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AUTHOR OF THE CHANGING ANATOMY OF BRITAIN

ANTHONY SAMPSON

THE SEVEN SISTERS

THE GREAT OIL COMPANIES AND THE WORLD THEY MADE

Dedicated to the memory of
Ivan Yates
1926–1975

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Deterding, thirteen years younger, had the ruthlessness and concentration that Samuel now lacked. Though Royal Dutch was much smaller it controlled valuable reserves in the East Indies and soon it was paying dividends of 50 percent against Shell's 5 percent. Deterding took every advantage to weaken his British rival: 'The inescapable conclusion [decided Samuel's biographer] is that Deterding was the architect of the Shell's ruin.'[4] As the world oil trade slumped from 1903 Standard continued to cut prices and Shell's tankers lay idle. Standard was moving further into Europe, putting up a factory in Rumania, and Shell was ousted from Germany by the intrigues of its partner, the Deutsche Bank. Finally Sir Marcus was forced to discuss a total merger with Deterding on humiliating terms; not even fifty-fifty, but sixty-forty with Deterding as the managing director. In April 1906 the new giant came into being, with the name of Royal Dutch Shell. The British public and most of the rest of the world except Holland still knew it as Shell and regarded it as a British company. But the British government now regarded it as being Dutch, and hence vulnerable to influence from Germans—a suspicion of which Sir Marcus became painfully aware.

Sir Marcus, behind his civic grandeur, had been desperately anxious for Shell to be accepted as part of the imperial service. Shell from the beginning raised the question that was to run through each company over the following decades; was it an international business, buying and selling oil between any nations, wherever the best profit was to be made? Or was it part of the special interest of a single nation? The general question was brought to a head by the very specific problem of the Royal Navy.

OIL AND THE NAVY

Ever since 1899 Samuel had been campaigning for the Navy to switch from coal to oil. This would suit Shell, because its oil in Borneo was more suitable for fuel oil, and the proposal was also backed by solid research. The Admirals doughtily resisted, partly with absurd pseudo-scientific objections, but also with more reasonable worries: that their safe supplies of British coal would be replaced by dubious supplies from foreigners in distant outposts. No oil had as yet been discovered within the British Empire, and the Admirals were supicious both of Sir Marcus and of Shell, which derived much of its profits from Japan, and which depended honestly by Deterding. The commission appeared impressed by Samuel's case, but soon there was a public outcry against the rising price of petrol in Britain, which was now becoming—with the advent of the automobile—a more exposed political question. The taxis went on strike, there were protests against the 'petrol ring', and Sir Marcus insisted on proclaiming the blunt truth to the *Daily Mail*: 'The price of an article is exactly what it will fetch'. The politicians were reminded that Shell was in business for profit and that the price of its oil, whether for taxis or for battleships, would be pushed up by the new demands from the Navy.

Churchill, urged by Fisher, talked to the Shell leaders. He was distrustful of Samuel but fascinated by Deterding—though it was Deterding who was the foreigner, and the more ruthless businessman. Fisher insisted that Deterding was becoming rapidly Anglicised and urged Churchill to knight him ('He has a son at Rugby or Eton and bought a big property in Norfolk and is building a castle! Bind him to the land of his adoption!'). Churchill, however, was increasingly suspicious of Shell, the more so as the price of oil fuel went rapidly up, and Samuel forecast further increases. Churchill, in tune with the anti-monopolist mood of the Liberals, denounced the price increases, with some over-simplification, as the result of secret price-rigging between the oil monopolies.[6]

Meanwhile Churchill was being lured by another prospect. He was eyeing with increasing interest the new Anglo-Persian oil company, later known as BP, which had immensely promising oilfields in the Middle East. After protracted arguments and negotiations a sensational agreement was finalised. Only three months before the outbreak of war, the British government announced that it would buy a controlling interest of 51 percent in Anglo-Persian.

In June, Churchill made a historic speech to parliament explaining his decision with a mixture of jingoism and foresight. He described how the two giants, Shell and Standard Oil, shared the world between them (ignoring the fact that Standard Oil had been broken up three years before) and made much of the power of the monopolies. 'Against this, amongst British companies who have maintained an independent existence, the Burmah Oil company, with its offshoot the Anglo-Persian Oil Company, is almost the only noticeable feature.' He warned how, in the face of the giant companies, the buyer of oil may be forced to pay an artificial price, and he developed what was in effect a devastating attack on Shell:

> It is their policy—what is the good of blinking at it—to acquire control of the sources and means of supply, and then to regulate the production and the market price . . . We have no quarrel with Shell. We have always found them courteous, considerate, ready to oblige, anxious to serve the Admiralty and to promote the interests of the British Navy and the British Empire—at a price.

He beamed at Sir Marcus' brother, Samuel Samuel, MP, as he said it and continued: 'The only difficulty has been price. On that point, of course we have been treated with the full rigour of the game.' The British government would still need oil from Shell, Churchill explained, but 'we shall not run any risk of getting into the hands of these very good people'. The government, he knew, could use the leverage of Anglo-Persian to make sure that it obtained fair prices from Shell.

Samuel smarted under Churchill's innuendoes against Shell's loyalties and business methods, which some people suspected were tinged with anti-semitism.[7] At the next annual meeting he once again protested his company's patriotism. In fact after the World War broke out six weeks later, Shell were able to prove their concern for the British national interest: Deterding made clear that though Holland was technically neutral, the company was firmly on the side of the allies. Shell, though making vast profits from its Far Eastern trade, did not take advantage of the shortage of tankers to overcharge the Navy, which relied more heavily on Shell oil than on Anglo-Persian.

Sir Marcus, after his many slights and rebuffs, retired into honourable old age, bought twenty acres of Mayfair and was created Lord Bearsted. But he never received quite the recognition he had sought as a national hero. Partly no doubt this was because he had lost control of his company to a Dutchman, but also because he was up against the recurring dilemmas of the oil industry: can or should a company have any loyalties besides those to its shareholders? To whom is it really responsible?

Samuel, with his cosmopolitan experience and his trading genius, stamped his character firmly on Shell. The company has ever since been the most internationally-minded of the seven, and the most flexible, preoccupied with markets more than production. The fleet of ships that he built up—before long a larger fleet than the bitions, and his own, extended he became again rootless and unstable, changing houses, wives and political views until he ended up living in Germany, a committed Nazi.

Shell was an amazing mixture of bureaucracy and high gambling. Its managers were a solid respectable elite, a new breed of carefully selected para-diplomats; as early as 1910 Shell had helped to set up the Cambridge University Appointments Board, to be sure of recruiting the cream of graduates, competing with the Foreign Office and civil service for brains. Yet at the top of this hierarchy was a tycoon of explosive unpredictability, gambling with oilfields, paying himself a million dollars a year.

Deterding and Teagle fascinated each other. The acquaintance began at a famous encounter in 1907 when Deterding had just taken over the merged Royal Dutch Shell and came to see Standard Oil in New York to try to persuade them to abandon their price-cutting wars. Deterding realised that price-cutting was not true competition at all but 'throat-cutting', and he tried to persuade the directors of Standard including Archbold and young Teagle to agree to stable prices. Deterding's precept inherited from his old boss Kessler was the Dutch proverb *Eendracht maakt macht*—co-operation gives power—and he was always searching for a global agreement or cartel. Deterding put his case but without success, for Archbold was determined on price-wars, to extend Standard Oil's power. Teagle, however, was much more impressed by Deterding's arguments, and Deterding thought Teagle a 'brilliant young man'.[7] From then on, the two budding tycoons eyed each other with mutual and wary respect.

Shell had always been forced to search out oil abroad, and Deterding was prepared to take large gambles. In 1908 he bought oilfields in Egypt, which for a short time produced handsomely. He began exploring in Sarawak and in 1910 started new dealings with Russia, which led to him buying the Russian Ural-Caspian oilfields. In the next years he pulled off two of his biggest coups, in countries which Exxon had avoided. In Mexico he bought the oilfields belonging to Lord Cowdray (see page 100), which soon pushed up Shell's total production. In Venezuela he bought the fields which still provide a sixth of Shell's supplies. At the same time he was starting to challenge the Americans on their home ground, by buying oilfields in California. Soon the Shell gasoline signs—the 'yellow peril' it was then called— were beginning to shoot up across America to the growing alarm of Teagle and Exxon.

East Texan oilfield. Dad Joiner himself suffered the usual pioneer's fate: eventually he retired in penury to a small house in Dallas, in Mockingbird Lane. The man who bought his land, H. L. Hunt, grew to be a billionaire, the richest of all the Texans.

The East Texas boom, coming at a time of both depression and overproduction, produced a new glut of oil, when it was least of all welcome to the big companies, and it looked like a return to the wild old days of individualism before the Big Hand of Rockefeller reached out. Drillers rushed to get up the oil before their neighbours, thus quickly reducing the pressure and potential of the oilfields. The problem of control was made harder by the American 'rule of capture' by which oil was regarded in legal terms like a wild animal—who ever caught it first, could keep it. Prices fell down to 10 cents a barrel, and gas-stations competed with free chickens to lure customers.[15]

Eventually the chaos and anarchy called for intervention—not this time by a company, but by the State: in the end the Governors of Texas and Oklahoma called in the national guard to close down oilfields, and enforced a system of rationing, by which the demand in any one month was shared among oil producers by a state body called the Texas Railroad Commission. It was difficult to enforce and many producers secretly sent oil out of the state, where it could be sold freely, until a 'Hot Oil Act' was passed in 1935. But remarkably, Texas did succeed in controlling output, with the reluctant support of the producers; for they now realised that it was the only way to keep up prices. With the state's help, they achieved what the Pennsylvania producers never did. The implementation of 'pro-rationing', as it was awkwardly called, was a milestone in the industry, and its importance was not unnoticed in the following years by the shrewder men in producing countries abroad: the Venezuelans actually took the precaution of hiring a man from the Texas Railroad Commission to advise them. The restricting of oil from Texas, the frontier of free enterprise, was a necessary concomitant of any global agreement to maintain prices. Thirty years later, OPEC was to look back to Texas as their model for controlling Middle East production.

'As Is' was never completely achieved; it was impossible to bring into line all smaller companies, and Russian oil was always bubbling up in odd places. But the Big Three, with local allies, could often make deals in individual countries. One of the most effective was Britain, where Shell and BP collaborated with Exxon to fix prices, and also formed a joint British marketing company called Shell-Mex BP (which remained together until the mid-seventies, when it was dissolved after long and painful negotiations). Another was in Sweden, where the market was carved up between Exxon, Shell, BP and Texaco and two other companies. They met each week in the Shell offices in Stockholm to ensure that no company undercut another—which was not fully revealed until investigated by a Swedish parliamentary committee in 1947.[16]

The big companies held successive meetings in the early 'thirties to try to enforce the cartel, and in 1932 six of the seven sisters met to adopt more flexible quotas. The last and most important meeting was in April 1934, when Exxon, Shell and BP met secretly in London to reformulate the Achnacarry Agreement. Together they produced a Draft Memorandum of Principles, to operate throughout the world except where the law forbade it, in the United States. The Memorandum laid down rules for restricting competition and sharing profits from outsiders, including a system of penalties to be enforced by a special 'London Committee' (London, then as later, was the natural venue for cartel discussions). This agreement was ended, according to Exxon's later evidence, in early 1938; but in Sweden at least, from the evidence uncovered it continued through the war.

Most of the world's oil resources were in the hands of the big companies, and the agreements succeeded in their main object of maintaining stable prices at the American levels, and of limiting competition inside each country. The monopoly of Rockefeller had evolved, with apparent inevitability, into a global cartel.

TRIUMPH AND TREASON

Through the 'twenties and 'thirties, Teagle and Deterding were the 'Titans' of world oil, and each voyage across the Atlantic was surrounded by speculation. After the cartel agreement at the Castle their position seemed still more secure, as they covered the world with secret agreements and played producers against each other. But they were not men of political subtlety; they were both autocrats at heart. As the world began to divide and split apart, they were unaware that their careers were heading for danger.

Teagle had succeeded triumphantly in reviving and stabilising Exxon. The Depression weakened his competitors and in 1932 a new source of oil supplies was virtually handed on a plate. The Standard Oil Company of Indiana, another offshoot of Rockeasked Truman whether he regarded Exxon's agreement with I. G. Farben as treasonable, he replied 'Why, yes, what else is it?'

The attacks eventually spent themselves, but the company never altogether recovered its old confidence. Even John D. Rockefeller II, who had kept studiously aloof from his father's creation, felt compelled briefly to investigate. Exxon sales suffered from the public outcry, and the board was determined to reorganise its public relations, to break down the tradition of secrecy, and to inform itself about its own company. As one director, Wallace Pratt, put it: 'I have come, in short, to rate as indispensable to the successful oilman a thorough knowledge of the corporation he directs.'

Teagle and Farish were both broken by the accusations of treason. Farish was still recovering from the experience eight months later, at Teagle's estate, when he collapsed and died. Teagle lost all his customary confidence, became nervous and fumbling, and resigned before the end of his term at the end of 1942.[19]

For Deterding, the end was more justly ignominious. By the mid-thirties, while he was still head of Shell, his behaviour had already become increasingly autocratic with signs of incipient megalomania; and his memoirs published in 1934 showed signs of this: he spelt the word oil with a capital O, and proclaimed: 'If I were dictator of the world—and please, Mr. Printer, set this in larger type—I WOULD SHOOT ALL IDLERS AT SIGHT.' His influence on the company was erratic and as one Shell veteran recalls: 'Deterding's interventions were like thunderstorms; suddenly flattening a field of wheat, while leaving other fields unscathed.' The stately managers of Shell began to have the worrying impression that their Director-General was going mad, and still worse, going pro-Nazi. His anti-Communism, spurred on by his Russian second wife, had already made him sympathetic to the Nazis. But in 1936, just after he had celebrated his seventieth birthday and his fortieth year with Shell, he married a third time, to a German girl, Charlotte Knaack, who had been his secretary. He was now convinced that the Nazis were the only solution to the Communist menace.[20]

With great embarrassment, his fellow-directors finally eased him out of the post he had occupied for thirty years. He then went to live permanently on his estate in Mecklenberg in Germany, making frequent visits to Holland, to encourage closer relations between the two countries, and becoming intimate with the Nazi leaders. He died six months before the outbreak of war: memorial services were held in all Shell offices in Germany and Hitler and Goering both sent wreaths to the funeral on his estate.[21] After the war there was an empty niche in the entrance-hall of the Shell headquarters in The Hague: it was intended for Deterding.

Hitler was also responsible for the disgrace of a third chief executive among the seven sisters: the autocratic President of Texaco, Torkild Rieber. He was an engaging buccaneer, the protégé of the founder of Texaco, Joe Cullinan, and he had a romantic background. He had first come to Texas as a Norwegian skipper's mate, taking oil from Port Arthur. Four years later Texaco bought the tanker and with it Rieber, who helped organise Texaco's tanker fleet. He eventually rose to the top, and 'Cap' Rieber became a famous Houston figure: a stocky broad-smiling man with a thick Norwegian accent, a sailor's cap and a parting in the middle. Like Deterding, Rieber had great daring: he built a 260-mile pipeline across the Andes to carry Colombian oil to the sea, and he pushed into Saudi Arabia by joining forces with Socal (see next chapter). He had a sailor's internationalism, but without any real political instinct: the world was a market with no barriers or taboos.

Rieber first came into trouble with Washington in 1937 when Texaco tankers taking oil consigned for Belgium mysteriously changed direction to Franco's ports in Spain, in the middle of the Spanish Civil War. Roosevelt was furious at this violation of the neutrality law, and his Attorney-General warned Rieber that Texaco would be indicted for conspiracy, but supplies still continued, through Italy. Texaco altogether sent oil worth $6 million to Franco, on credit, to be paid for after the war: Franco's military position would have been much more perilous without these precious cargoes.[22] Rieber also made contact through Spain with leading Nazis and agreed to supply oil from Colombia to Germany. He continued shipments after the outbreak of the European war in 1939, dodging the British embargo by sending the tankers to neutral ports. He could not get money out of Germany. so he made a barter agreement to be paid with three tankers from Hamburg, which served to bring him closer to the Nazis. He saw Goering in Berlin to clinch the deal, but Goering insisted that in return for the tankers he needed something more—Rieber's diplomatic support. Accordingly, in January 1940, Rieber went to see Roosevelt, to put

But it is also argued that Texaco is the most honest and the least self-deceiving of the companies, that its parsimony simply shows responsibility to its shareholders. It has never pretended to be anything more than it is: a concern for making money, as quickly as possible, not a benevolent institution for world peace. If the politicians want that, is that not the government's responsibility? The case of Texaco raises in its extreme form, the question which runs through this book; what do we really expect oil companies to *be*?

SHELL

Across the Atlantic, Royal Dutch/Shell has presented itself in a much nobler light than Texaco, or any of the American sisters. More than any company it has seen itself as an international institution, and neither in Holland nor in Britain has it been fiercely attacked by anti-trust or other critics, as have Exxon and the rest. Since the wild days of Deterding it has taken precautions that it should never again be controlled by a dictator, and has erased 'that old bandit' (as one of the current directors called him) from its corporate memory. The Group is run by a committee of seven or eight, and each chairman is ruthlessly retired at sixty.

Since Deterding's departure, after a period of demoralisation, a succession of respectable chairmen inspired the confidence of their home governments. John Loudon who was chairman for nine years until 1965, was a Dutch Jonkheer and a British knight, with the style of a Prince of the Industry, patiently suffering the insults of the populace: 'I don't know why,' he said to me in 1962, 'but oil always seems to have a smell to it . . . the dogs may bark, but the caravan moves on.' His successor for two years was a Dutch engineer, Jan Brouwer, and he was succeeded by a British aristocrat, Sir David Barran; the son of a former head of Shell's Venezuelan company, he added to the impression that the Group was a public service. Both in the Hague and in London, the great company was regarded as an indispensable part of the nation's economy, a steady contributor to the balance of payments, and the Treasury always made special exceptions for Shell in enforcing exchange control. The public image was duly fostered by patronage, elegant Shell guidebooks, and the slogan 'You can be sure of Shell'; a stockbroker's rule was 'Never Sell Shell'. The British Shell executives, mostly graduates from Oxford and Cambridge, were inclined to talk about oil not as a profitable fluid, but as part of a

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