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**DANIEL YERGIN**

**A U T H O R O F S H A T T E R E D P E A C E**

## C H A P T E R 19

### *The Allies' War*

WINSTON CHURCHILL had spent the decade of the 1930s in the political wilderness, his warnings about Nazi intentions and capabilities unheeded. But in September 1939, at the age of sixty-six, he was abruptly recalled to the post he had held more than a quarter century earlier, on the eve of World War I—First Lord of the Admiralty. But this time his charge was not to prepare for a war. It was too late for that. War had already come a few days earlier, with Germany's invasion of Poland on September 1, 1939. Still, there then ensued a lull, a phoney war, which lasted half a year, until the spring of 1940, when Hitler sent his troops smashing across Western Europe. The appeasers fell in London, and Churchill became Prime Minister of Great Britain.

The outlook was grim and disheartening. Norway and Denmark were in German hands, France would surrender the following month, and Britain would stand alone, bearing the brunt of the war. No one was better suited than Churchill to lead his country through its "darkest hour." No one better understood the critical role that oil would play, first in Britain's very survival, and then in the prolonged conflict ahead.

Well before the outbreak of fighting, the British government had initiated a serious evaluation of its oil position in light of what seemed the inevitable conflict with Germany. In late 1937, a special committee examined the possibility of Britain's adopting an "oil from coal" synthetic fuels strategy along the lines of Germany's. After all, Britain possessed very rich coal reserves within its own safe confines, while almost all of its oil had to be imported. Nevertheless, the strategy was rejected. It would have been very costly, while Britain not only had access to substantial supplies of cheaper oil around the world, but was also home to two major international companies, Shell and Anglo-Iranian. Also, it was decided that, appearances notwithstanding, security would not be better

served with synthetic oil. A system based on the importation of conventional oil in many ships through many ports would be less vulnerable to air attack than one dependent on a few very large, easily identifiable—and easily bombed—hydrogenation plants.

In its planning for war, the British government anticipated very tight and explicit cooperation with the oil industry of a kind that could not have been easily fashioned in the United States. In the United Kingdom, 85 percent of domestic refining and marketing was in the hands of just three companies—Shell, Anglo-Iranian, and Jersey's British subsidiary. At the time of Munich, in 1938, the government decided that, in the event of war, all the "paraphernalia of competition" would be eliminated, and that the entire British oil industry would be run as one giant combine, under the aegis of the government.

The government also had to cope with a different kind of problem—the future of the Royal Dutch/Shell Group. The current management of the Group was no less concerned and apprehensive. For there was a risk that the Group could pass under the Nazi sway. The heart of the problem was Henri Deterding, the grand master of the company. He had continued to dominate the Group through the 1920s. "Sir Henri's word is law," observed a British official in 1927. "He can bind the Board of the Shell without their knowledge and consent." But by the 1930s, Deterding's grip on the company was slipping, and he was becoming an embarrassment to the management and a source of anxiety to the British government. His behavior was increasingly erratic, disruptive, megalomaniacal.

In the mid-1930s, as he entered his seventies, Deterding had developed two infatuations. One was for his secretary, a young German woman. The other was for Adolf Hitler. The determined Dutchman—who had gravitated to Britain before World War I, had been courted by Admiral Fisher and Winston Churchill, and had become a firm and fervent ally during that war—was now, in his old age, entranced with the Nazis. "His hatred of the Soviets, his admiration for Hitler and his *idée fixe* on the subject of Anglo-German friendship in an anti-Soviet sense are, of course, all well-known," sighed a Foreign Office official. On his own, Deterding initiated discussions in 1935 with the German government about Shell's providing a year's supply of oil—in effect, a military reserve—to Germany on credit. Rumors of these talks so greatly alarmed the Shell management in London that one of the senior directors, Andrew Agnew, asked the government to have the British embassy in Berlin investigate so that Agnew "could take suitable actions with his colleagues on the Board here in good time." Commented one official, "Deterding is getting an old man, but he is a man of strong views, and I am afraid we cannot stop him consorting with political chiefs." He added, "The British members of the Board of the company are keen that the company should not do anything which would be contrary to the views of H.M. Government."

Finally, retiring from Shell at the end of 1936, Deterding acted on both of his new infatuations. He divorced his second wife, married his German secretary, and went to live on an estate in Germany. He also took to urging other European nations to cooperate with the Nazis to stop the Bolshevik hordes, and he himself exchanged visits with the Nazi leaders. By 1937, the Prime Minister of the Netherlands, a former colleague of Deterding's in Royal Dutch, said that he

“could not understand how a man, who had made his name and fortune in England and who had received certain assistance from the country of his adoption, should suddenly migrate to Germany and devote himself to furthering the welfare of that country.” His activities, the Prime Minister added disparagingly, were “infantile and leaving no doubt as to his feelings.” Deterding’s last years, not surprisingly, were to undermine what would otherwise have been a considerable reputation as an “international oil man.”

Deterding died in Germany in early 1939, six months before the war began. Strange and deeply disturbing rumors immediately reached London. Not only had the Nazis made much of his funeral, but they were also trying to take advantage of the circumstances of his death to gain control of the Royal Dutch/Shell Group. That, of course, would have been a disaster for Great Britain. The company had virtually been Britain’s quartermaster general for oil during World War I. Should it now pass under Nazi domination, Britain’s entire system of petroleum supply would be undermined. But it was discovered that the key “preference” shares, which embodied control, could only be held by directors, and at his demise, Deterding’s shares had been swiftly distributed to the other directors. At best, the Germans could only get their hands on a tiny fraction of the common shares, which would do them no good at all, either before or after the outbreak of war.<sup>1</sup>

As soon as the war began, the British oil companies, including Shell, merged their downstream activities into the Petroleum Board, in effect creating a national monopoly. It was done swiftly and without protest. Petrol pumps were painted dark green and the product was sold under the single brand name “Pool.” The industry people continued to operate the business, but they now did so under national control. Britain’s oil war was thereafter run out of Shell-Mex House on the Strand in London, just down from the Savoy Hotel. (Shell’s own headquarters was moved to a company sports facility on the edge of London.) Overall government direction was eventually lodged in an agency called the Petroleum Department.

The issues facing Britain were global. It had to assume that Germany, as signatory of a new pact with the Soviet Union, would be able to obtain an abundant supply of Russian oil, while British supplies from the Far East would be curtailed if the Japanese invaded Southeast Asia. Closer to home, the rich and convenient resources of Rumania were also available to Germany. A few months after the war began, before France had been overrun by the Germans, the British and French governments, seeking to replicate what had been carried out in World War I, had jointly offered to pay Rumania \$60 million to destroy its oil fields, and thus prevent the Germans from taking the output. But the two sides could never agree on a price, the deal was never struck, and Rumanian oil went, as feared, to the Germans. The destruction was left to be done by Allied bombers, much later in the war.

In Britain itself, practical problems of supply had to be quickly dealt with. Rationing was imposed almost at once. The “basic ration” for motorists was first set at eighteen hundred miles a year. It was progressively tightened, as military needs increased and stocks declined, and then it was eliminated alto-

gether. The authorities wanted to see the family car up on blocks in the garage, and not on the road. As a result, there was a great boom in bicycling.

And what was to be done with oil supplies if Britain were invaded—all too real a possibility in the dismal days of 1940, after the Nazi armies had swept across Western Europe and were poised on the French side of the English Channel? The Germans had captured France's oil stockpiles, thus providing the wherewithal to maintain the momentum of their advance. A similar booty of British oil supplies could prove critical to the success or failure of a Nazi cross-Channel attack. As a consequence, plans were made at Shell-Mex House for the immediate destruction of British stocks in the event of an invasion. Meanwhile, the local, friendly, unprotected petrol (or gas) station seemed to be much too convenient for invading Germans, who would simply be able to pull in and fill up. For that reason, some seventeen thousand gasoline-selling establishments in eastern and southeastern England were quickly shut down, and sales and supplies were concentrated in two thousand stations that could be better defended—or, if need be, set ablaze to deny them to the enemy.<sup>2</sup>

### **The Oil Czar: The Mobilization of American Supply**

There was, for the British, the overarching concern—how to supply their war? The outbreak of fighting would mean much larger oil consumption for Britain, and the only place to look was to the United States, which was responsible for almost two-thirds of total world production. To the administrators in Whitehall and the oil men at Shell-Mex House, two questions were paramount: Would the oil be available? And would Britain, already strapped for dollars, be able to pay for it? The answers to both questions would have to be found in Washington.

In December 1940, with his third election safely out of the way, Franklin Roosevelt proclaimed the United States the “arsenal of democracy.” In March 1941, Lend Lease was instituted, which removed the problem of finance—or, as Roosevelt put it, “the silly, foolish old dollar sign”—as a constraint on American supply to Britain. Among those things to be “lent,” for repayment at some indefinite time in the future, was American oil. The neutrality legislation, which restricted the ability to ship supplies to Britain, was progressively loosened. And, in the spring of 1941, when oil supplies began to plummet in the United Kingdom, fifty American oil tankers were switched from supplying the American East Coast ports to carrying oil for transshipment to England. Thus, by late spring 1941, important steps had been taken to weld together the American and British supply systems and put the United States in position to fuel England's lonely stand. In fact, the United States had a surplus, unused oil production capacity of about one million barrels per day. That was equivalent to about 30 percent of the 3.7 million barrels per day production that year. The extra capacity, a result of the federal-state prorationing system set up in the 1930s, turned out to be an invaluable security margin, a strategic resource of immense significance. Without it, the course of World War II might well have been different.

In May 1941, the day after Roosevelt declared an “unlimited national emergency”—though the United States was not yet in the war—he appointed Interior

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