

OIL AND NATIONALISM

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In the first Decade in the great Scramble for World oil, there was not much worry about objections from the producers themselves, at least outside America. In the Middle East, each new discovery, appeared to weaken the position of local governments in the face of a world glut.

In Iran BP maintained its highly profitable monopoly even after the coming to power of a new ruler Reza Shah; and a new agreement was reached in 1933 extending the concession till 1993. In Iraq the IPC consortium could make vast profits with little resistance from the disorganized government.

But there was a warning of future troubles in Mexico, the country which had the most bitter experience of both exploitation by the oil companies and the corruption of governments. The most spectacular fortune in Mexico had been made by an English contractor from Yorkshire called Weetman Person.

He had come to Mexico at the end of the last century at the invitation of the dictator Porfirio Diaz to build a canal to drain Mexico City. He happened to be in Texas just when the Spindletop discovery was made in 1901, and immediately bought concessions in likely land in Mexico. He found huge oil reserves in 1908, and (Standard Oil) sold out their share leaving Pearson as virtual master of Mexico.

In 1913 a new dictator, General Huerto was declared President. Meanwhile "Pearson" or "Lord Dowdray" as he new was, with the backing of the liberal Government in London, for; Mexican oil, had

become crucial for the Royal Navy was pumping the oil out of Mexico as fast as he could. Mexican oil played a key role in the First World War, and by July 1913 Exxon reckoned that Mexico's potential production was greater than actual production in the USA.

Mexican oil made Lord Cowdray into one of the richest men in Britain. In 1919 Cowdray sold out the majority of his company to (Deterding of) Shell.

In 1936 the new Government of Lazaro Cardinas reached an impasse when workers in the oil fields went on strike against the appalling conditions in shanties and hovels. A government board ordered the foreign—owned companies to meet the workers demands; but they refused and put their case to the Mexican Supreme Court. Cardinas retaliated by nationalizing the seventeen companies in March 18, 1938: It was proclaimed as a new day of Independence and a monument to the nationalization was put in Mexico City, at which diplomats were required to place wreaths.

But euphoria in Mexico did not survive. The Americans, British and Dutch boycotted the nationalized oil and American ambassador Josephus Daniels sadly predicted that "the Mexicans would drown in their own oil."

The new national oil company, PEMEX was initially corruptly and incompetently run, without enough experts or engineers; and the Mexicans were eventually forced to pay £ 130 million compensation for seizing the companies.

The boycott was lifted to satisfy the demands of the second World War but, the big companies having drained off much of Mexico's resources then switched their chief attentions to Venezuela, where they were on good terms with the dictator Gomez. By 1946 Venezuela had become the world's biggest producer outside America.

The Mexican nationalizations appeared self-destructive as if to prove the point that great companies were essential for survival of the producers. Yet Mexico nevertheless was an important warning to the companies; that they were politically increasingly vulnerable and

could not necessarily rely on home governments to retaliate. But few oilmen expected that Mexico would be the first in a chain reaction spreading to Venezuela and thence to the Middle East which would eventually unify all the producing countries against the companies.

II

It was on the other side of the world, in America again that nationalism first seriously confronted the oil companies, and it happened in the middle of the Second World War, when it was hard for them to withstand it.

The Mexican crisis had apparently been overcome with the help of Venezuelan Oil during the Second World War years, Venezuela with an area bigger than Texas and a population of only six million, had rapidly become the chief exporter of oil in the World-and a vital source for the three companies most involved; Exxon, Shell and Gulf. The war in Europe- though many of us were unaware of it- was dependent on Venezuelan oil.

Venezuela had been transformed through oil into the richest country in Latin America. The Capital Caracas filled up with automobiles and between 1920 and 1936 its population doubled. But the position of the Companies had been basically unstable, as in Mexico, particularly since the collapse of the dictator Gomez in 1936 and they were attacked for their exorbitant profits and the wretched conditions in the oil slums.

By 1938 Venezuelans under the military regime of General Medina, demanded a revision of oil contracts to allow higher royalties and taxes in return forty-year renewal. They threatened the companies with nationalization if they would not agree. In contrast to Mexico, the way was open for a peaceful compromise. The oil companies were soon glad to pay higher royalties in return for stability and a forty-year contract; and soon doubled their output of oil.

In 1945, the Radical Party (Accion Democratica) came to power; and with it a new kind of oil minister, a scholarly and monkish economist called Perez Alfonso, who really understood the economics of oil. He saw Venezuela's problems in the larger perspective of

world supplies in future decades, and he was to become the chief architect of OPEC.

Alfonso insisted that the Venezuelan Government should have a fifty-fifty share in all oil profits. A basic new law was passed in November 1948- just before a new coup removed Alfonso temporarily from office.

But the new law remained in force and the companies soon realized that it gave them greater security. It established the government as their partners and it made foreign-owned corporations much less vulnerable to nationalist attacks. The fifty-fifty arrangement soon became a rallying cry for other oil producing countries, and the idea quickly crossed the six thousand miles to the Persian Gulf.

III

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 the Allied Armies; and in the first five years after the war, production nearly doubled.

As the old British Empire disappeared, so the (Commercial Empire of BP) seemed all the more remarkable and necessary, bringing benefits to both British and Iranians.

The two thousand British Employees saw themselves as bringing; employment, houses, schools, hospitals to Iran; why should Iranians not be grateful?

But from the Iranian side this picture was unrecognizable. They were a proud and ancient people; and Reza Shah who had seized power in 1921, was a fearsome monarch. 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 Mohammed Reza who had been educated in Switzerland.

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 catalog of long delayed reforms and reparations" But that was not how the new Shah Mohammed Reza Pahlavi saw it. As he put it thirty years later; "We were an independent country, and then all of a sudden the Russian invaded our country and you British took my father into exile. Then we were hearing that the oil company was creating puppets, so it was becoming in our eyes a kind of monster; almost a kind of government within the Iranian government"

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 country, The mood of the Iranian parliament, the Majlis, was increasingly nationalistic in the postwar years, and the resentments become greater when the British Labor government limited all company dividends, thus cutting back the Iranian budget.

The military was encouraged by an American Ambassador Henry Grady, a first-generation Irish-American hatred for British Imperialism-who encouraged the Iranians 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 pajamas and perpetually weeping appeared ridiculous, fanatical and emotional. But in fact he was a shrewd politician from a rich landowning family who perceived the nationalist mood.

Since the ill-fated Mexican nationalizations of 1938, he was the first leader to dare to confront the oil Companies. Dr. Mossadeq was appointed chairman of a 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 nationalization. Events than 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 days later after strikes and martial law, The Majlis elected Dr. Mossadeq Prime Minister and voted for the immediate seizure of BP's oil fields.

The Iranian crisis thus suddenly became a challenge to Britain's world authority; the labor government were faced with 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? But then Prime Minister Attlee insisted thah force was quite out of the question. The government and BP there after prepared themselves for a more patient and subtle strategy.

BP had enlisted the support of the other six sisters, to make sure they would not buy "hot oil" when it was nationalized. And BP were soon, with government help to enforce the boycott. When a Panamanian ship, the "Rose Mary", took on oil from Abadan, RAF planes forced it into Aden harbor, where its cargo was impounded.

BP and the British Government had been waiting for nearly two years for the expected collapse of Dr. Mossadeq. In May 1953 Mossadeq wrote to President 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 and then wrote back insisting that Iran must live up to her international obligations. Mossadeq, was desperate; he nationalized 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; and their chance soon came. Dr. 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 took to the streets to fight Mossadeg's troops. Dr. Mossadeq was forced out of office. The Shah's man General Zahedi took over the government and the Shah returned to his capital in triumph.

It was a well organized coup but the West in the end paid a heavy price for it. For the Shah was there after determined to show his independence and could never again dare to be seen as the pawn of the West.

By the time of the fall of Dr. Mossadeq, Sir William Fraser, Chairman of BP, was realizing 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 Iranians were using the Russians as a bargaining counter. But in fact the Shah deeded a settlement as much as the Westerns; and at least, in August 1954 an agreement was signed by the heads of the companies, and was soon afterward 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 share in the consortium; the five American sisters would each take % 8; Shell would take 14 % and CFP (Companie Française de Petrole) would take 6 %. The National Iranian Oil Company (NIOC) which Mossadeq had created, would remain the owners of the oil fields 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.

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 Companies and the British. Even if his timing was wrong 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 cloths.

The other producing countries were happy to benefit from the boycott applied to Iran. When in 1960 they came together to form OPEC; the member countries each made clear to the Iranian Secretary General Fuad Rouhani, that they would not take such advantage of rivals again.

IV

There had been earlier attempts to bring together the oil exporting countries. The Venezuelans influenced by the Shrewd Perez Alfonso had for long been determined to safeguard their own conservation policy by spreading it abroad. With their very limited reserves; their long history of independence and their bitter resentment of the United States, they were much more militant than the Arabs, and they helped to establish principle of fifty-fifty in The Middle East.

The Arabs had a growing realisation of the importance of collaboration over oil, ever since the Arab League was formed in 1945.

President Nasser of Egypt in his own book "The Philosophy of a Revolution" first published in 1954 described petroleum as one of chief components of Arab power. Like so many Arab Radicals, he had got his ammunition from America. He had than just been reading a "treatise" on petroleum; published by the University of Chicago, which revealed to him that it cost only ten cents to extract a barrel of oil from Arab countries; and that the average output of a single Arab oil well was 4,000 barrels a day, compared to 11 barrels in U.S.

"Petroleum" Nasser told his Arab brothers "is the vital nerve of civilization, without which all its means cannot possibly exist. The oil adviser in Saudi Arabia, Abdullah Tariki, was a radical who was determined to unite the producers. Tariki was one of a new generation of Arabs who had been seen the oil industry from the inside; he had been educated at the University of Texas; had been a trainee in TEXACO and was married for a time to an American girl.

He was left with a detailed knowledge of oil and of the antitrust arguments inside America; once again America was educating its adversaries.

The first price reduction in 1959 had proved the first spur to unity. Two months later the first Arab petroleum Congress was convened in Caire including observers from Iran and Venezuela. There were private talks between Tariki and Perez Alfonso, which led to a secret gentleman's agreement which, according to Alfonso, "constitutes the first seed of the creation of OPEC" in 1960.

The founders of OPEC owed much to the oil Companies and to their critics in the West. The new generation of young Arab- Technocrats like Tariki, knew the history of conservation in Texas and they had followed each attack on the "oil cartel". The facts from Federal Trade Commission's report in 1952 were repeated through OPEC speeches like the anticolonialists in the British Empire, they took their weapons from their masters, and the awakening could be interpreted a reflection of American democracy as much as of Arab Nationalism.

The report was called simply "The International Petroleum Cartel". It was largely put together by a radical economist Prof. John M. Blair. The green paper bound book of 400 papers has provided an source for critics of the oil industry ever since. The gist of the FTC findings was that Seven Companies controlled all the principal oil producing areas outside of the US, all foreign refineries, 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.

The young army officers of Libya led by Muammer Qaddafi who deposed King Idris on September 1, 1969, also knew the working of the oil business. The first Prime Minister, Dr. Süleyman Magrabi had taken his doctorate at George Washinton University had worked briefly as a lawyer for EXXON and was later jailed in 1967 for organizing an oil workers strike. The new government had no doubt that Libya had been cheated by the oil companies. The wild men of Libya saw oil in the simplest terms;

During the Tripoli meeting in 1971 between oil companies and OPEC countries, Libyan team was headed by Major Abdul Salaam Jalloud translated by the veteran diplomat, Ali Mabruk. "The Libyans", they pointed out, "had survived for 5.000 years without oil, and could quite well do without it, but the companies could't." They invited the company representatives one by one to negotiate, which meant long waiting followed by insults and speech making.

For Radical Arabs the whole concept of oil concessions was increasingly unacceptable the notion that a producing country was entitled to part-ownership of the concession- as opposed to merely

taxing it- had been accepted in 1920, in the San Remo agreement over Iraq, and ever since ignored. In the meantime the angrier radicals had favored the more extreme course of whole-sale nationalisations. But that drastic remedy, whether in Mexico in 1938, or in Iran in 1951 carried the danger of excluding the producers from the oil markets.

So, how could producers take over control and yet remain part of the world market system? In the late sixties they began to concern themselves with the idea of gradual nationalization under the tactful slogan of "participation".

The chief advocate of participation was a graduate from Harvard Sheik Zeki Yamani of Saudi Arabia. Yamani realized the dangers of abrupt nationalization, and the need to maintain the orderly system of the oil companies; and in this he was at loggerheads with his predecessor Tariki, who was now firmly advocating nationalization. Yamani believed that the oil producers should gradually edge their way into the indicate world system without disrupting it.

The producing countries could take over a share of oil and could this build up their own national companies.

(Petromin) in Saudi Arabia (KNPC) in Kuwait. (NIOC) in Iran. In othea words OPEC would not beat the cartel, but join it.

Yamani firstly proclaimed his policy in a seminar at the American University in Beirut in June 1968. A meeting of OPEC in the same month endorsed the principal in a statement that, "the government may acquire a reasonable participation". In March 1969 Yamani described participation to Richard Johns of the Financial Times, as" creating a bond which would be indisscluble like a Catholic Marriage. At the same time Yamani urged that participation would be in the interests of the oil Companies. It will save them from nationalization he explained at a seminar in Beirut, and proved them with a link with the producing countries.

At the OPEC Conference in June 1971 Yamani convinced most (but not all) other members, against the arguments of Tariki, that they should immediatly demand 20% share in the companies operations, to be gradually increased to 51%.

The companies on their side again resolved to stand together and more radical members of OPEC were determined not to be outdone.

Already in february 1971 Algeria had nationalized 51% of all French interest in her oil. Ten month later just as OPEC was meeting again the Libyans announced the Nationalization of all BP assets.

Participation was now the catch phrase of the Middle East. The rich sheikhdoms of Abu Dhabi, Qatar and Kuwait all soon wrested agreements for 20% ownership from the Companies. But in Iraq the long arguments with the IPC the grandfather of all the consortia, were reaching a bitter climax and in June 1972 Iraq finally nationalized the consortium and soon afterward agreed with the French Company CFP to take its usual share of the Nationalized oil the Iraq's in a time of shortage, could now play the French against the Seven. The old warning of "look what happened to Mossadeq" was no longer valid, as the nationalized companies showed they could operate their own oil.

In October 1972 the Companies met in New York, with the five Persian Gulf States, headed by Yamani, and reached a "general agreement" that they would give up 25% of the established concessions rising to 51 percent in 1983. The final agreement was signed at the end of year in Riyadh.

V

The British Governments relations with the oil companies had taken a curious new turn, due to the discoveries in the North sea. By 1974 ministers were privately, foreseeing large exports of oil by the 1980's, so that the quidrupted oil price might in the end prove the salvation for Britains balance of payments; the exploration however, was now so expensive that it was only economic with a fairly high price. Thus although Britain faced high oil import costs for the next years, her long-term interests were coming much closer to OPEC's.

But the North Sea and the energy crisis made the question of controlling the oil companies much more urgent. The notion began to take root that the British Government, like the Arabs, should en-

gage in "participation". Once oil was discovered the British felt the same need to have control over their own resources, and this applied particularly to the Scots, in whose waters most discoveries were (made) and who were talking about the exploitation of their own oil and threatening secession.

The British Government therefore proposed to buy 51% of the shares of each of the North Sea concessions and to form its own British National oil Corporation-BNOC based on Glasgow, to look after its interests." No other Government outside the US said Eric Varley the then labor Minister for Energy "has thought it wise to be completely dependent on the oil companies".

The Participation was really an updating of Churchill's old insistence that the Government "must become the owners or at any rate the controllers of their own oil supply" extending from 51 % of a company to 51 % of a sea.

The American oilmen named the British with the Norwegians as being the blue-eyed Arabs and the "Sheikhs of the North".

It was certainly ironic that the British Government having protested against participation so vigorously in the Middle East and having denied it to the Iraq's over the past fifty years, should so quickly insist on it for themselves. But it was characteristic of oil that once found in anyone's territory, it made the world look very different.

In fact Scottish Nationalism has increased at an amazing rate since 1969, recently accelerated by the discovery of North Sea oil and always powered by a keen distrust of the English.

But North Sea oil and gaz production are expected to start declining in the 1990's, assuming present forecasts on reserves are correct and if unexpected discoveries are made. Therefore there is an urgent need to expand the coal and nuclear energy industries.

As John P. Grant put it; Much of the economic argument in favour of an independent Scotland and indeed much of the political impetus for devolution; has centred on the wealth that will be drawn from the sea bed around the Scottish coast. Up until the discovery of oil in commercial quantities in the North Sea in the early 1960's it was generally accepted, that there was little economic bases for the

argument that Scotland could survive on its own. All this changed with oil.

The Government of Norway, in the meantime after the discovery of the Great Ekofisk field took a much stern line with the companies. They first followed the British in their discretionary system of handing out concessions, but became much tougher with the companies as soon as oil was discovered. The reason was clear; Having no international oil companies the Norwegians had no reason to sympathize with them. At a time when OPEC was becoming more vocal, they were tempted to see their own country, with its small (4 m) population and sense of separateness from Europe, as having much in common with OPEC.

As the OPEC Countries became more interested in conservation of their resources, so the Norwegians were determined not to extract their oil too fast. They encouraged their own industrialists to supply equipment and formed their own company (statioil) to make oil rigs. They kept in touch with the OPEC experts and particularly with Yamani. The Texans referred to Norwegians sourly as the "blue-eyed Arabs"

Thus the hopes that the North Sea, and Alaska would rescue the companies from their dependence on OPEC had been partially fulfilled, but with an ironic twist. For the companies, coming up against their home governments were to find that they too, had learned something from the Arabs.

Once again economic growth which took the form of oil industry ideally suited to promote a sense of distinct national interests.

Economic aspects of Nationalism were stressed by some scholars.

A group of scholars concluded that the use of industry and the growth of national feeling went hand in hand and saw economic causes of the demand for self-government on the part of Canadian, Australian, New Zealand and South African nationalists. Antony D. Smith's observation that nationalism involves the recasting of competitive ethic on a collective plane and the search for dignity in terms of wealth and power is also partly a recognition of its close relationship to economic development.