

PERSIAN OIL

A Study in Power Politics

by

L. P. ELWELL-SUTTON

1955

LAWRENCE AND WISHART LTD.

LONDON

PERSIAN OIL

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MADE AND PRINTED IN GREAT BRITAIN BY
CHARLES BIRCHALL AND SONS, LTD.,
LIVERPOOL AND LONDON

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NOTE

In the Persian language the country is known as IRAN, but to avoid confusion the more familiar name PERSIA has been used throughout, with the exception of a few quotations

CHAPTER ONE

THE ECCENTRIC DR. MOSADDEQ

ON December 21, 1953, Dr. Mohammad Mosaddeq, doctor of law and former prime minister of Persia, was sentenced by a military court in Tehran to three years' solitary confinement for disobeying the Shah's order of dismissal and dissolving Parliament. So passed out of the limelight a figure that had held the headlines in the press of the world for nearly three years. To most people in the west he was a puzzling figure of fun—funny because of his tears, his fainting fits, his propensity for conducting public business in grey woollen pyjamas and a plain iron bed; puzzling because of his extraordinary success in getting away with the most outrageous and impossible demands.

Journalists vied with one another in mis-spelling his name. To millions he became known simply as Mossy. He was a stock joke for radio and film comedians, and the American magazine *Time* put his portrait on the front cover as "The Man of the Year" for 1951. All over the world people waited enthralled for his next move, and followed with the closest interest his periodic retreats to the Majles building, his air trips to Europe and America, his quarrels with his supporters, his ultimatums as uncompromising to his own parliament as to the diplomatic officers of the west.

In Britain and America worried foreign service officials, petroleum experts, financial pundits, diplomatic correspondents and members of parliament gasped as one disaster followed another. "Britain has been humiliated," they cried. "Persia is committing suicide," answered others. "Mosaddeq is destroying all respect for law and order," came the protest; "he is undermining the whole basis of international co-operation." The Persians, it seemed, had suddenly gone mad; following the lead of a crazy old man, they had thrown out a sound and honest commercial concern, destroyed their oil industry, and dealt a crippling blow to their country's economy. They had ignored the generous and disinterested advice given them not only by Britain,

but by America and the rest of the world. They had placed themselves outside the pale of normal international intercourse.

Meantime, stormed the Conservatives in Britain, the Labour government had allowed Britain to suffer intolerable humiliation and defeat. The Tories are driving us to war, cried Labour in response. A general election was fought and decided at the height of the crisis. The bald-headed, hawk-nosed old doctor's antics were even troubling the serene waters of British politics.

Dr. Mosaddeq has his place in the chapters that follow. But his is not by any means the whole story. The Anglo-Persian oil dispute cannot be reduced to personalities, or to the simple terms of wisdom versus ignorance; or principle versus expediency; or fanaticism versus calm reason. Nor was it just a case of Persian against Briton, or nationalist against foreigner.

This book is an attempt to trace the whole story of the relations between the Anglo-Iranian Oil Company and the Persian government and people since their first contact at the turn of the present century. It is not intended as a history of oil in Persia; nor does it set out to pay tribute to the technical achievements of the oil company. It has been written in the belief that much is wrong in the present approach to international relations, and that the present world-wide tension and conflict arises from that fact.

In some ways the Persian oil problem was no more than a pebble thrown into the storm-tossed sea of the world of today. But in other ways the differences and dissensions it revealed are fundamental. By examining the events and tendencies that brought this problem into being, we may find the key to the establishment of satisfactory relations between the peoples of the world.

The story of the Anglo-Iranian Oil Company in Persia is a dismal one. It is an instructive case-history, a lesson in how not to conduct one's dealings with people of other lands, different backgrounds, strange cultures. It is as much a lesson to those who believe that all nations are fundamentally the same, and that what goes in Birmingham or Chicago must work out in Tehran or Delhi, as it is to those who assert that "East is East and West is West, and never the twain shall meet." It is a salutary warning both to the idealists who seek for world unity and to the businessmen who wish to sell carpets to Persia or refrigerators to Greenland.

But it is also a caution against complacency, against arrogance, against self-righteousness. It is an admonition to those who would like to patronise the "natives," a reminder that the superiority of western civilisation is no longer an axiom accepted without question throughout the world. To a certain extent the story of the AIOC in Persia mirrors this steady deterioration in the prestige of the West; but even more it explains and accounts for it.

CHAPTER TWO

PERSIA'S BLACK GOLD

FOR millions of years, deep below the surface of the earth, a vast accumulation of animal and vegetable residue lay rotting beneath impenetrable rocks whose pressure slowly converted it into a black viscous liquid. For millions of years men moved about the face of the earth unaware of the existence or nature of this substance, except in the few places where it seeped to the surface. And even there all they knew was that it burnt readily, that when it dried it formed a hard waterproof covering or cement that could be used for building, for ships, for mending cracked vessels, even for setting jewellery. But these were not uses that warranted any effort in search of it. Men took it where they found it, and where it was not to be found other things took its place.

Then, almost suddenly, a bare hundred years ago, this neglected substance came into its own. Modern machinery needed a lubricant more flexible in its uses than the ordinary animal and vegetable oils employed hitherto. For the first time explorers, engineers and geologists began to search in earnest for what was misnamed mineral oil, more accurately petroleum—rock-oil. Shafts were sunk into the ground, first in Rumania and shortly afterwards in the United States, and oil began to be extracted and sold to industry. Hardly was this business well-established than, in the 1880's, the internal combustion engine was invented; and within a generation petroleum had become the life-blood of modern industry and modern civilisation.

It was not surprising that the search for oil should send men all over the world. The only industrialised country to have her own petroleum resources was America; in Europe, apart from Rumania, there was none. Curiously enough Great Britain, who had spent the previous century acquiring an empire stocked with every conceivable natural resource, had overlooked this one. There was a little in Burma; much later great reserves were to be found in Trinidad and Canada. But in the meantime

British capitalists had to turn their eyes outside the confines of the British Empire.

One of these men was Baron Paul Julius de Reuter, better known outside Persia as the founder of the famous news agency. Of German-Jewish origin, he had as a result of the ramifications of his agency acquired considerable influence in government and financial circles throughout Europe and especially in Britain. To Persians, however, he will always be remembered as the man who secured from the Shah of Persia a concession that, in an era of sweeping concessions, put all the rest to shame.

This granting of concessions was an idea that appealed very much to the autocratic rulers of such countries as Persia and the Ottoman Empire. It had first begun to take root in Persia in the 1860's, when certain Persian statesmen and confidants of the Shah had come into contact with British business interests in Turkey and London. Under Persian law and custom the underground resources of the country, and indeed all uncultivated land, were held to belong to the State, that is to say, at that time, the Shah.

Here then was an opportunity for mutual benefit. British experts would exploit the untouched natural wealth of Persia, and in return the monarch, more concerned with maintaining the splendour of his court than furthering the welfare of his people, would receive considerable sums in hard cash. In this he was encouraged by those of his ministers who were anxious to gain British support against the ever-nearing threat of the Russian Empire. In 1870 the Persian minister in London met Baron Julius de Reuter and succeeded in interesting him in the possibilities of investment in Persia. At this time the forty-one-year old Shah, Naser ad-Din, was planning an expensive visit to Europe—the first time that a Persian sovereign would have left his country since Nader Shah had carried out his successful invasion of India in 1738; so the appearance in Tehran in 1872 of Baron de Reuter's agent, M. Cotte, with an offer of cash for a concession, was very timely.

In 1872 no doubt the Baron was not thinking particularly of oil; his concession nevertheless was worded broadly enough to cover all possible contingencies. In addition to a monopoly of the construction of railways and tramways, canals and irrigation works, the exploitation of forests and all uncultivated land, and the operation of a bank and public works of every description,

the concession handed over *the exclusive working of all Persian mines*, except those of gold, silver and precious stones. As it turned out, this concession was never put into effect; it met with violent opposition not only from the hardly vocal forces of Persian public opinion but, far more significant, from Russian diplomacy. Even the British government, scared by the hornet's nest it had allowed to be stirred up, withdrew its support from the Baron, and the Shah soon found an excuse to cancel his rash undertaking.

The idea was catching on, though; in 1884 A. Hotz, a member of a British firm with extensive business interests in British India and the Middle East, secured a small concession for the exploitation of oil in the area of Daleki, in the foothills forty odd miles to the north-east of the Persian Gulf port of Bushire. A certain amount of drilling was carried out, but with little success.

Meanwhile Baron de Reuter was still trying. He had regained the confidence of the British government, and in 1889, with the help of the British minister in Tehran, he secured a new concession that in effect restored to him the two most interesting sections of his original concession—the right to operate a bank, and the exclusive working of Persian mines. The bank was soon under way, and operated successfully until the expiry of its lease in 1949. Oil prospecting was also put in hand; an organisation known as the Persian Bank Mining Rights Corporation was formed, the Hotz concession at Daleki purchased, and drilling carried out there to a depth of over 800 feet before it was stopped. Other prospectors and engineers were at work at Salagh on the Persian Gulf island of Qeshm and in the area of Semnan in north Persia. At none of these places however was any success achieved.

So far no scientific method of locating oil had been evolved. Drilling sites were chosen in the neighbourhood of known oil seepages, but of the relation of the subterranean structure to the presence of oil deposits little was known. In 1891, while de Reuter's men were still at work, the French government sent out to Persia a large scientific mission headed by Jacques de Morgan to investigate geographical, geological, archaeological and linguistic matters. At the suggestion of the Governor of Kerman-shah, a relative of the Shah, geologists were sent to investigate the oil seepages at Chia Sorkh, ninety miles west of that city near the Turkish frontier. Their reports were favourable, but though they were published in the French *Annales des Mines* in

February, 1892, no one seems to have taken very much notice. The Persian Bank Mining Rights Corporation gave up serious work in 1893, and the concession consequently expired at the end of its first ten years. In the same year, 1899, Baron de Reuter died.

His agent, Edouard Cotte, however, seems to have studied de Morgan's reports. In 1900 he had an opportunity of discussing them with a certain Antoine Ketabji Khan who was in France for the Paris Exhibition. This remarkable character was an Armenian who had worked his way up in the Persian government service, in spite of the handicaps imposed on Armenians, until he was now, at the age of fifty-seven, Director-General of the Persian customs administration. In this lucrative position he had every opportunity and every incentive to follow up such hot tips. He attempted to interest several French financiers in the proposition; and although he failed in this, he was still optimistic enough to secure, from a small private Persian company that had been carrying on exploration for oil after the expiry of the de Reuter concession, a monopoly of oil rights throughout Persia.

He then returned to Paris with his sons Edward and Parviz, where once again he discussed the matter with various interested persons. He is even said to have offered his concession for £15,000 to C. S. Gulbenkian, a 31-year old Armenian financier who was later instrumental in securing for British interests the concession in the Ottoman Empire that led ultimately to the formation of the Iraq Petroleum Company. Gulbenkian acquired a 5 per cent. interest in this latter company; but in the case of Persia he was apparently less farsighted, for he turned down Ketabji Khan's offer. Ketabji was, however, more successful in discussions with Sir Henry Drummond Wolff, who had formerly been British minister in Tehran. Drummond Wolff returned from Paris to London, and shortly afterwards Ketabji Khan was invited to send a representative to England. He sent Cotte, who was put in touch with a representative of W. K. D'Arcy.

William Knox D'Arcy was a Devonshire man, son of a Newton Abbot solicitor, and educated at Westminster School. In 1865, at the age of seventeen, he emigrated with his father to Rockhampton in Queensland. There he became associated with the discoverer of the famous Mount Morgan gold-mine, and before long was a very wealthy man. He returned to England

in 1889, where he plunged into financial speculations of many kinds. He showed great interest in Cotte's proposals, and at his suggestion sent two geologists, Burls and Dalton, to investigate the possibilities on the spot. They visited two areas—the Chia Sorkh district already tried by de Reuter's prospectors, and a district near Shushtar, not far from the zone later so successfully developed by the Anglo-Persian Oil Company. The geological report was favourable, and D'Arcy agreed to buy Ketabji Khan's rights for a sum said to have been as much as £50,000.

It was necessary, however, to put the matter on a rather firmer basis so far as the Persian government was concerned. D'Arcy therefore sent his representative, A. L. Marriott, to Tehran together with Ketabji and Cotte, to discuss the matter with the prime minister, the Atabeg-e A'zam Amin as-Soltan, the Great Lord-Protector and Confidant of the Sovereign. This statesman had been prime minister during Sir Henry Drummond Wolff's term of office in Tehran, and in those days had been markedly pro-British in his attitude. For reasons that do not concern us here, he had since become an ardent Russophile, and it is a matter of some surprise that he should have been so willing to listen to Marriott's proposals.

He had been recalled to office in 1898 to raise money for the projected trip to Europe of the new Shah, Mozaffar ad-Din, and one of his first actions had been to conclude a loan agreement with the Russian government, by which all Persia's other debts were paid off, and Russia became Persia's sole creditor. Possibly the D'Arcy concession was envisaged as a small sop to Britain to compensate for this severe blow to her interests. Probably, too, Sir Arthur Hardinge, who succeeded Sir Mortimer Durand as British minister to Persia after the news of the Russian loan agreement, was on his mettle to produce at least one concrete result, without involving the British government too deeply until it was seen which way the Russian cat would jump. We are told that Marriott paid the Atabeg-e A'zam £10,000 for the concession, but history does not relate how the latter managed to put himself right with the Russian legation. An apocryphal story goes that before signing the document he sent a note to the Russian minister, but wrote it in so crabbed a hand that it could not be deciphered until the agreement was already a *fait accompli*.

As will be seen, however, there was an important consolation prize for Russia in the terms of the concession itself. Though it

granted to D'Arcy the exclusive right to exploit in all their stages all the various products of petroleum throughout the whole country, a later article expressly excluded the five northern provinces of Persia, which not only lay along the Russian frontier, but were also to some extent covered by a rather nebulous concession granted to a Russian company in 1896.

Persia's share was hardly spectacular. The government was promised £20,000 in cash and £20,000 in shares in the first company to be formed by the concessionaire. In addition it was to receive 16 per cent. of the profits made by this or any other company concerned in the concession. As it turned out, however, D'Arcy did not even have to put his hand in his pocket. The First Exploitation Company was duly formed on May 21, 1903, with an issued capital of £500,000 in £1 shares, 30,000 of which were presented to the Shah and 20,000 to other "leading personalities". The additional £30,000 in shares was felt to be adequate to take the place of the promised £20,000 in cash, and so no cash payment was ever made. The remainder of the shares were issued in London.

The Ketabjis also did well. Ketabji Khan himself was appointed as the Persian government's representative in dealings with the concessionaire, a post that under the terms of the concession carried with it a salary of £1,000 a year. His son Edward accompanied the first exploration party to Chia Sorkh in November, 1902. This party was headed by G. B. Reynolds, an engineer from the Indian Public Works Department, who had more recently had experience of oil exploration in Sumatra. Drilling went on over an area of 1,000 square miles until November, 1904, by which time there were two producing wells, one with an output of 200 gallons a day.

This was not considered adequate, and moreover local conditions were proving very difficult. Above all there was the problem, apparently overlooked by everyone, of transporting the oil to a seaport once it had been extracted. In spite of the capital raised by the floating of the First Exploitation Company, D'Arcy was beginning to run short. He had already spent over £300,000, and was disinclined to risk any more. However, there were plenty willing to take his place. He was first of all approached by German interests, doubtless connected with the banking interests that had been competing with D'Arcy himself for oil concessions in the Ottoman Empire. Whether he would

have sold out to them one cannot say, but at this point the British government saw fit to intervene rather more decisively than hitherto.

In 1904 Sir John Fisher had become First Lord of the Admiralty, and on taking up office began to push vigorously the conversion of the Royal Navy from coal to oil fuelling, a project in which he had been interested as early as 1882. An essential element in this scheme was the acquisition by British interests of more adequate resources than were to be found in Burma, where the Glasgow firm of the Burmah Oil Company had begun operations in 1902. On Fisher's initiative a four-man committee was set up in November, 1904, under the chairmanship of E. G. Pretzman, Secretary to the Admiralty, to investigate the whole problem. The consultant to this committee was Sir Boverton Redwood, who had been associated with D'Arcy in some of his petroleum interests. Another member was Sir Frederick Black, who later became a director of the Anglo-Persian Oil Company.

Pretzman managed to bring together D'Arcy and Lord Strathcona and Mount Royal, a self-made Scottish-Canadian millionaire who had been High Commissioner for Canada since 1896; and in due course a new company, Concessions Syndicate Ltd., was floated jointly by the Burmah Oil Company and Lord Strathcona. The ostensible purpose of this company was to operate in Persia outside the thousand square miles already handled by the First Exploitation Company.

The British government still had no direct interest in Persian oil, but Lord Fisher's action is clear enough evidence that it was not indifferent to it, and had no intention of seeing it slip out of British hands. A number of curious stories have grown up around this aspect of the affair. One of the strangest relates that D'Arcy himself visited Persia in 1901 and personally won the confidence of Mozaffar ad-Din Shah to such an extent that he was able to get a *farman* or document from him granting the exclusive ownership of all Persia's "subsoil products" for a period of sixty years. This document was presumably to form the basis of the more detailed concession subsequently given.

On the ship that took him home, so the story continues, D'Arcy became acquainted with a priest who persuaded him to present the Shah's *farman* to the Church; by this means, he explained, the Church would be able to send missionaries into