MOGULS AND MANDARINS

Oil, Imperialism and the Middle East in British Foreign Policy, 1900–1940

MARIAN KENT

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support this large and potentially successful competitor in which Shell was a participant obliged the Persian group to speak frankly to the government about its own interests.

These interests were ably presented by Charles Greenway, the managing director of the Anglo-Persian Oil Company. Stressing his Company's long relations with the government, Greenway called attention to the danger the Company was in. Already the Anglo-Persian had to face strong commercial competition from Shell, backed up by pressure and financial inducements to merge their interests – an offer, Greenway declared, which the Anglo-Persian had always rejected, largely on patriotic grounds.[8] Now Shell was trying to obtain the Mesopotamian concession and if this effort succeeded, Shell, through the Turkish Petroleum Company, would start a price war in the Middle East market and force the Anglo-Persian to merge that way. Thereafter the group would force up the price of oil and open up this potentially vast source of supply only gradually.[9] If the Anglo-Persian was in danger so also, Greenway pointed out, was the Royal Navy and, indeed, the British Empire itself. To have both Persian and Mesopotamian oil concessions in the Anglo-Persian's hands would be an immense benefit to the Navy, providing cheap oil from a purely British concern, suitably located to support imperial interests in an area vital for the Indian Empire. To allow foreign interests, *ipso facto* unreliable in time of national stress, to become established next door to the young Persian oil industry, could decisively weaken British naval supremacy. Finally, Greenway indicated to a Liberal government the immorality of enabling a company already holding a huge monopoly of oil marketing to extend this to oil production.

This general line of argument, while involved and exaggerated, was not without some validity. It rested on the debatable contention that Shell was a foreign and not a British company. As with all members of the Royal Dutch–Shell combine, the shareholding in Shell was indeed 60 per cent Dutch to 40 per cent British; on the other hand, Shell was registered and domiciled in London and had a majority of British directors on its board. Shell considered itself British; its Anglo-Persian rival and the British government considered it Dutch, an opinion carrying the additional implication that Holland and therefore its international companies were subject to strong German influence. Whatever the validity of this basic contention, the Anglo-Persian Company's national and strategic arguments undoubtedly appealed to

The investigations into the most suitable sources of oil supply for the Navy brought evidence from, among others, Sir Marcus Samuel and Henri Deterding on behalf of the Royal Dutch-Shell group, and from Greenway on behalf of the Anglo-Persian Oil Company. Clearly the important question at the back of the Commission's mind was that of German political ambitions and naval strength. Greenway repeated fully all his arguments in favour of a large Admiralty contract for oil fuel on the basis of substantial financial support, described the Shell Company's pressure on his company to amalgamate, and revealed that the Anglo-Persian Oil Company had been asked to give the German Navy a quotation for oil fuel supplies.[32] Samuel and Deterding tried to demonstrate the political reliability of their Group and the injustice of Admiralty prejudices against them.[33] Their efforts were of little avail, for, despite Fisher's personal warmth towards Samuel and Deterding, the Royal Commission's conclusions rested on its declared apprehension of and clear hostility to what it saw as the monopolistic proclivities of a foreign combine.[34] The Group's 60 per cent Royal Dutch shareholding meant, undeniably, that the foreign element was more powerful. Also, although its sources of supply were geographically diverse, stretching from the Dutch East Indies to Roumania and Russia, yet none of these producing areas was British or could be subjected to considerable British influence, while many of them were vulnerable to enemy attack. The case for Shell, on the other hand, was that its sources of supply were so diffuse that oil lost through an attack on one source could be replaced from another.[35] If the Royal Navy could not keep the seas open against attack then *no* company's goods were safe; but assuming safe passage, such contracts were absolute and enforceable. In addition to stressing Shell's British registration, domicile and directorate, Samuel and Deterding pointed out that neither of their companies could be bought out by outside, especially foreign interests, for Samuel himself held a majority of his company's shares, while the Royal Dutch was protected by the existence of special preference shares.

A question considered carefully by both the Royal Commission and the Admiralty was that of forward contracts. Churchill declared that this was because:

> So far the British Admiralty has adhered to the system of annual contracts. To continue longer on such a system is to make sure of

> being mercilessly fleeced at every purchase, and to run a very great risk of not being able to secure on any particular occasion supplies of a fuel which will be as vital to the Navy as ammunition itself.[36]

The question of forward contracts was indeed inseparable from that of oil prices. The prime factor in Churchill's reasoning was undoubtedly the steady rise in fuel oil prices quoted on the London market: between January 1911 and June 1913 they doubled, from 37s. 6d. to 77s. 6d. a ton.[37] This great rise was due in large part to excessive freight charges, though also in part to the inevitable effects of market forces on a commodity for which the demand exceeded the supply. There was also another reason: Sir Marcus Samuel's frequent and open prediction of continuing price rises greatly irked Churchill, who denounced the increases as evidence of secret price-rigging by the great oil interests. He was wrong in his reasoning. Relations between oil companies certainly helped to raise petrol prices in some areas (particularly in the USA) but these relations were not co-operative, rather bitterly competitive.[38] The irony of Churchill's hostility to Samuel is that while the First Lord admired Deterding – a foreigner, and if anything the uncompromising businessman – he disliked Samuel, who was British (but Jewish) and far more prepared to compromise.

The Royal Commission's findings on forward contracts confirmed the results produced by the Admiralty's request of early 1913 to a number of oil companies to submit their quotations for forward contracts with the government.[39] The oil trade in general agreed with the Royal Dutch-Shell view, that since fuel oil prices were likely to continue rising, unless careful provision were made for price adjustments, forward contracts with fixed prices for more than two years ahead were uneconomic and thus unattractive to sellers. In fact the only cases where large forward contracts were offered were Mexico and Persia. Both of these countries lacked a developed local market and both refined their own crude oil, making possible a more accurate assessment of their own manufacturing costs. Thus, though the Admiralty wanted to distribute its forward contracts as widely as possible, the choice was limited to these two. Yet it did not wish and could not afford to bar the way to other, annual suppliers, and consequently sought the Royal Commission's advice. The Commission had stated its general approval of forward contracts in its second report, dated 26 February 1913. On 5 May, in reply to the shares were held by the British-owned National Bank of Turkey (50 per cent), the Anglo-Saxon Petroleum Company – a Royal Dutch–Shell subsidiary – (25 per cent), and the Deutsche Bank (25 per cent). On the Company's formation see S. H. Longrigg, *Oil in the Middle East*, 3rd edn (London, 1968), pp. 29–30.

8. This was a point stressed in Greenway's arguments, especially with reference to Lord Strathcona (till 1914 Chairman of the Company), Sir Hugh Barnes, and Mr D'Arcy: memo. by Louis (later Sir Louis) Mallet (Asst. Under Sec. of State, FO), 15 Nov. 1912, FO 371/1486 No. 48688.
9. Evidence of HMG's opinion on Shell's Middle East oil interest can be seen in some highly secret correspondence between that company and the APOC, Oct. 1912, sent none the less to the FO by the latter, and which produced the comment from Mallet that 'It is clear from the printed correspondence . . . that the Shell group are aiming at the extinction of the . . . [APOC] . . . as a competitor, – one of their objects being to control the price of liquid fuel for the British Navy . . .': memo. 6 Nov. 1912, ibid., No. 47846.
10. Letter from APOC to Adm., 8 March, 1912, FO 371/1486, No. 51935
11. Letters from APOC to Adm., 28 May 1912, and to Indian Government Railways Board, 7 Feb. 1913, ibid., Nos. 51935 and 17709; also in I[ndia] O[ffice] [correspondence] (India Office Library, London), IO P[ublic] W[orks Dept. Papers] file 929/13, Vol. 858. Letter from Adm. to IO, 26 March 1912, ibid. See also the supplement to *The Times*, 13 March 1913.
12. Railways Dept. Technical Paper No. 193, *Oil Fuel Trials on the North Western Railway of India, 1913–1916*, by A. J. Chase *et al.*, Simla, 12 May 1918.
13. Report by Railways Board, Simla, to Government of India, 29 Jan. 1913, FO 371/1760, No. 17709. In fact the final trials were not completed until late 1916, although by 1915 an interim report by the Indian Railways administration strongly favoured the change and indeed some oil fuel was already being used on a few lines owing to war shortages of coal. IO, PW file 929/13, Vol. 858, file 2305/18, Vol. 994, and file 1244/19, Vol. 1007.
14. See below, pp. 155–7.
15. Admiralty memo., 16 June 1913, App. 2 to Churchill's Cabinet memo. (secret), 16 June 1913, Cab[inet papers], PRO, Cab. 37/115.
16. Letter from Adm. to FO, confid., 26 Sept. 1912, FO 371/1486 No. 40516; memo. by Mallet, 15 Nov. 1912, ibid. No. 48688.
17. Memo. by Alwyn Parker (Asst. Clerk, FO), 19 Nov. 1912, FO 371/1486 No. 49500; Greenway to FO, 12 Feb. 1913, FO 371/1760, No. 7026, and repeated in his evidence to the Royal Commission on Fuel and Engines.
18. Greenway pointed out that Sir Hugh Barnes, a member of the Government of India Council (and also an APOC director) strongly supported the Indian government's participation. First Report of the Royal Commission on Fuel and Engines, Adm[iralty papers], PRO, Adm. 116/1208, p. 339; see also minute by Barnes, 6 March 1913, IO, PW file 929/13, Vol. 858.

32. This information, together with an unsigned article in the *Financial News* of 14 Nov. 1912, entitled 'Will Germany control the oil supply for our Navy?' caused some apprehension and excitement to both the FO and the Royal Commission.
33. Samuel and Deterding had also argued against this Admiralty prejudice before the Admiralty Committee in Dec. 1911: Henriques, *Marcus Samuel*, pp. 531–40.
34. See, e.g., Second Report, pp. 10, 11, 13, Adm. 116/1209.
35. The Shell arguments were repeated by Sir Reginald MacLeod, a Shell director, to Mallet, 28 July 1913, FO 371/1761, No. 34933.
36. Cab. memo. of 16 June 1913, cited above n. 15.
37. Fuel oil prices were listed regularly by Benjamin and Company and printed in the *Petroleum Review* (later *Petroleum Times*). All prices quoted in this article, unless otherwise stated, are taken from their London listing. For system of oil pricing see C. Issawi and M. Yeganeh, *The Economics of Middle East Oil* (London, 1963), pp. 64–5.
38. Henriques, *Marcus Samuel*, pp. 517–64.
39. Admiralty memo. of 26 Feb. 1913, and memo. from Royal Commission to Adm., 5 March 1913, Adm. 116/1209, pp. 47, 80–4.
40. Details of the Shell contract are given in Adm. 116/1687C No. CP 14171, and in R. Henriques, *Sir Robert Waley Cohen 1877–1952* (London, 1966), p. 194. They list the c.i.f. (cost, including insurance and freight) price as 70s. a ton. That this price was admitted within the Admiralty to be more favourable than the current Persian rate should be pointed out in view of Churchill's attack in the house of commons, two months later, on Shell prices and the company's Jewish directorate, an attack widely regarded as gratuitous and provocative. It was clearly designed to win support for the APOC agreement, and as Henriques points out in *Waley Cohen*, p. 189, and *Marcus Samuel*, pp. 589–90, Churchill never allowed Shell to disclose its Admiralty prices.
41. In his evidence to the Royal Commission Greenway estimated the additional freight costs at between 25 and 30s. a ton: Adm. 116/1208: pp. 340–1.
42. Admiralty memo., 7 March 1913 (secret), Adm. 116/1219.
43. The wider Admiralty specification was achieved, partly through repeated urging from witnesses before the Royal Commission. For details see Adm. 116/1209, p. 104.
44. Admiralty memo., 16 June 1913, para. 6. But see above n. 13.
45. Cab. 37/115; Churchill, *World Crisis*, Vol. 1, pp. 170–1; A. J. Marder, *From the Dreadnought to Scapa Flow* (Oxford, 1961), Vol. 1, p. 271; Randolph Churchill, op. cit., p. 656, does not say whether the reserve was on a peace or a war basis. The decision was made at an Admiralty Board meeting on 7 May and approved on 7 July, Adm. 167/47. The only member of the commission to advocate a war standard was George Lambert, MP, PC, Civil Lord of the Admiralty; noted in personal statements attached to

obviously of great importance in developing government–company co-operation and streamlining plans for centralising motor spirit supply and distribution. The discussions and plans for increasing synthetic aviation fuel production and particularly the Shell scheme of mid-late 1939 (for replacing one of the Air Ministry's projected synthesisation plants with one to be built, managed and updated by the company itself in return for government financial assistance[24]) showed a close level of mutual dependence and co-operation. This was underlined by the private letter of 2 September 1939 from Frederick Godber (later Lord Godber) a managing director of Shell, to the Director of the Petroleum Department, F. C. Starling, explaining how, if the United States were to be 'unfriendly', his company could still supply British needs from American sources simply through the device of purchasing through one of its American companies, 'losing' the oil in its huge stocks at Curaçao, and reshipping it from there to England.[25]

The Middle East occupied a changing role in Britain's inter-war oil-planning. As the scenario for potential war changed from being primarily Far Eastern or possibly Central Asian, to being a likely simultaneous Far Eastern and European conflict, with a major planning reorientation by the late 1930s from preoccupation with securing naval fuel supplies to a dominating need to secure supplies of high-grade aviation fuel, so also did Middle East sources of Britain's oil needs become more complex. To an important extent this increasing complexity reflected the fundamental considerations just mentioned. But it also reflected the growing number of Middle Eastern sources, coupled with some recognition by Britain's oil planners of the vulnerability of these sources to internal or external attack.

Basic to British planning throughout the inter-war years was Persian, latterly Iranian, oil. Although during these years Persia (Iran from 1935) produced only an average of 3.3 per cent of the world's total crude oil output[26] the country none the less occupied a very different position of importance as a supplier to Britain. In 1922, Persia was the third most important source of Britain's oil, supplying one quarter of Britain's needs (after the United States first and Mexico second).[27] In 1926 Persia had moved up to second place, though supplying Britain with fractionally less oil than before.[28] It remained in this position thereafter (from 1932, the Dutch West Indies – which mainly refined Venezuelan crude – was in first place and the United