petroleum Council made up of producing and consuming countries. But the State Department was lukewarm on all the proposals. They could not encourage joint company talks because of anti-trust; they were afraid that consumer-producer talks would only encourage Arab co-operation; and they preferred to keep aloof from their own companies, particularly Aramco, for their own diplomatic reasons. 'Certain advantages,' they said, 'had flowed from this separation of identity, particularly during the early days of the development of the Israel State.' By allowing Aramco to stand on its own feet the government could avoid a clash between its two conflicting foreign policies. The talks eventually fizzled out. The chance of any coherent Western policy was lost, and any hopes that Britain could improve relations with the producers were dashed by the Suez adventure two years later.

THE CONSORTIUM

By the time of the fall of Mossadeq, Sir William Fraser was reluctantly realising that BP could no longer retain the monopoly of Iranian oil which they had enjoyed for forty years. The wave of resentment was too strong and the future security of Iran rested more with the Americans than the British. The diplomacy thus was largely in American hands. Dulles appointed a petroleum adviser, Herbert Hoover, the son of the ex-President who had already mediated in Mexico, and Hoover flew between Teheran, Washington and London, trying to arrange for Iranian oil to flow again into the world's markets.

But the problem was thorny. Hoover wanted to include any American oil company big enough to develop the Iranian oilfields—which meant all the five American sisters. But the companies were not very keen, since there was now again a world glut, and any new oil would mean cutting back oil from other

countries. And for the five companies to march in together would make a total mockery of the anti-trust case that was brewing up: it would put the companies in a strong position to insist that the case be dropped altogether. But the trust-busters were now in retreat. In August 1953, Eisenhower told his Attorney-General to 'develop a solution which would protect the interests of the free world in the Near East as a vital source of petroleum supplies', and stressed that the enforcement of anti-trust 'may be deemed secondary to the national security interest'.

There were more spikey arguments between the State Department and the trust-busters; Leonard Emmerglick, the attorney who was handling the case, warned that the anti-trust division could not allow the five companies to co-operate if there were to be 'a regime of agreed-upon cutbacks or artificial controls' in the Middle East.[1] His concern was well-based; for such a systematic restraint of production went to the hearts of anti-trust principles. But the choice had already been decisively taken by the State Department, whatever the case against the 'so-called cartel' (as they referred to it). In the cause of defence, and in the fight against Communism, the five sisters must be brought into Iran.

Hoover gradually paved the way to a coming-together of the companies. In December 1953 Sir William wrote to the five American chief executives: Holman of Exxon, Jennings of Mobil, Follis of Socal, Leach of Texaco, Swensrud of Gulf; and also to Shell and CFP. To each he explained that 'the companies which could make a constructive contribution to a solution are those which are now engaged in the production of oil in the Middle East and in the marketing of it on a large scale internationally', and he invited each to a meeting in London to discuss the Iranian problem. Exxon, as the senior company, passed the invitation to the State Department, asking whether they had any objection, and piously stressing that the company was very conscious of the 'large national security interests'. The State Department agreed, provided Herbert Hoover was present at the discussions.

Texaco, when they got the letter, shrewdly went direct to the Justice Department, and the anti-trust chief, Stanley Barnes, was immediately worried that approval would 'make it impossible to go on with the cartel case'. It was unfortunate, Barnes

[1] Subcommittee Print: 1974, p. 54.

commented, 'that Hoover looked only to the cartel companies.'[1] The anti-trust difficulty soon came to a head. The trust-busters continued protesting, particularly about the lack of price competition, but on January 14 the National Security Council gave its support to an international consortium: and the Attorney-General then told Eisenhower that in view of the security requirements the consortium 'would not in itself constitute a violation of the anti-trust laws'.

The seven companies, in the meantime, had met in London with Sir William Fraser and Herbert Hoover, together with the French Compagnie Française des Petroles, which was now a more formidable power in world oil, regarded as a wayward eighth sister. The eight each agreed to join a consortium to buy and develop Iranian oil.

CONCILIATION

There remained the problem of squaring the Iranians, which even after the fall of Mossadeq was not easy. The Shah, conscious of the indignity of his dependence on the CIA, was determined to drive a tough bargain, and Sir William Fraser was still very stubborn. In December 1953 the Foreign Office had resumed diplomatic relations with Iran, and sent out an open minded young *chargé*, Denis Wright. Fraser was outspokenly critical of the appointment, and regarded himself as the maker of diplomacy, while the politicians became increasingly exasperated by his stubbornness: 'Why don't we make him a peer and be done with him,' said Harold Macmillan, a member of the cabinet. BP was not now a buffer but an obstruction. Eventually Fraser was persuaded that it would be impossible for BP to lead the negotiations; and the task of heading the team was given to Exxon, while BP sent out a patient mathematician, Harold Snow, who was regarded as too silent to give offence. But the Foreign Office were behind the scenes, virtually supervising the critical negotiations.

Exxon eventually brought in as their negotiator Howard Page, a man who was to have an enduring influence on the Middle East over the next fifteen years, as the master-diplomat among the American oilmen.

Surveying the Iranian situation, Page was confident that a deal

[1] Subcommittee Print: 1974, pp. 57–60.

could be done, supported by Wright. Page flew out to Teheran, with Snow of BP and John Loudon of Shell, and began talks with the Iranian finance minister, Ali Amini. It was an exasperating haggle; the Iranians were using the Russians as a bargaining counter, and were determined to appear to drive a hard bargain. But in fact the Shah needed a settlement as much as the Westerners; and at last in August 1954 an agreement was signed by the heads of the companies, and was soon afterwards approved by the Majlis.

This new carve-up included for the first time all seven sisters and seemed at the time satisfactory to all sides. BP would take forty percent of the shares in the Consortium: the five American sisters would each take eight percent: Shell would take fourteen percent; and CFP would take six percent. The National Iranian Oil Company, which Mossadeq had created, would remain the owners of the oilfields and the refinery, and the Consortium would buy the oil from them. But through their exclusive control of the markets, the Consortium were now the effective masters of the oil-production. And BP's demands for compensation were satisfied, after long negotiations between Amini and Harold Snow. BP would be paid both directly from the Iranians and indirectly through payments by the other Consortium members. In the end BP got more than the Iranians had originally offered, and Sir William, to the anger of the British Treasury, got an extra tax benefit from the British government.

But there was also a more clandestine understanding between the companies; a 'participants agreement' which was signed by the eight companies and kept secret from the public and from the Iranian government for the following twenty years; and with special reason. For it described not only the terms under which they would buy oil, but also how they would restrict production to avoid a glut. This was achieved by the formula of the 'Aggregate Programmed Quantity', or APQ, which was outlined in the participants agreement, which was really to be the arbiter of Iran's future growth. The APQ calculated the total amount of oil that was to be 'lifted' from Iran in the following year, and it was reckoned by listing the needs of each participant, divided by their percentage share in the Consortium, in order of magnitude; and then taking the last figure after seventy percent of the holdings had been listed. A company wishing to take more than its quota would have to pay more for it. To take an example, in 1966 the APQ came to 1,945,000 barrels a day, calculated thus:[1]

Participants	*Share (%)*	*Cumulative Shares (%)*	*1,000 barrels per day required*
Independents (Iricon)	5	5	2,030
BP	40	45	2,027
Shell	14	59	2,027
Mobil	7	66	1,964
CFP	6	72	1,945
Exxon	7	79	1,890
Texaco	7	86	1,712
Gulf	7	93	1,700
Socal	7	100	1,644

The significance of this system was that it effectively held down production in Iran to the levels required by the least demanding of the companies. If Exxon and Texaco for instance, were to want less oil (as they always did) because of their commitments in Saudi Arabia and elsewhere, BP and Shell would have to restrict their production, too. It was not surprising that the companies did not wish the Shah to know how his country's future income depended on a private rationing system controlled by eight companies. When he *did* know, as we will see, the effect was electric.[2]

The secret clause had to be revealed to the anti-trust staff in Washington who were preparing their civil case against the cartel, and it bore out their worst fears. Leonard Emmerglick, in charge of the case, warned that the Attorney-General would have to 'stultify himself' to approve the arrangements, and Kenneth Harkins, his number two, believed that they 'manifest a continuation of the cartel pattern'. The Attorney-General, Herbert Brownell, agreed that approval of the Consortium was inconsistent with the cartel case, and admitted that the case must proceed with emphasis on the marketing aspects and not on the

[1] Multinational Hearings: Part 7, p. 254.

[2] In her book *The International Petroleum Industry* published in 1968, Dr. Edith Penrose reckoned from existing evidence that the cut-off point was between 60% and 79%, but the details of the agreement, and the actual figure of 70% were not published until 1974, when they made part of the evidence of the Senate Multinational Hearings.

production control aspects'. But he repeated his assurance to President Eisenhower that in view of the security interests, the Consortium would not violate the anti-trust laws.

The smaller American oil companies not surprisingly complained about being left out of this cosy cartel, and eventually in April 1955 a concession was made to them: each of the five American participants gave up an eighth of their holding, to allow five percent of the Consortium to be held by nine of these 'independents'.[1] But the method of choosing them aroused the suspicions of the trust-busters, for they had all to be approved by the accounting firm of Price Waterhouse, which for some time had been the special vehicle for the American sisters in their joint operations.[2] One company not so approved, American Independent, had to appeal to the State Department to be allowed onto the list. The enlargement of the Consortium also worried the Texan oilmen, who were fearful that they would be flooded by cheap Iranian oil. Their chief defender in Congress, Senator Lyndon Johnson, passed on their concern to Dulles, and was then assured that the companies 'could and would absorb the Iranian production without unsettling world markets'.[3]

But the Consortium had a far more serious limitation in global terms: for it represented companies from only four consuming countries. The three defeated nations whose consumption of oil was now rapidly growing—Italy, Germany and Japan—were unrepresented in the share-out. The exclusion of Italy, the most vocal of them, was to have swift repercussions, as we will see in the next chapter.

As for the case against the cartel, it continued to be assembled over the following years, occupying huge staffs of attorneys in the oil companies and in the Justice Department. It was not until 1961 that a 'Statement of Claims' was put forward against the five sisters, signed by Lee Loevinger, the anti-trust chief under the Kennedy administration. It was, like the complaint of eight years before, boldly worded: 'The fact that the conspirators were able to control market prices and prevent surplus oil from

[1] See Chapter 7.

[2] 'All through the documentary material delivered by the five defendants in the cartel case,' complained Watson Snyder of the anti-trust division in March 1955, 'you will find that Price Waterhouse and Company is the medium through which all the accounting is done for the participants in the various illegal arrangements.' Multinational Hearings: Part 7, p. 249.

[3] Multinational Hearings: Part 8.

upsetting the market equilibrium', it concluded, 'demonstrates the existence of monopoly power'. But as a result of the Iranian Consortium the statement concentrated much less than the previous complaint on the joint production agreements, which were the heart of the collusion, which took much force out of the charge. Eventually three of the companies—Exxon, Texaco and Gulf—agreed to consent decrees, and the two other cases, against Mobil and Socal, were later dismissed without prejudice. The trust-busters, for the time being, had lost ground.

SEVEN IN CONTROL

By October 1954 the oil was again flowing from Iran to the world's markets, and technicians were returning to restore and enlarge the oilfields. The three-year crisis was over; yet what was remarkable, after the first panic, was how little of a crisis it had been. The oil companies had shown first that they could do without Iranian oil, and then that they could again do with it; and neither the turning-off nor the turning-on had any perceptible connection with the price of oil. It was a phenomenon that gave much support to the suspicion that the seven, if not actually a cartel, worked in some sort of close unison, keeping down the supplies of oil to keep the price up, and co-ordinating supplies throughout the world. As one prominent student of the companies concludes: 'It seems incontestable that the rate of supply was subject to some sort of controlled planning . . . but there is no evidence at all that control was exercised in any *centrally* co-ordinated manner.'[1] This was the central mystery behind the symbiosis of the seven.

BP, while losing their monopoly, had achieved handsome compensation and a promising future; their shares had zoomed up from £5 in October 1951 to £18 after the consortium agreement was signed, and in November 1954 a bonus of £80 million was distributed to shareholders. In fact BP men were later able to reflect that the whole crisis was a blessing in disguise; for the temporary loss of the oilfields was a shock which forced them rapidly to find and develop oilfields elsewhere, and they would never again be so dependent on a single country. It was a shock that has been compared to the shock to Standard Oil at the

[1] Dr. Edith Penrose: *International Petroleum Industry*, London, 1968, p. 152.

dissolution of 1911.[1] And perhaps some kind of crisis would have occurred anyway before long, even without the intransigence of Mossadeq and Fraser: 'the tide of nationalism was already flowing', said Sir Eric Drake; 'it could only have been held back for a few more years.' The all-British monopoly would have been hard to maintain, and the transition to the Consortium reflected the new realities of American power. It had been achieved with tact and dignity: BP were able to cover up their humiliation with a show of dignity: Sir William, who was a prime cause of the disaster, was acclaimed by the British press as the architect of the settlement (with scarcely any reference to the Americans' role) and the next year was created Baron Strathalmond of Pumpherstone (he should, commented Gulbenkian, have been called Lord Crude of Abadan).

Moreover, all the seven sisters could congratulate themselves that the Iranians, and all other potential nationalisers, had been taught a lesson. They could not do without the big companies, as the Mexicans had found thirteen years before: they could only drown in their own oil. The companies had again made clear that they controlled the world's markets: and the American five, though still harassed by anti-trust, had gained greater recognition from their government. For the next twenty years, they could warn nationalist leaders, explicitly or implicitly, 'look what happened to Mossadeq': and for at least sixteen years—so long as there was a large surplus of oil—the warning was effective.

And the seven had now achieved a more perfect system of control and orchestration of the supplies of Middle East Oil: the Iranian Consortium, unlike the consortia in Iraq or Saudi Arabia, included all of them, and this time they had brought in the French company too, thus avoiding the Gallic acrimony attending the Aramco agreement. In each of the major producing countries, two or more of the seven were in control, and all four of the partners of Aramco were now also partners in Iran, making much smoother the delicate task of balancing production between them. The chart overleaf shows the share-out between the major countries from 1954 onwards.

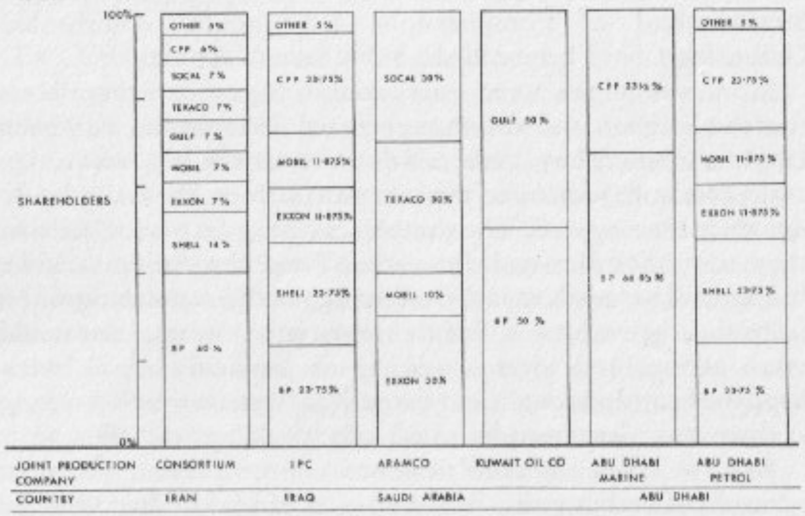
From the viewpoint of the seven there was nothing sinister about the carve-up: it merely reflected the elementary fact that only huge companies with resources and markets were in a position to develop and sell the oil. And without joint arrange-

[1] Penrose: p. 114.

ments, in a world of glut, there would be only cut-throat competition and sudden floods of cheap oil, such as had made life so intolerable in the mid-'twenties: it was only common sense to agree to restrict supplies.

But to anyone outside the seven—including the Italians, Japanese and Germans, the American independents, and the producing governments themselves—the system was thoroughly pernicious: if they had not known it already, the FTC Report now explained it. For they saw the production of oil being

COMPOSITION OF THE KEY JOINT OIL PRODUCTION COMPANIES IN THE MIDDLE EAST 1972



Source:- Multinational Hearings Part 5

manipulated by the seven to achieve the highest possible profits; and even with the lower price of oil, their profits were still enormous.

As for Dr. Mossadeq, his role in history is still disputed. Among old Iranians, he is now still an embarrassing phenomenon, who bankrupted his country and looked foolish to the world; and the Shah, who had to leave the country because of him, prefers not to hear the name of 'that fellow'. But to most younger Iranians, he is a kind of national hero, for he first asserted Iranian nationalism against the Company and the British. Even if his timing was wrong—as it manifestly was—

his ideas still lived on. The Shah in fact was deeply influenced ever after by his experience. Ever since he has had to show the Iranians that he can hold his own against the companies and the West; and while mocking Mossadeq he has tried to take some of Mossadeq's clothes.

Iran had been brought to heel with the connivance of other producing countries, who were happy to benefit from the boycott, and this was to be the source of some shame to them ever afterwards. When, six years later, they came together to form OPEC, the member-countries each made clear to the Secretary-General, Fuad Rouhani, that they would not take such advantage of rivals again. The lean spectre of the fanatical doctor flitted over the first counter-attack by the producing countries.

SUEZ AND AFTER

The formation of the Iranian Consortium marked in some respects the apogee of the influence of the seven sisters, both with the Middle East governments and with their own home governments. In Washington, the State Department was only too glad to let the companies look after the problems of oil, and to let Aramco pursue a separate foreign policy. In London, the Foreign Office was more sceptical of BP after the Iranian disaster, but the Treasury still regarded oil companies as geese laying golden eggs, in the form of huge contributions to the balance of payments: by 1956 BP and Shell were reckoned to supply £323 million a year[1]—more than half of Britain's receipts from all overseas investments.

The disastrous Suez adventure in 1956 seemed to corroborate the older view that oil *was* best left to the oil companies. Sir Anthony Eden launched the war in the name of protecting British interests, of which oil was far the greatest: two-thirds of the Suez Canal traffic was oil. The high emotions of Eden and his inner circle were certainly partly generated by a sense of panic about oil. As Hugh Thomas put it: 'ever since Churchill converted the Navy to the use of oil in 1911, British politicians have seemed to have had a feeling about oil supplies comparable to the fear of castration.'[2] But there was no evidence of consul-

[1] Andrew Shonfield: *British Economic Policy Since the War*, London, 1958.
[2] Hugh Thomas: *Suez Affair*, London, 1970, p. 32.

tation beforehand with oil companies or experts before the invasion took place, and the heads of oil companies, John Loudon of Shell and the more enlightened members of BP, were appalled by the invasion. They saw it as wrecking their delicate relations with the Arab producers, with good reason. First the canal was blocked, so that tankers had to be chartered at exorbitant costs to take oil round the Cape; then the IPC pipeline from Iraq to the Mediterranean was sabotaged by Syrians; then anti-British demonstrations broke out in Arab capitals and in Iran.

Suez in fact was a serious setback to the British companies, and further enhanced the American advantage in the Middle East. The American companies had been brought together with the government in a Middle East Emergency Committee (MEEC), to provide an 'oil lift' for Europe, pooling their resources and diverting oil to Europe. But while Britain was refusing to withdraw from Suez, the U.S. government deliberately suspended the committee as a means of pressure, and the British and French suspected that the American oil companies were using the crisis to fortify their own position.

Certainly they gained some commercial benefit: the Texan producers saw the temporary world shortage as the opportunity to push up the price, even though there was such huge excess capacity in Texas that production was cut to thirteen days a month under the pro-rationing agreement. Humble, the Exxon subsidiary, raised its price by 35 cents in January 1957, followed by others. There was an immediate outcry which led to Senate hearings on the effects of the emergency oil lift, in which Senator Kefauver was a prominent critic. The Justice Department investigated, and a federal grand jury indicted twenty-nine oil companies for conspiring to fix prices; but they were later acquitted by a District Judge in Oklahoma, Royce H. Savage, who explained: 'I have an absolute conviction personally that the defendants are not guilty.'[1] 'Why the federal government thus delegated the conduct of foreign policy to the Texas Rail Commission', comments Professor Adelman, 'will never be known... The price increases of 1957 marked the zenith of postwar control of the market.'[2]

The Suez fiasco provided new fuel for Arab nationalism, and made the oil companies more conscious of their role as diplomats

[1] John Bainbridge: *The Super-Americans*, London, 1962, pp. 86–7.
[2] M. A. Adelman: *The World Petroleum Market*, p. 158–9.

and their advantages over governments. Two years after Suez, Shell were operating amicably in Egypt while the British government were unrecognised. And an Exxon memo in early 1957 described in statesmanlike terms how 'the problem of restoring confidence in Middle East oil is one which concerns every member of the petroleum industry active in Europe... We must be sure that we come out of the present emergency with undiminished prestige and strength.'[1]

[1] Quoted in Robert Engler: *The Politics of Oil*, Chicago, 1961, p. 190.