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OIL AND PUBLIC OPINION IN THE
MIDDLE EAST

By

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INTRODUCTION

There are few issues of international concern which are more bedevilled by preconceptions and emotional bias than Middle East oil. This is true both in the Middle East itself and in the Western countries which are the main consumers of Middle Eastern oil. Apprehension about the security of oil supplies is one of the basic instincts of Western governments and a cardinal factor determining their policies in the Middle East. The British Government, for example, still regards the existence of a military base in Aden as the inevitable complement of British-administered oilfields in the Persian Gulf. The Aden base and others like it are a permanent reminder that, if the worst came to the worst, the West would use physical force to ensure that Arab oil continues to flow to Western markets in conditions of reasonable security (reasonable security, of course, being a fluid concept which varies according to particular circumstances and the outlook of Western leaders). Meanwhile, Western diplomacy is constantly at work trying to ensure that physical force never becomes necessary.

The question naturally arises as to whether this Western apprehension is fundamentally justified. If it is not, then some of the policies which derive from it can no longer be valid either; in fact, they tend to become a useless provocation, helping to create the very situation which they are supposed to guard against. They help to

stimulate those nationalistic and anti-Western feelings which, it is felt, are a standing threat to Western interests in the area.

By providing an exhaustive survey of Arab views on the oil industry, this thesis does not pretend to answer the above question. However, it does set out to show that these views cannot be summed up in a few over-simplified generalizations. Nationalism and anti-Westernism are certainly powerful forces, existing in their own right, with important implications for the oil industry. At the same time, however, the oil industry is the target of a wide variety of specific criticisms. Although they may be expressed in more or less nationalist terms, these criticisms also exist in their own right. What is important, therefore, is to diagnose the basic complaint in isolation from its incidental manifestations.

It is true, of course, that the oil industry represents only one component in the total complex of relations between the Arab world and the West. This means that a greater mutual understanding in the field of oil may be completely outweighed by continued misunderstandings in another field, with the result that the oil companies might in the end be just as heavily penalized as if they had never sought to make any contribution of their own to an improvement in these relations. On the other hand, it can be argued that an improvement in one field is bound to have beneficial repercussions in all the others.

It is not the purpose of this thesis to present the oil companies' point of view or that of the West in general. The Arab point of view is a subject sufficient to itself; and in any case the onus

of understanding lies more with the oil companies and the West than it does with the Arabs.

Although we are mainly concerned with the Arab world, Iran, as an important Middle East producer, will also be brought into the argument.

PART I

THE MIDDLE EAST VIEW OF OIL

The first part of this thesis sets out to examine not merely Middle East public opinion on oil, insofar as that is regarded as separate and distinct from official government opinion, but all those views, regardless of their origin, which can be considered a significant contribution to Middle East opinion on oil as a whole. The guiding purpose is simply to bring together into a coherent whole the diffuse and complex manifestations which make up this opinion, to try to discover the organic relationship between them. No attempt will be made here to examine the processes and effects of this opinion—whether and in what way, for example, it spurs governments to take action vis-à-vis particular oil companies. Thus a certain view will not be singled out as significant on the basis of an evaluation of the size or influence of the group which holds it. In the present context its significance depends on the way it fits into the general framework of Middle East opinion on oil. Part I, in other words, is mainly concerned with the content of opinion, as opposed to its mechanics, which are discussed in the second part.

The subject will be examined in its political, economic, moral and legal aspects.

CHAPTER I

THE POLITICAL ASPECT

Background

It is impossible to understand the image the oil companies have earned for themselves in the Middle East without taking into account the historical and political setting of which they are very much a part. Coming after four hundred years of Turkish rule, the recent political experiences of the Arab people have been disillusioning, to say the least. There is no need to dwell on the sad tale of Arab-Western relations in modern times, which, from a fairly promising start in 1916, reached their nadir in 1956. All things considered, it is not surprising that the word "imperialism" has become one of the most highly charged words in the Arabic language; that this word, and all that it stands for, has entered into the very culture of the people, and colours their thinking on all the more particular issues, such as the oil industry, on which they may have an opinion.

The oil companies, or most of them, belong to those Western states which the Arabs and others are in the habit of denouncing as imperialists or would-be imperialists. The oil companies are commercial enterprises; the moment they step outside the field of legitimate commercial operations and benefit from the moral or material support of their parent country at the expense of a Middle East producing country, then they too are likely to be denounced as imperialistic. By extension whenever they interfere in the internal affairs

of their host countries, they are also regarded as imperialistic.

Strictly speaking, in fact, it is quite inadmissible that the oil companies should possess a 'political aspect' at all. Thus it is not surprising that in this political aspect, pregnant as it is with imperialist associations, the companies become the targets of extreme opinions. Inevitably, what follows in this chapter is to a large extent a review of ignorance, excess and invective. However, we should bear in mind that extreme opinions do not exist in a vacuum; they are only the exaggerated expression of a real dissatisfaction.

In the years immediately following World War I, foreign control over Arab affairs was direct and formally instituted. But since then, through a series of treaties and eventually a complete severing of special ties, it has been completely eliminated in the more advanced Arab countries such as Egypt, Iraq, Syria and Lebanon. But, the sceptics would say, this outward and formal control was only a part--the most obvious part--of the total complex of foreign domination. What of political influence, diplomatic pressure, and military threats? What of those indirect, imponderable forces at work behind the scenes? They may not be ostensibly associated with the imperialist governments of the West, but are they not remote-controlled from decision-making centres in these same Western countries? And what, finally, of the oil companies? The administrators and the military bases have gone, but the capitalist enterprises which came with them still remain.

To identify the oil companies with imperialism is a natural thing to do, if only because they arrived on the scene in the wake of Western superintendance over Arab affairs. In retrospect, it seems inevitable that there would be a tendency to regard the oil companies as owing their very existence to an imperialist situation. In Iraq for example, the historical background to the Iraq Petroleum Company's (IPC) concession has been described as follows in an official memorandum issued by the Iraqi Government.

After World War I, Iraqi oil was coveted by the imperialists and became the object of fierce competition among the governments of the allied countries and the major oil companies. Subsequently, the companies came to an agreement among themselves for monopolizing Iraqi oil and exploiting it under the worst possible terms for the host country and at the least possible cost to themselves, without regard to the interests of the people of occupied Iraq. This injustice to Iraq was done at a time when the country was not an independent sovereign state, but under the direct control of the British mandatory power. The IPC concession agreement was based on a vague promise made to the Turkish Petroleum Company by the Ottoman Government before World War I. Had it not been for the direct British rule in Iraq at the time, no sovereign state should have recognized the validity of such a vague promise or granted the company an important concession without first inviting bids from other interest parties.¹

It follows from the above that the government which negotiated such an agreement acted with disgraceful indifference to the interests of its people, if it did not actually conspire with imperialism to cheat them of their heritage. And, of course, this opinion coincides exactly with the bad name which the Hashimite dynasty has earned

¹ Explanatory memorandum issued on 12 December, 1961, by the Iraqi Government in conjunction with legislation expropriating 95.5 per cent of IPC's concession area.

for itself among most Arab nationalists. However, though it may not be difficult to label the ill-fated Hashimite regime in Iraq as collaborationist and servile, it is not so easy in the case of the pre-War Saudi regime. Though his rule was autocratic and extremely conservative, 'Abd al-Aziz is widely admired in Arab nationalist circles for his courage, toughness and outstanding qualities as a leader. But the concession granted to Aramco in 1933 was scarcely more favorable to Saudi Arabia than the IPC concession in Iraq. Evidently, it would be difficult for anyone who admires 'Abd al-Aziz to say that imperialism forced outrageous terms on a clique of compliant reactionaires or even a defiant though helpless monarch. And in fact criticism of these early agreements is not confined to abuse of imperialism and its Arab accomplices. Shaikh Abd Allah Tariki, former Saudi Oil Minister and a moving spirit behind the Arabs' struggle for a better deal with the oil companies, expresses the opinion that the Aramco concession was won from Saudi Arabia in times of weakness. In general, these early concessions "were grossly unfair to the host countries" and enabled the concessionaire to "control the economy of the host country, drain its resources and impede its development."¹ "The role of the early Arab negotiators," says Tariki, "could only be condoned if it were remembered that they were unsophisticated, that special circumstances obtained at the time and there was a pressing need to conclude these early agreements."² As for the companies,

¹ Interview with al-Yamamah, Saudi daily, 18 December, 1959,

² Article in al-Ahad, Beirut weekly, 19 and 26 December, 1959.

Tariki explains, they were bent on obtaining maximum gain for themselves; "they followed a policy derived from that of the imperialist powers, whose main concern is to produce raw materials from the areas under their control, transport those materials to their countries, process them and utilize their by-products and then export the finished products."¹ On another occasion, Tariki maintains that the original concession agreement with Aramco was concluded in good faith. The general impression which these rather contradictory opinions give is that of a person who sees imperialism as the inevitable selfish instinct of nations which have the power to gratify it. It is highly unfortunate, because it leaves its colonies "in a state of ignorance, poverty and disease."² Nevertheless, we are given to understand, not much more blame can be attached to the oil companies for following their natural bent and exploiting their opportunities to the full than to the host governments which, in their ignorance, permitted this exploitation at their people's expense.

Relationship between Oil Companies and Imperialism

Imperialism, then, is seen to have played an important role in the establishment of the companies. Although, no doubt, there are many people in the Middle East who are convinced that Western imperialism no longer presents the threat it used to, it is still impolitic for any Arab leader to say so in public.¹ Probably, however, there

¹ Interview with al-Khalij al-'Arabi, Saudi weekly, 20 April, 1961.

² Shakh 'Abd Allah al-Tariki, in al-Ahad, Beirut weekly, 19 and 26 December, 1959.

are many more people who certainly do believe that Western imperialism presents a very real threat, and that it still plays a very important role in supporting the international oil companies. If pressed, most of these people would probably agree that this role is no longer imperialistic in the worst sense of the word, since it may involve no direct interference in the internal affairs of the Middle East state in question, but that it is primarily diplomatic in nature, as would befit ex-imperialist states with a hankering for old times.

For example, after the fall of General Kassem, the oil companies in Iraq appeared to enjoy quite friendly relations with the new government, which made at least one substantial concession in their favor.² It is no accident that the slow decline in Iraqi oil production which had set in towards the end of the Kassem era suddenly gave way to a substantial increase. Nor, presumably, is it an accident that the West, and particularly Britain, hit it off quite well with the new regime, pushing its luck with a prompt delivery of arms. On the face of it, this is just a hard-headed, mutually advantageous deal between two states, one of which merely happens to be "ex-imperialist" power. But in the prevailing Middle Eastern political climate, it is not too difficult to persuade people that the Ba'thist regime

¹There are, of course, exceptions. Answering criticism of the Libyan Government's granting of an oil concession to an Italian oil company, Muhammad ibn 'Uthman, the Minister of National Economy, stated in Parliament on 25 April, 1960, that Western imperialism was no longer a threat to independent Arab states.

²By reducing port and cargo dues at Basrah. These dues had been raised by the Kassem government--action which had led to a decline in offtake from the southern oilfields of Iraq and, as a result to a serious dispute between the government and the companies.

in Iraq was conniving with the oil companies in the same way that General Kasseh and Muri al-Sa'id were alleged to have done before them. At the time the Nasserists were plugging this line.¹ Evidently there is a general belief that certain Western states are congenitally imperialistic and that merely to deal with them is to run the risk of being tarred with the imperialist brush. The oil companies--as the West's only vital interest in the area apart from the expulsion of Communism--are an organic part of the imperialist set-up. By definition, then, they cannot but have a 'political aspect'--that illegitimate extension of their economic function.

As the above examples suggest, it is very difficult to determine what exactly the anti-Western critic believes to be the precise relationship between the oil companies, their imperialist home governments and--sometimes--their Middle East accomplices. In fact, it can be assumed that often there is no precise relationship in the critic's mind, because a too close attention to facts would spoil his argument. However, insofar as he does define such a relationship, broadly speaking he appears to envisage one of three possibilities or a combination of two of them: (1) that the imperialist government control the companies; (2) that the companies control the imperialist governments; or (3) that both are separate but act in concert. Fourthly, there are those who deliberately exploit the hasiness surrounding this whole subject in order to lift it bodily into the realm of popular demology.

¹The Ba'athists--just like the Syrian secessionist rulers before them--have on occasion employed exactly the same propaganda technique against President Nasser. Nasser's activities in the Yemen, they insinuate, are stage-managed by American imperialism, one of whose main interests in the area, as everybody knows, is to keep its grip on Saudi oil (see, for example, al-Ba'th, Damascus daily, 7 November 1963 and al-Nasr, Damascus daily, 7 January, 1963).

"Oil exploration and production operations in the Middle East are monopolized by imperialist companies which are used as instruments in the economic warfare waged by their parent countries against the smaller states."¹ Carried to its logical conclusion this statement--which epitomizes the first hypothesis--implies that in exploiting Middle East oil resources the West is not merely out to enrich itself but to enfeeble the Arabs in the process. Moreover, the second objective is not merely an accidental result of the first; it is part of an overall political strategy. In the uproar which greeted IPC's dismissal of redondant workers employed at its pipeline terminal in Tripoli, the extremer sections of the Lebanese press interpreted IPC's action as part of a plan to ruin Lebanon's economy and to reduce its workers to destitution.²

It is not surprising that the most ardent exponents of the second main theme--that the imperialist governments are the political and military tools of the companies--are the Communist newspapers of the Arab world. For, the international oil companies provide as plausible an illustration as any of the classic Leninist theory of capitalism and imperialism. During the IPC-Iraqi negotiations, for example, the Baghdad Communist newspapers pursued a notably more ideological line than their nationalist colleagues. On a number of occasions, they accused the companies of being "governments" who could bring all the resources of a state to bear against Iraq. Because the companies

¹Muhammad Ahmad Salim, in the Cairo daily al-Akhbar, 13 January 1958.

²See al-Akhbar, Beirut daily, 13 January 1963.

wielded great power in their home countries, the argument went on, they could manufacture propaganda, and buy off parties, politicians, newspapers and individuals.¹

"Although the oil companies are nominally private concerns, they receive the full backing of their governments [US, Britain, France] in view of the wealth and power which they bring to the Western world." This third view--that the oil companies and the imperialist governments are separate but generally act in concert--is one to which the purely nationalist opinion on the whole subscribes. Having no commitment to Marxist-Leninism, they are only dogmatic in their undeviating hostility towards the oil companies. Whereas, under Kasseem, the Baghdad Communist papers tended to emphasize the single identity of IPC and its home government, their nationalist colleagues, though no less convinced of the evil ways of Iraq's exploiters, saw them as two distinct entities--monopolist companies and imperialist governments--working hand in glove to get the better

¹For such views see Saut al-Ahrar, Baghdad daily, 3 October 1959. Insofar as America is the leading capitalist society of the West, the home of big business, America is the main target for this kind of attack. In his book America Plunders Arab Oil (Amrika Tanhab al-Bitrul al-'Arabi, published by Dar al-Fikr, Cairo, 1957), Adil Husain explains how the international oil cartel, which is largely American-controlled, wields immense political power in the United States. In fact, he says, in America, and to a lesser extent in Western Europe, the whole machinery of state works in the interests of the oil companies. He points out that the former US Foreign Secretary, Mr. Dulles, was once an employee of Mr. Rockefeller, the multimillionaire who had a controlling interest in all stages of the oil industry as well as other sections of the US economy. Dulles was therefore no more than an instrument in Rockefeller's hands, he explains.

of Iraq. Early in 1962, for instance, IPC formally requested the Iraqi government to accept arbitration on the points of dispute which prolonged negotiations had failed to settle. At the same time the British and American governments dispatched two 'cordial' notes urging Iraq to resume negotiations with the company and there were reports of British troop movements in the Persian Gulf area. In the eyes of hyper-sensitive press this was a too obvious conjuncture of events to be anything but a concerted strategy to force the Iraqi Government to come to terms--a classic example, said one paper, of old-style gun-boat diplomacy.¹

As to the fourth classification--the popular demonology--this operates at the lowest level of opinion, as purveyed by the yellow press and certain Arab leaders in their more demagogic moments. On this level, imperialism tends to acquire a sort of monstrous transcendental quality like the force of evil itself. Fitted into this picture of allegoric simplicity are the oil companies which not only possess the aura of imperialism, but sometimes have influence over

¹Al-Bayan, Baghdad daily, 11 January 1962. It often happens, of course, that in its eagerness to expose imperialist machinations, the Arab press discerns a sinister motive in the most routine and innocent circumstances. Once, when an IPC director arrived in Baghdad, he and his imperialist government were promptly warned that the Iraqi people were not to be hoodwinked by this obvious example of plotting and intrigue being carried on in the guise of an inspection tour (see the Baghdad daily, Saut al-Ahrar, 12 October 1962). Moreover, it is somewhat incongruous that this diehard imperialist foe is on some occasions so easily beaten. In October 1962, the publication of a draft law establishing the Iraqi National Oil Company--a mere draft law--was sufficient to cause panic in London and Washington (see the Beirut daily al-Nida, 5 October 1962).

its workings. In September 1961 there were riots in Baghdad. It was on behalf of the companies, said General Kassem, that "imperialism made use of its stooges and agents to commit irresponsible acts against our republic."¹ But imperialism, as it lurks among the people, has an adversary--Arab nationalism. Like the forces of good and evil, these two are locked in mortal combat. Oil is directly associated with the struggle. An Iraqi columnist says proudly that by his dedication to Arab nationalism he has automatically incurred the enmity of imperialism and the oil companies.² Eventually, of course, nationalism will triumph; as it did in Egypt, for example, but not before the companies had left "a blood-stained record of attempts to suppress nationalism and set up puppet governments."³ It is something like this, one feels, that is meant by the phrase 'imperialistic oil companies,' when it is used as the indispensable cliché of every public harangue.⁴

¹Address to a group of officials at the Education Ministry, 7 September, 1961.

²Al-Hurriyah, Baghdad daily, 13 July, 1960.

³Al-Sah'b, Cairo daily, 16 August 1959.

⁴It should not be assumed that the anti-Western Arab always imagines himself at grips with a kind of world imperialism, unified in its aims and actions. The imperialist nations--and this of course is the pure milk of Leninist dogma, though it is subscribed to by Communist and nationalist Arabs alike--are often forced into bitter competition at each others' expense. "There is," as one Egyptian daily (Al-Ahram of 6 May 1959) puts it, "the struggle against imperialism which is trying to retain control of the Arab oil which is the best and cheapest in the world, and the other struggle between the rival British and US imperialisms." Moreover, there is sometimes held to be a difference in motive between the two imperialisms. Whereas the US government and oil companies are influenced in their policies by the global responsibilities of their crusade against Communism, Britain is more concerned with immediate realities. Thus, after the estrangement of General Kassem from mainstream Arab nationalism, the

Political Interference by the Oil Companies

Bearing in mind these general considerations, we can now examine some of the characteristic methods of political interference attributed to the oil companies. These can be divided into two main categories: (1) interference in inter-Arab affairs and (2) interference in the internal affairs of a particular Arab state.

On the inter-Arab front it is widely believed that the companies' main objective is to keep the Arab people divided and weak. The oil companies are sometimes assumed to have an almost pathological fear of Arab unity.

The companies' anti-unionist policy finds its most typical expression in efforts to frustrate the aims of President Nasser, who for many years has been the main focus of pan-Arab aspirations. This opposition to Nasser ranges from full-scale political subversion to harassing operations conducted ostensibly within the sphere of legitimate oil activities.

"It is the oil companies," writes one pro-Nasser Beirut daily, "that are behind all the attempts to carry out coups d'état in the Arab states." Referring to an alleged Saudi conspiracy against the UAR, the daily said that the money to finance it had come from the oil companies. There was nothing new about this, it went on; in the past they had

Nasserist press was in the habit of branding this strayed revolutionary as an ally of Britain. As for Britain, she was seen to have resorted to a typical piece of 'realpolitik'--that of allying herself with a crypto-Communist dictator, both to protect her oil interests and as a means of undermining Arab nationalism which, in the long run, was the chief threat to these interests. (See, for example, the Damascus daily al-Jamahir, 22 May 1962).

financed imperialist interventions such as the British seizure of Buraimi and the overthrow of Dr. Musaddiq and--outside the Middle East-- they had financed subversion in such oil-producing countries as Venezuela and Mexico.¹

The devotees of President Nasser are still the most potent single force in the Arab world today. So long as they continue to look to him as the champion of the Arab cause, they are likely to regard friendly relations between the oil companies and their host governments as a hostile alliance. Predictably, in 1963 the Ba'thist regimes of Syria and Iraq were accused of ganging up with the oil companies in their opposition to Nasser. Allegedly, they tried to pass themselves off as the last organized resistance to Nasser's domination of the Arab world--a resistance that would be all the more effective, they said, in that they were a progressive movement opposed, like Nasser himself, to the forces of reaction.² The Ba'thist argument did not

¹Al-Siyasah, Beirut daily, 15 April 1958. But at the same time the companies may also exercise a restraining influence on the reckless anti-Nasserism of their host governments. According to Muhammad Hassanayn Haikal--editor-in-chief of the Cairo daily al-Ahram and a close confidant of President Nasser--Aramco allowed King Saud to draw as much as three years' royalties in advance so that he could strengthen the anti-Nasser tendencies of the Syrian secessionist regime. Allegedly, he had already spent \$ 7,000,000 on financing the secessionist coup itself, and when his expenditures began to exceed all limits without anything to show for them Aramco tired of the whole thing and was among the powers that counselled Saud's replacement by Faisal, who was expected to be more provident than his brother (al-Ahram, Cairo daily, 22 February 1963). Apparently, however, any confidence which Aramco may have had in the militant policies of the Saudi government was completely dissipated by the time of the Yemeni revolution. According to the Cairo daily al-Jumhuriya of 17 January 1963, Aramco was begging the White House to persuade Faisal that his continued opposition to the Yemeni revolution could only result in damage to Saudi Arabia and American interests.

²Muhammad Hassanayn Haikal, in al-Ahram, Cairo daily, 9 August 1963.

fall on deaf ears. In fact, IPC had already given its blessing to the new Iraqi regime by using its good offices to bring off the Iraqi-British arms deal shortly after Kassem's downfall.¹

Short of direct political subversion, as has been noted, the companies also try to use their oil operations as a weapon against Nasser. After the destruction of the IPC pipeline during the Suez crisis, for example, the companies were apparently considering the possibility of laying a giant pipeline that would transport Iraqi, Kuwaiti and Iranian crude oil via Turkey to a Turkish sea-port. This project came to be known in some circles as the 'anti-Nasser pipeline', because it was a patent demonstration of the oil companies' distrust and dislike of Nasser and what he stood for. The gravity of this snub can be gauged from the fact that it was the monarchic regime in Iraq, itself no friend of Nasserist policies, which objected to the proposed pipeline.

Tactless though the construction of this pipeline would have been, it at least had a powerful practical motive behind it. However, in the eyes of some critics, the major oil companies do sometimes act in a manner calculated to antagonize the Arabs without the compensation of any lasting practical benefit to themselves. Their acquisition of concessions in Algeria, which the Arabs regarded as tantamount to taking sides with the French in their war against the Algerian nationalists, was a case in point. They were advised to pull out of Algeria; otherwise they might forfeit their concessions in the rest

¹Ibid.

of the Arab world: "It would be a thousand times better for them to make a reasonable and permanent profit and to gain the confidence of the people of the areas in which they operate than to realize fabulous but temporary profits and become the object of the hatred and animosity of their host people."¹ The major's behavior in this connection compares unfavorably in Arab eyes with that of the Italian state-owned ENI, which stayed out of Algeria, no doubt so as to avoid offending Arab sensibilities² and in accordance with the late Enrico Mattei's view that oil is a "political resource par excellence" and its exploitation should be "at the service of good policy, deprived to the greatest possible degree of any reminiscence of imperialism and colonialism."³

It is perhaps not surprising that the oil companies on the whole escape censure for that ultimate outrage against Arab sensibilities--aiding and abetting Israel. Any indictment of the companies on this score is usually vague and indirect; they are found guilty only by virtue of their close association with Western imperialism which is responsible for the creation and continued existence of Israel. There are probably two, closely connected reasons for Arab reticence: first, the oil companies are themselves very careful to avoid any involvement with Israel; second, if ill-considered accusations were levelled against a company they might boomerang, because

¹ al-Bilad, Saudi daily, 2 November 1959. Indeed, Arab nationalism was not the only nationalism to be offended by the international oil companies' debut in the Sahara. In France, the award of a concession to Standard Oil (New Jersey), the first major on the scene, was greeted with cries of 'betrayal' and 'sell-out' by the right-wing French press.

² See New York Herald Tribune, 22 July, 1958.

³ Enrico Mattei, address to the Swiss-Italian Cultural Association, November 1957.

public opinion would demand punitive action against the offender and for that the accusation would have to be properly substantiated. It is significant that in 1960, when a wave of indignation swept the Arab world in the wake of Iran's de jure recognition of Israel and the revelation that this Muslim neighbor was supplying Israel with oil, there was little attempt to attach any blame to particular Middle East oil companies. The worst the companies had to contend with was an adaptation of that anti-Semitic lore--of which the Arabs have despite themselves become the chief custodians--which depicts American industry as an instrument of Jewish and/or Zionist ambitions.¹

As for the oil companies' interference in the internal affairs of their host countries, there is a general pattern of ideas on this subject varying according to the nature of the regime in question. A basic distinction can be drawn between three types of regime; (1) the traditional monarchic regime like Saudi Arabia; (2) the 'revolutionary' regime like Iraq; and (3) the laissez-faire democracy like Lebanon.

The basic fact about Saudi Arabia, in the thinking of most Arabs outside that country, is that its government is reactionary, corrupt and a standing invitation to revolution. The basic fact about Aramco, to many of those Arabs, is that consciously and unconsciously it is a bulwark of the present regime. Aramco may not be the main target of attack, but it is dangerously close to the line of fire. More than any other oil company, Aramco, merely by virtue of its existence, is in the dock.

¹See al-Massa, Cairo daily, 29 July 1960.

Saudi Arabia, it should be pointed out, is peculiarly vulnerable to hostile criticism, of which the main purveyor since the beginning of 1962 has been the indefatigable Cairo press and radio. Little imagination is needed to grasp the grotesque contrast between the backwardness and poverty of the people and the corrupt extravagance of the ruling family, and between the harsh puritanism of the Wahhabite tradition and the libertine tastes of the wealthy. The satirist also has another advantage, in that the Arabian Peninsula is remote, unfamiliar, exotic even, to most Arabs of the Fertile Crescent and Mediterranean littoral.

It is not surprising, then, that the more unscrupulous detractors of Aramco portray the company as carrying out its role as the bulwark and defender of the Saudi regime in the authentic style of a medieval Oriental despot. One of the constantly recurring themes of anti-Saudi propaganda is that the Aramco labor-force--as the only organized, literate body of its kind in the country--is a principal center of opposition to the regime. In 1956 there was a strike of Aramco workers. This episode has now acquired the aura of legend as the first symbolic clash between oppressors and oppressed. According to periodic reports appearing in the Cairo press, Aramco, spurning the punitive methods of civilized societies, adopted and even improved upon the barbarous techniques of its host country. It is said to have had all the ringleaders subjected to the medieval tortures which are allegedly a regular feature of Saudi jails and, as an additional refinement, the company's gates were adorned with severed limbs.¹ On

¹See, for example, al-Masa, Cairo daily, February 1962.

the same occasion, Aramco and the Saudi authorities apparently drew up plans to crucify one Nasir al-Sa'id, a labor leader and self-styled revolutionary, and then to have his body mounted on his car which would tour the labor district with this exhibit.¹

Short of plain barbarism, Aramco is believed to intervene in many other ways to prevent the development of an articulate, organized labor movement. It shares the responsibility with the Saudi Government for depriving workers of the right to strike and demonstrate and to resort to any other such elementary means of protest. To cite a few stock accusations: it treats its workers like the negroes of Alabama,² keeps them out of high positions, provides them with a minimum of training,³ carries out arbitrary dismissals, and prevents productive investments and the development of local industries.⁴

Such is the structure of society in Saudi Arabia, with its straightforward division between the privileged few and the masses, that the preservation of the existing order simply depends on the suppression of all incipient working class movements. This at least appears to be the basic assumption of the above criticisms. Although this kind of criticism is the most common, it certainly does not account for the full extent of Aramco's alleged misdemeanors.

¹Interview with Nasir al-Sa'id, in al-Liwa, Beirut weekly, 14 January 1963.

²Al-Hawadith, Beirut weekly, 11 October 1963.

³Saut al-Jabhah, Beirut weekly, 19 May 1963.

⁴Saut al-Jazirah al-Arabiyyah, 5 October 1963.

Intrigue in high places is another of Aramco's specialities. Aramco, for example, has been blamed for the dismissal of Shaikh 'Abd Allah al-Tariki, the Saudi Oil Minister, whom the King had only appointed in the first place to mislead the educated in Saudi Arabia into believing that he was in favor of change.¹

Aramco may be bent on preserving the existing order of things in Saudi Arabia, but this does not prevent it from encouraging a little progress here and there. According to Muhammad Hassanain Haikal,² Aramco generally supports Faisal against his brother Saud, for it considers that Faisal represents the intelligent aspect of reaction and Saud its brainless aspect. It feels that in order to contend with the growing popular pressure in the country, the individual in power must have sufficient intelligence to operate the safety valves, however spurious these might be. On the one hand, therefore, the replacement of Sa'ud by Faisal was in itself a semblance of change, and on the other it afforded Faisal the opportunity to take such decisions as that of the abolition of slavery.

Haikal's assessment of Aramco's motives provides an insight into the company's peculiarly difficult predicament. Its critics automatically assume that its main concern is to keep the present rulers in power; this being so it deserves no credit for any efforts it makes

¹This at least is the view expressed by Muhammad Hassanain Haikal--always incredibly well-informed on the intimate processes of government in Saudi Arabia and other Arab countries--(see al-Ahram of 11 May 1962.) According to Prince Talal, Aramco always regarded Tariki as its enemy number one. Foreigners in the country were apparently in the habit of sending reports to the King about Tariki, in which he was referred to as "the Communist." (See al-Musawwar, Cairo weekly, 4 January 1963).

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²*Al-Ahram*, 28 December 1962.

to persuade the government to introduce reforms. No one should think of being soft on Aramco, just because it appears to be progressive-minded, warns one extremist--characteristically anxious about all reforms not initiated by men of his own thinking.¹ At the Fourth Arab Petroleum Congress a number of Egyptian labor delegates tried very hard to belittle the extent of Aramco's contribution to the internal development of Saudi Arabia. They dismissed a paper presented on the subject as mere propaganda. Perhaps it is not merely an accident that on the same day the President of the Arab Federation of Petroleum Workers stood up and congratulated Kuwait Oil Company and the Kuwaiti Government on its treatment of labor. Indeed, even the most impartial observers sometimes criticize Aramco for paying so much money to such irresponsible rulers.² Aramco is caught between two stools; it must continue to disgorge its profits--indeed a good deal more of them--but somehow it must ensure that these do not consolidate the position of the present regime.

Other companies, like IPC in 'revolutionary' Iraq, are not confronted with this problem to the same degree. They have other problems.

Despite its democratic pretensions, the Kasseem regime never furnished Iraq with anything remotely resembling democratic institutions in the generally accepted Western sense. Nor so far has its

¹Saut al-Jazirah al-Arabiyyah, 28 September 1963.

²There is a glaring contradiction, writes the Lebanese daily Alisan al-Hal (perhaps the most genuinely independent and impartial newspaper in Lebanon) on 13 November 1962, between American munificence in pouring out millions to raise living standards throughout the world and the casual attitude of the oil companies in Saudi Arabia who turn a blind eye to the squandering of oil royalties by irresponsible rulers.

successor. Nevertheless, because the Kassem regime was, by certain standards, progressive and democratically-inclined, the oil companies in Iraq were assumed to be hostile to it as automatically as they are assumed to be friendly to the present Saudi regime.¹ However, Kassem's 'progressive' regime lacked one (in the Western view) essential element of a democracy--free speech and institutions. Towards the end of his regime, the companies became increasingly unpopular with the government, which accused them of resorting to violence to thwart its aims. On one occasion, for example, IPC was accused of exploiting the discontent caused by an increase in gasoline prices in order to foment disorder and riots and thereby force the government to take a softer line in its negotiations with the company.² On another occasion, the oil companies were implicated in the Kurdish revolt.³ The point is that since Kassem's Iraq knew no such thing as peaceful protest, it was only natural that the companies should be credited with resorting to the same methods of redress as angry taxi-drivers and frustrated Kurds.

As is to be expected, in truly democratic states where civil liberty is a reality, the companies can, and according to their critics, do, employ non-violent methods of political manipulation to achieve their ends. Lebanon, with its high capitalism, its pluralist

¹It is true of course that Egypt, as the sworn enemy of the Kassem regime, sometimes tried to make out that Kassem was secretly in league with the companies, but even Egypt kept quiet when events proved the absurdity of these allegations.

²See Middle East Economic Survey, Beirut weekly, 31 March 1963.

³Speech by General Kassem, 23 September 1961.

society, its special interest groups and its aggressive freedom of speech, lends itself in particular to political intrigue--or at least to the exposure of it, real or illusory.

In recent years IPC has found it necessary to dismiss a large number of workers employed at its pipeline terminal in Tripoli. These dismissals have produced some political crises and some interesting insights into the way a company appears to change its methods to suit its environment. This same company which in Iraq resorts to violence in Lebanon favors more civilized devices, such as: conniving with local notables and politicians to the disadvantage of others;¹ bribing labor union officials;² discriminating between unions; dismissing and retaining employees according to their political affiliations.³

¹Pictorial News Agency, Beirut, 24 February 1961.

²Al-Hawadith, Beirut weekly, 14 April 1961.

³Al-Anba, Beirut daily, 8 December 1962.

CHAPTER II

THE ECONOMIC ASPECT

The General Setting

It scarcely needs to be said that the characteristic function, the raison d'être, of the oil companies is to produce oil, sell it and make a profit. It is this, their economic aspect, which we shall examine in the present section. We must not forget, however, that the overall political setting, alien though it may be to the central task of producing and selling oil, permeates through all aspects of the oil industry, and not least the economic one. It is obvious, for example, that to denounce the companies as adjuncts of imperialism is also to condemn them in purely economic terms. Such a condemnation was either implicit or explicit in most of the opinions received in the last section. For those who expressed them, however, the economic injustice done to the Arabs was held to be the result of the basic political situation--that is, the domination of the Western powers. Throw off the political yoke, it was contended, and the economic injustices would dissolve in the process. Vice versa, when the oil companies are denounced in purely economic terms, especially of course by the Communist and extreme nationalist press, this is often only the expression of a political grievance.

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At the same time, however, the companies are also the object of a predominantly economic criticism, and this kind of criticism is

usually more moderate, rational and well-informed. The reason for this is probably simple enough. A discussion of the economics of the oil industry is bound to submit, at least in some measure, to the discipline of hard facts and figures. These may often be recondite and complex, but at least, in so far as they are known, they provide a solid basis on which specific arguments can be built up, claims and counter-claims exchanged. Precisely for this reason, however, this is a field in which a special knowledge and expertise are indispensable for persuasive exegesis. In this field, more than in any other, the Arab point of view is expounded by experts, who have begun only quite recently to present a serious challenge to the oil companies on their own ground.¹ In this section it will be mainly their arguments that we shall examine, since of necessity theirs are the only really articulate ones. However, in keeping to their level, we should not forget that it is paralleled by a lower level of opinion, which is always simpler and usually more extreme. The argumentation of the experts, however, abstruse, can easily be reduced into the slogans of the common man. A scrutiny of the Arab press might give the impression that Arab grievances against the oil companies are impossibly diverse and conflicting. But often, in fact, they do not differ so much in nature as in degree. Thus, what to a moderate critic may simply be "an unreasonable profit", to a less moderate one becomes "unjust

¹As will be explained in a later chapter, the Organization of Petroleum Exporting Countries, which plays a leading role in the formulation of Arab oil policies, stresses the importance of a scientific approach to oil affairs.

exploitation" and, to an extremist, nothing less than "robbery", "plunder" and "feudalism". In general, the more extreme a grievance the more political is its content.

This constant association of politics and economics, even though it is most common in the more nationalistic and extreme sections of opinion, is very significant. It highlights that underlying interconnection between all Arab ~~newspaper~~ opinions on oil--the consciousness of the "great divide". The political gulf between the Arab world and the West is deep and daunting enough, and, as we have seen, much to the disadvantage of the oil companies. But the great divide, though stark as ever, is no longer chiefly political in nature. For, as the bogey of political domination recedes it is natural that the Arabs should turn their attention to those more subtle and intricate forms of domination, the economic ones, which still most patently remain.

The Arab people are economically backward--a plight which they share with practically all the other nations of Africa, Asia and South America. No longer colonial or subject people, their inequality with the West is now described in terms of the contrast between "underdeveloped" and "developed", "industrialized" and "agrarian", and--of special relevance to the Arab world--"consumer" and "producer". The advanced nations have diversified, highly technical economies; the backward nations often derive most of their pitiful income from the production of one mineral or raw material, which they cannot use themselves and which is dependent for its value on the needs of the advanced,

industrialized nations. Consequently, their prospects of development depend to a great extent on high-level political decisions taken by foreign powers. For example, the European Economic Community, whose demand for oil is rising very rapidly indeed, has it in its power-- and without any altruism--to make a very significant contribution to the welfare of the Arabs. It could do this at one stroke, simply by adopting a liberal energy policy, with a minimum of protection for domestic coal production and freedom of access for foreign (i.e. mainly Arab) oil. It is essential, therefore, that Arab economic grievances against the oil companies should be seen against the background of a world situation.

In the Middle East itself, there is certainly a growing awareness of the position of oil as part of the whole phenomenon of economic relations between the developed and underdeveloped world. In August 1962, the Organization of Petroleum Exporting Countries (OPEC) published a memorandum¹ explaining its point of view on certain demands which some of its member-countries intended to put to the oil companies. Much of the argument in this memorandum, which for the time being at least might be called an oil-exporters' manifesto, was couched in very general terms. In particular, the memorandum complained that in recent years the underdeveloped nations of the world had suffered a steady deterioration in their terms of trade with the industrialized nations. It suggested that the price of oil should be stabilized by

¹Memorandum explaining the resolutions of the Fourth Conference of OPEC, 2 August, 1962.

relating them to an index of prices of manufactured goods. It noted that, from their position of strength, these nations enjoyed a built-in advantage over the producing countries; economic forces tended automatically to work in their favour, so much so that the gap between the rich and poor nations was widening. The issues touched upon in this memorandum are very far-reaching. A number of observers have suggested that the time is now ripe for the consumers and producers to get together as two groups and work out a general agreement between themselves.¹ Although the members of OPEC have not yet asked to deal with any group of consumers--the European Economic Community, for example, which is now trying to establish a common energy policy--they are clearly anxious that the consumers should take conscience of their status as rich, developed nations. They would then, it is hoped, view the difficulties of the underdeveloped nations with a proper understanding and sympathy. Moreover, this understanding should express itself in a greater willingness to help solve these difficulties in a practical fashion, and not simply to dole out more money in economic aid.

In the long term interests of all concerned, an equitable balance between the two groups of nations must be established. And the way to accomplish this end is not through economic aid which is dependent to some extent on the good graces of the granting nation, is sometimes tied to economic conditions serving their interests and is susceptible to shifts in their own internal political and economic conditions. Such a balance must, on the contrary, be

¹For example, Perez Alfonzo, Venezuelan Oil Minister (see Financial Times, London, 3 December, 1962) and Nicholas Sarkis, a Lebanese economist (see Le Commerce de Levant, Beirut semi-weekly, 16 May 1964).

established by building up a system which will allow the underdeveloped countries to make their way in the world of international trade through reasonable but not exorbitant prices for the exports on which so much of their future depends.¹

'Trade not aid' is a slogan which holds good in the Arab world despite the fact that they are among the richest underdeveloped nations in the world--or perhaps because they are, for charity is likely to be particularly resented when it is felt to be unnecessary. The anti-Western press is always ready to play on this resentment. Why, asks a Lebanese Communist daily, should Lebanon seek American aid when America owes Lebanon millions of dollars (through Tapline, which has deprived Lebanon of its rightful share of profits)? And why do not the Lebanese authorities inform the public of the methods by which America robs the country of its wealth and then covers this up with offers of aid?²

Economic Power versus State Sovereignty

So much for the general economic setting in which the oil companies operate. Turning to the companies proper, we shall take as our starting point that blanket term of abuse--"monopolistic"--which at some levels of opinion is almost synonymous with the oil companies. On this basic theme, modulating through none-too-harmonious variations, a whole structure of opinion is built up.

¹ Explanatory Memorandum on OPEC resolutions, see page 30 above.

² Al-Nida, Beirut daily, 3 November 1960.

In the popular press, the label "monopolistic" is applied to the oil companies with the same ritualistic insistence as "imperialistic" to their countries of origin. On a par with 'folklore' conceptions of imperialism is a favourite metaphor, "oil octopus", used to designate the monopolistic character of the international oil companies with their worldwide network of interlocking operations. This gigantic parasite (to continue the metaphor), which sucks the blood of small nations, is controlled from Wall Street and the City, the economic nerve-centers of imperialist power.

For the more moderate and better informed, the structure of the great oil companies, or "The Cartel" as it is often called, is less phantasmagoric. Nevertheless, the system of subsidiary companies which the seven majors have set up to undertake the various stages of oil operations comes in for a great deal of criticism, and basically this criticism is the same. The fundamental objection is that these subsidiary companies, the tentacles of the octopus, make up a vast complex machinery remote-controlled from the highest levels of authority in the capitals of the West, in that other and opposite world of rich, developed nations.

How was this machinery established? For some, like Muhammad Hadid, ex-Iraqi Finance Minister, it was a deliberate artifice designed to deceive the oil producing states and bend them to the will of the cartel.¹ For others, this machinery came into being fortuitously as an empirical construction.

¹Interview with Muhammad Hadid, Rose el-Yousef, Cairo weekly, 6 January, 1960.

In an interesting paper¹ delivered to the Third Arab Petroleum Congress, Dr. Muhammad Labib Shuqair, a professor of political economy at Cairo University, took the view that the international oil industry is not expressly designed to control the producing states. He maintained that the great bargaining power of oil companies vis-a-vis the Middle East producers is the result of a combination of factors, most of them inherent in the dichotomy of developed and underdeveloped nations. These included, before World War II, the producers' lack of capital and skills to develop a national oil industry; political pressures of dominant powers; the absence of competition in the oil industry; the paucity of proven reserves in the Middle East in relation to the world total; the lack of appreciation by the Arabs of the importance of oil to the economies of the countries to which the companies belong. The majors were thus able to acquire vast and exclusive concessions, operated by jointly-owned subsidiaries, in the countries of the Middle East which have since become the most prolific oil producers in the world. In the light of this argument, the companies can be said to have taken advantage of a given situation, rather than having created it themselves.

But the great bargaining power of the cartel is perpetually on the decline, Dr. Shuqair held, not only because of the economic development, increasing sophistication and political strength of the

¹Dr. Muhammad Labib Shuqair, The Relative Bargaining Power of the Arab States and the Oil Companies and its Effect in Determining the Financial Provisions of the Oil Concession Agreements, paper delivered to the Third Arab Petroleum Congress, held in Beirut from 16 to 21 October, 1961.

producing countries themselves, but also because the monopoly of the cartel is being subjected to strong pressures from actual or potential newcomers offering better concession terms and new producers offering crude oil or petroleum products on world markets at lower prices and on better terms.

Although it is on the decline, however, the power of the oil industry is still much too great for the liking of the producing countries. And so long as it remains so, it is believed, world-wide oil operations will continue to be carried out in the interests of the foreign-based organizations which control them. In the last analysis, benefits to other parties such as the producing countries are seen as incidental. In the words of Sheikh 'Abd Allah al-Tariki: "the concessionary companies belong to the oil-importing and oil-consuming countries. If the interests of the producing countries conflict with those of consuming countries, the interests of the former are invariably sacrificed."¹ From this it appears that the producing countries are in natural opposition to the parent companies. On whose side are the producing companies? Logically, according to Tariki, they should be on the side of the producing countries; but they are not, because "both the producing countries and companies are at the mercy of the big international companies which exercise control over world markets." In Baghdad, in August 1960, there were professions of surprise that the producing companies should have agreed to cut

¹ Shaikh Abd Allah Tariki, interview with the Cairo daily al-Sha'b, 30 April, 1959.

posted prices, a step which was not in their interest even if it was in the interests of the consumer countries.¹ Still less flattering is the belief that the international oil companies act with cavalier indifference to everybody's interest except their own, that they "toy with the destinies both of the undeveloped nations and the oil consuming nations of Europe."²

Perhaps the best way to assess just how massive is this economic power which the companies are still thought to retain is to examine what action the Arab governments take or recommend should be taken to control it. It might be asked, for example, why the previous regime in Iraq did not nationalize IPC outright, considering the violence of its polemics against it.

This question of nationalization shows up in its acutest form the nature of that antagonism, which, at lesser degrees of tension, lies at the heart of government-company relations. This is the antagonism between the economic power of the companies and the political power of the host countries. Nationalization has been endowed with a symbolic appeal, a mystique, quite unconnected with its possible economic benefits, because to nationalize is to go to the extreme in asserting the political sovereignty of the state over the foreign company.

Nationalization has been carried out in Egypt; and the Egyptian

¹Al-Ahali, Baghdad daily, 6 September, 1960.

²Al-Hurriyah, Baghdad daily, 31 August, 1960.

government has often urged other Arab governments to take this step as the only effective means of making foreign industrial enterprises serve the best interests of the state. At the Third Arab Petroleum Congress, Anwar Salameh,¹ the Secretary General of the Arab Federation of Petroleum Workers, delivered a tirade against the oil companies. By their control over most of the Middle East oil resources, production, prices and revenues, he said, the companies possess a dangerous weapon with which to threaten the economic well-being of the Arab states. He therefore urged the latter not to be deterred by the false alarms raised about the risks involved from their aim of nationalizing the Arab oil industry.

It is surprising however, that Mr. Salameh, who regards the oil companies as such a dire threat to the Arab well-being, should dismiss as unfounded the fears that nationalization of a country's oil industry would bring about another 'Abadan'. His optimism was evidently not shared by other Arab governments; for if they took such a drastic step, they would have to find purchasers for amounts of oil compared with which Egypt's output is diminutive indeed. In Iraq, for instance, when the Kassem government used to vie with Egypt in the fervour of its nationalism, nationalization would obviously have been a source of great prestige. But even if the government was interested, it was evidently not prepared to take the risk, fearing no doubt that the oil companies would mount an economic blockade as they did against

¹ Anwar Salameh, Participation in the Oil Industry and Its Effect on the Economies of the Arab States, paper delivered to the Third Arab Petroleum Congress.

Iran in 1951. Indeed, it is noteworthy that after the first few months of the Kassem regime, the Iraqi press, except for veiled insinuations now and then, followed the government line in studiously avoiding any mention of nationalization as a means of dealing with IPC. On one occasion, even, a pro-government newspaper had to rebuke one of its colleagues for "its implied demands for nationalization".¹ All the evidence is that the Arab leaders are fully aware of the formidable power of the companies, and their readiness to use it if provoked. If the worst came to the worst, an Arab government might, however, be prepared to do without its revenues. General Kassem once intimated as much.² But it is difficult to take seriously occasional statements that oil has been nothing but a curse to the Arabs.

Another, less drastic, fashion by which a producing country might assert its sovereignty is by increasing its oil revenues by some device not provided for in the concession agreement.³ The imposition

¹Al-Thaurah, Baghdad daily, 15 August, 1960.

²Interview with Al-Thaurah, Baghdad daily, 2 September, 1960.

³By unilaterally imposing taxes on the oil companies, Venezuela substantially increased its share of profits at one stroke. This action undoubtedly made a strong impression in the Arab world, where governments have been toying with the idea of doing likewise. For instance, at the Seventh Meeting of the Arab Oil Experts, Mr. Frank Hendryx, then Legal Adviser to the Saudi Directorate of Petroleum and Mineral Affairs, proposed that the Arab states should seriously consider emulating Venezuela by passing income tax laws providing for an increase in the State's share of oil revenues (see Middle East Economic Survey, 20 November 1959).

of port dues at Basrah by the Kassem government is a case in point. As one Baghdad paper explained in this connection, the government should not allow the companies to discuss this matter, which falls completely within the jurisdiction of Iraq as a sovereign state. It was incumbent on the Iraqi government to assert its independence "because the economic power of the monopolistic oil companies entailed political power."¹ In effect, this raises the companies to the status of governments, a situation which only serves to heighten that sensitivity about sovereignty common to all those states which have recently emerged from foreign domination of one form or another. Nationalization, the extreme assertion of sovereignty is of course an act of last resort, which the companies would presumably counter with all the resources at their disposal. In their great economic power, the companies have, and are seen to have, an ultimate deterrent against state intervention; but also, in normal times, they have a means of pressure, a diplomatic instrument, which they can use in their regular dealings with their host governments.

There are two areas of ~~the~~ commercial operations in which the companies insist on their right to freedom of action--the determination of prices and production. The Arabs often complain that precisely in these areas the companies abuse their freedom by making arbitrary decisions at the expense of the host governments, whose oil revenues depend directly on the price and the amount of oil produced.

¹Al-Hurriyah, Baghdad daily, 17 August, 1960.

As regards production, the most obvious way in which the companies can arouse the suspicions of any one producing country is to allow its crude output to fall off, or to register a significantly slower rate of growth than that of a neighbouring producing country. Between the break-off of the IPC-Iraqi negotiations in October 1961 and the downfall of General Kassem in February 1963, for example, IPC production remained more or less static, a fact which the Baghdad daily al-Bayan (whose comments, under the editorship of oil expert Muhammad Hadid, were the most constructive in the Baghdad press) stigmatized as a typical instance of the companies' time-worn monopolistic tactics.¹ It was reported that towards the end of the Kassem regime, resentment against the IPC was becoming particularly strong on the ground ^{that} it had not kept to its promise to expand production at a certain rate. This was described in Iraqi oil circles as typical of the oil company's "proverbial bad faith", particularly obnoxious in that it was felt to be a direct blow at Iraq's national development programme.² To take a more specific instance, IPC was once accused of lowering production in direct retaliation for the imposition of higher port dues at Basrah. During the IPC-Iraqi negotiations, General Kassem bluntly told the IPC negotiators that this was a "deliberate act" designed to harm Iraq.³

¹ al-Bayan, Baghdad daily, 10 May, 1962.

² See Le Commerce du Levant, Beirut semi-weekly, 2 February, 1963.

³ Minutes of Iraqi-IPC negotiations, issued by the Iraqi News Agency, 19 October 1961.

Manipulation of production is so conspicuous a device that it is an easy game for the critics. One such critic, Samir Shamma, the

Arbitrary price-cutting is the second economic weapon which the companies are believed to use to exert pressure on the producing countries. In Iraq, the 1960 price cuts were interpreted in some quarters as an action calculated to bring the government to heel in its negotiations with the IPC¹. But price-cuts are not usually considered to be directed against individual producers, no doubt because changes in prices usually occur more or less simultaneously at every pricing point in the whole Middle East producing area. They are usually seen in a broader perspective. Certain Middle East oil experts certainly condemned the 1960 price-cuts as a blow to the economies of the area, but at the same time they considered that this had not been their main purpose. First and foremost, they believed, the price-cuts were a kind of economic sanction against Venezuela for having imposed a tax on the oil companies' operations. The following extract from an article by two high-ranking members of the Directorate General of Petroleum and Mineral Affairs in Saudi Arabia provides an interesting exposition of this line of thinking in its wider implications:

well-known oil expert and lawyer, was once hoist with his own petard in his eagerness to find fault with the companies (though his point would have been very relevant to the situation after 'Abadan'). He noted that Aramco had increased its throughput at Ras Tamura refinery by a very considerable amount in 1960, and went on to attribute this to the shut-down of the Abadan refinery due to a dispute between Iraq and Iran. In fact Abadan refinery was shut down in 1961.

¹See al-Hurriyah, Baghdad, daily, 19 August, 1960.

Both Shaikh Tariki of Saudi Arabia and Perez Alfonso of Venezuela have advocated international prorationing of production by means of an international compact. The Arab countries have further plans of their own for the Arab pipeline, the Pan-Arab Tanker Fleet, and national oil companies. In face of such growing activity in the producing countries the companies, still intoxicated with the notion of "hands off the industry," are applying pressure of their own. When the companies reduced the price of Venezuelan crude in February 1959 after Venezuela had increased its income tax two months earlier (December 1958), the impression which this action left on the producing countries was that the companies intended to "punish" Venezuela for increasing its income tax. The 1959 price reductions in the Middle East preceded the First Arab Petroleum Congress by two months. The "preventive punishment" was perhaps intended to serve as a warning to the participants in the congress, who were sure to raise the question of increased income from the industry. In this atmosphere of pressure, oil prices have been the pivot of maneuver.¹

It is in the same spirit of mistrust that most Arab personalities, with one notable exception, have consistently refused to share the companies' alarm at an alleged Soviet oil threat. This they consider to have been grossly exaggerated so as to provide a convenient argument with which to resist the demands of the producing countries. The exception is the late Lebanese deputy and businessman, Emile Bustani, who was well-known for his resounding denunciations of Russia's Machiavellian oil politics. Coming as they did from so conspicuous a friend of the West, whose highly successful business career was not unconnected with the prosperity of the Middle East oil industry, these onslaughts did not have much effect on the

¹Hisham Nazer and Muhammad Joukhdar, "Oil Prices in the Middle East," Middle East Economic Survey, Beirut weekly, 23 September, 1960.

rest of Arab opinion. If anything, to judge by Bustani's habit of crossing swords with the much more influential Shaikh 'Abd Allah al-Tariki, they probably served to strengthen the general belief that the Russian oil threat is a scare manufactured by the companies.

Of much the same kind were the suspicions voiced in connection with the discovery and development of oil in Libya. In the words of Samir Shamma:

No-one conversant with oil politics is unaware of the purpose behind these exaggerated reports of oil discoveries in Libya...It is a hint to the other Arab countries to exercise moderation in their demands on the oil companies, or even drop many of them altogether and to arrive at a compromise leaving the lion's share to the companies.¹

Commercial Realities and Pressures from Producers

Changes in prices and crude output, then, are regarded as weapons in the armoury of a powerful and overbearing industry. However, they are by no means always seen in this light. In recent years, Arab oil experts have shown more and more interest in tackling such vital matters as production and pricing in the context to which they truly belong--the commercial one. Insofar as the oil companies claim that, as business enterprises, all their actions are in the last analysis dictated by commercial necessity, these experts have come to grips with the companies on their own ground. Of course it

¹Samir Shamma, "Libyan Oil and Middle East Oil Policy," Middle East Economic Survey, Beirut weekly, 30 October, 1959.

could be argued that commercial necessity, as a concept, can include the idea of using economic power as a means of pressure or coercion. However, this is not meant here, and the following analysis takes into account only those Arab views which have taken the claim in the sense that the companies mean it. This, as will be seen, is far from meaning that they accept it. Broadly speaking, it can be said that they use one of two principal lines of argument: to dispute the commercial justification of a particular oil company decision or to deny the propriety of such an action, though perhaps justified commercially, on the ground that it is injurious to the producing country or countries.

There is no place here to deal with all the particular issues on which the producing countries and the oil companies are at odds. In isolation many of them--such as dead rents, sales discounts, depreciation allowances--are of minor importance, although taken together, they amount to something fairly substantial. However, there are three cardinal issues, inclusive of all others, which now lie at the heart of the controversy between governments and companies. These are production, prices and profitability.

Recently the most important single economic factor affecting oil operations has been the world surplus of crude, which in turn has led to a downward pressure on prices, and consequently on government revenues. The question of the profitability of oil operations is of direct interest to the producing countries insofar as it serves as a basis for determining what is a fair division of profits between company and host government.

With regard to production, there is a certain inconsistency in what the oil producer thinks is good for itself and for what it thinks is good for oil producers in general. On the one hand, as we have already seen, they are quick to reproach their own concessionaries for not expanding production at the desired rate. Iraq is not alone in urging a large-scale expansion in its producing capacity. Iran has also made it clear that it expects to regain its position as the Middle East's leading oil producer.¹ On the other hand, there is a body of opinion in the producer countries which is strongly in favour of a world-wide prorationing scheme. This idea appears to be in cold storage, or possibly to have been shelved altogether; however, if some sort of proration scheme were ever adopted it would constitute a much greater encroachment on the company's cherished freedom of action than the need to satisfy the expectations of individual countries is at present.

The following extract from an article by Muhammad Joukhdar, formerly head of the Economic Section of the Saudi Directorate General of Petroleum and Mineral Affairs, gives the gravamen of the producers' case for proration:

The fact is that all large-scale oil producing and exporting countries now fall into the category of economically underdeveloped countries. One of the basic problems of these countries--countries characterized by a total dependence on one commodity whether agricultural or mineral--is the fluctuation in the prices of the raw materials

¹See interview with Shah of Iran, Petroleum Week, 9 December 1960.

which they produce, and the disruptive effect of these fluctuations on their budgets and economic planning. Thus the fact that crude oil is the principal source of income of the oil producing countries of the Arabian Gulf and the Caribbean, and is expected to remain so until they succeed in diversifying their economies, leaves these countries no alternative, in their efforts to stabilize their economies and build up a reserve for emergencies, but to adopt a policy of conservation of resources, which would also have the effect of stabilizing crude oil prices through prorationing.¹

What is interesting and characteristic about this statement is the emphasis laid on the predicament of the underdeveloped countries. It is this predicament, with all the disadvantages it entails, that provides a solid undeniable premise on which the whole case for external control over the oil industry is grounded. Mr. Joukhdar is quite categorical:

Free economic enterprise cannot remain free, nor can it have any meaning, so long as there are people whose economic life is constantly threatened because of their dependence on the export of materials subject to dangerous price fluctuations.²

That is to say--in accordance with the second main line of argument--a company's freedom to decide on its level of output, though perhaps a purely commercial matter, is improper because it is liable to injure the producing country.

However, according to Mr. Joukhdar, it is possible to apply the first line of argument as well, and to object to a company's

¹ Muhammad Joukhdar, "Petroleum: Supply, Demand, Production Controls and Price Cuts," Al-Bilad, Saudi daily, 9 August 1959.

² Ibid.

freedom to decide on its level of output on purely commercial grounds. That is to say, although the companies are interested, just like the producing countries, in maintaining a stable relationship between supply and demand, the fact is that they are unable to do so:

If the oil industry is for some reason producing more than the world market can absorb, this should not be construed as indicating that the oil industry is facing an economic crisis due to a fall in demand for petroleum, but rather that there is some kind of imbalance in the industry which may be attributed to a miscalculation in business forecast.¹

Thus, free enterprise is no longer acceptable, not merely because it runs counter to the interests of the producers but because it is no longer capable of looking after its own.

Although one of the objectives of a proration scheme is to conserve resources and therefore to prolong the period during which the producing countries will continue to receive oil revenues, it is permissible to assume that this is not the main objective. Such is the abundance of Middle East oil that it would always outlast the reserves of any other area, and, if the worst came to the worst, it "could wipe any other off the market."² The main objective is to halt the downward trend in prices.

It is the sphere of prices that the debate about commercial necessity really comes into its own.³ On the one hand the companies

¹ Ibid.

² Hisham Nazer and Muhammad Joukhdar, op.cit.

³ In this connection it is significant that the 1960 price-cuts were the catalyst which produced that milestone on the arduous road toward producers' solidarity--the formation of the Organization of Petroleum Exporting Countries (OPEC).

insist that to deprive them of the right to set prices is to strike at the very basis of their existence as independent business organizations. It is in the setting of prices, on the other hand, that the producing countries see their main chance to force the dynamic of the world oil trade, against its natural bent, into shedding its benefits more evenly. If economic forces, left to themselves, work inexorably in favor of the developed countries, then these forces must be brought under control. At the present time the Middle East oil producers are demanding a return to pre-August 1960 price levels.¹ However, it is not the specific demand which is important, so much as the rationale behind it. The Middle East producers insist on being consulted by the companies about their pricing policy.² They wish, in other words, to acquire a measure of control over company operations so as to ensure that their economies are so far as possible spared the shocks of sudden and unexpected reductions in oil revenues.

As a result of a tendency to use both anti-commercial arguments at one and the same time, Middle East thinking on prices seems to oscillate rather uncertainly between two distinct and contradictory premises: one, more dogmatic and traditional, that the monopolistic character of the oil companies is so strong as to rule out competition and therefore the necessity for competitive price-cutting; the other, that competition exists, but that price-cuts are still unjustified because they are harmful to the producing countries.

¹See Explanatory Memorandum on OPEC resolutions, op.cit.

²See Resolution I.1. of Conference of Petroleum Exporting Countries (which brought OPEC into existence) held in Baghdad from 10 to 14 September 1960.

At the time of the 1959 and 1960 price-cuts, leading Arab oil officials took the stand that they had no economic justification. Yet at the same time they were advocating a proration scheme, and this seems to be a tacit admission that there is at least a trend towards oversupply, which, if unchecked, will lead to heavy pressures on the existing price structure. It seems a trifle ingenious, therefore, to argue that the oversupply situation exists only in the imagination of the companies in search of an argument for reducing prices. T^u riki says, for example: "The idea of the limitation of production would merely serve to eliminate the myth of an oversupply situation (my italics), and put an end to fluctuations in prices which have no economic justification."¹ In support of this point of view, Middle East oil circles sometimes draw upon the argument that there is no actual over-production, merely a surplus of oil producing capacity; in consequence, the major oil companies, which control most of these oil reserves--stored in cost-free reservoirs into the bargain--should be perfectly capable of resisting any temptation to produce more than necessary.² If this is valid, then it effectively answers the companies' plea that price cuts are dictated by commercial necessity. "It is clear that under the shadow of the cartel all free competition disappears and the law of supply and demand no longer operates to determine commodity prices. Thus all economic forces are oriented toward the realization of the cartel's aims."³

¹ Interview with al-Ahad, Beirut weekly, 19 December 1959.

² For such views see the article by Samir Shamma, "Consequences of Crude Oil Price Cuts," in al-Bilad, Saudi daily, 17 August 1960.

³ Abd al-Ghanim Nadhrani in al-Yanamah, Saudi weekly, 12 February 1961.

The inability or unwillingness to admit the possible existence of price-conscious competition and quasi-monopoly comes out in the producers' stock argument that there can be no need for the producing company to offer discounts to the offtaker which lifts its crude. This transaction is a mere book-keeping formality, they say, because producing company and offtaker are both affiliates of the same parent companies.¹ Whether or not these discounts are justified, until the oil companies come out with definite and detailed information on their selling operations, it is easy for the producing countries to claim that discounts are not made under the spur of competition, but are merely a pretext for cutting prices.¹

To judge by OPEC's Explanatory Memorandum, Middle East oil circles are now moving away from their rather awkward stand and have accepted, with a certain reluctance, that competition is indeed an important factor in oil transactions. Rather than attempt to invalidate the "myth of an oversupply situation", the memorandum finds:

it most natural that the petroleum-exporting countries should take steps to ensure that their revenues are in some measure protected from the less desirable effects of a competition that can cause such widespread and pervasive damage to their economies and to their chances for a diversified long-term economic development. We wish to emphasize that we are not necessarily opposed to a competitive system as such. Competition in the international economy, as in national economies, may have a proper role to fulfill. But it would be the height of irresponsibility if the petroleum exporting countries were to sit by with arms folded watching unrestrained competition destroying their chances for the future through successive decreases in the price of crude oil and in the face of mounting prices for their requirements of imported manufactured goods.²

¹ See article by Shaikh 'Abd al-'Aziz Mu'amar in al-Yanabah, Saudi weekly, 28 August 1960.

² Explanatory Memorandum on OPEC Resolutions, op.cit.

Whatever the Middle East oil experts may think about monopoly and competition, it is clear that there is one matter on which they are emphatically agreed: that it is most unfortunate that in the mechanism of posted prices the companies should have at their disposal a kind of ever-ready safety-valve, automatically operated to relieve pressure on their falling profit margins. "All the operations of the oil industry," explains Shaikh 'Abd Allah al-Tariki,

are closely interrelated, and what happens in one phase inevitably affects the others. For example, losses incurred in transportation will invariably affect profits from production, and this is true of all the other operations. If one or more of the operations show a loss, the companies resort to cuts in crude prices on the grounds that such cuts are essential for production operations. Is it fair that the people of the oil-producing countries should forfeit a part of the profits on oil production because later operations show a loss, whereas they are denied a share of the profits on later operations, at time when these operations actually realize a profit?¹

It is almost axiomatic in Middle East oil circles that this logistical operation of transferring profits downstream--"smuggling", in the terminology of the popular press--benefits the consumer countries. It is a logical projection of their vexation at the reductions in the oil producers' revenues that the Middle East producers should resent the benefits which these reductions bring to the consumer; indeed, going farther, that they should take it upon themselves to criticize certain broad aspects of consuming countries' economic policy.

¹Interview with Shaikh 'Abd Allah al-Tariki in al-Ahad, Beirut weekly, 19 January 1961.

Ironically enough, some critics find themselves actually voicing the complaint that the consuming countries do not benefit in the form of a reduction in product prices; this at least, they say, would give the semblance of justification to the upstream price cuts.¹ However, if it is not the individual consumers who benefit it is the economy of the consuming country as a whole, because it is to these that the parent companies belong. In this connection, the participation of the British Government in British Petroleum is particularly objectionable, in that the British Government stands to gain directly at the expense of the producing countries.²

Another complaint is that consuming countries levy an unduly high tax on refining and marketing operation, which is one of the reasons for the pressure on posted prices. In fact, the consumer need only look at a few figures "to realize what a grave error it would be for him to think that an unduly large part of the price he pays for the oil he consumes goes to the owner of the raw material."³ It has even been claimed that rightfully these taxes belong to the producing countries.⁴

To these complaints, all of which throw into sharp relief the reality of the "great divide", others can be added: why, it is asked

¹ See article by Muhammad Joukhdar in al-Bilad, Saudi daily, 9 August 1959.

² Ibid.

³ OPEC Explanatory Memorandum, 2 August 1962.

⁴ Hisham Nazer and Muhammad Joukhdar, op.cit.

for example, should the oil companies consider it necessary to finance all their downstream operations out of production profits?¹ Why should the vast bulk of the world's refining capacity be located in consumer areas, thus depriving the producers not only of much-needed additional oil revenues, but of important growth points for their industrial development? And why, in a broader context still, should the underdeveloped countries pay more and more for manufactured goods in return for less and less for their own commodities--penalized, that is to say, "for the inability of the industrial countries to control the inflationary forces at work in their own economies?"²

It is probably from the long-term point of view that the Middle East producers find the implications of price-cutting most disturbing. At the time of the August 1960 cuts, Shaikh 'Abd Allah al-Tariki expressed the fear that the companies intended to reduce prices in favor of the consuming countries by as much as fifty per cent over the next ten years.³ It is widely believed that the companies would step up production to the extent required to keep the producers' revenue at roughly their present level, with the unit value of their oil registering a commensurate decline. No doubt the oil companies would dismiss this "diabolic scheme"--to cite an excited Baghdad columnist⁴--as an utterly unreasonable assumption not borne

¹ Interview with 'Abd al-'Aziz al-Wattari, Supplement to the Middle East Economic Survey, 5 July 1963.

² Al-Bayid al-'Arabi, Kuwait economic monthly, March 1963.

³ Shaikh 'Abd Allah al-Tariki, interview with Middle East Economic Survey, Beirut weekly, 19 August 1960.

⁴ Al-Hurriyah, Baghdad daily, 19 August 1960.

out by their behavior to date. However, if this were their only thought on the matter, they would fail to take into account what is as much a psychological as an economic phenomenon. It is natural that the producing countries, in their dependence on economic forces outside their control, should feel a much greater sense of insecurity than the consuming countries.¹ The oil companies continue to insist that the fifty-fifty profit-sharing principle is inherently fair and must not be abolished; nevertheless, it is significant that certain companies have expressed their sympathy with the producers' demand that they should be assured some "basement price" for their oil regardless of the volume of production or overall revenue.²

All these questions naturally lead into one fundamental issue which has come into prominence of late: what constitutes a reasonable profit for the oil companies and, once this has been determined, how much of their profit should they relinquish to the host governments?

The latter's oil revenues have risen spectacularly over the years, not only as a result of rising output but through the revision of royalty arrangements in their favor. Nevertheless, these countries have never ceased to press for still better terms. The latest step has been to commission independent experts to produce studies to determine as accurately as possible the rate of return earned on capital

¹In an address to the John Hopkins School for Advanced International Studies, Washington D.C., Dr. Francisco Parra, Economic Adviser to OPEC, warned of the risks involved in disregarding this sense of insecurity. (See Middle East Economic Survey, 7 November 1962)

²See communique issued after the extraordinary meeting of OPEC's Board of Governors in Geneva on 14-15 March 1963.

investments in the Middle East oil industry. A recent report, prepared for OPEC, showed that the oil companies had a rate of return of not less than 60 per cent on their Middle East operations.¹ However, the companies openly admit this, but insist at the same time that on their integrated operations as a whole they earn no more than what is generally regarded as a normal rate of return.²

One Western observer has warned the producers against acquiring the mentality of people who expect manna to fall from heaven³ and it is certainly a point of great interest to ponder when, if ever, the demands will cease. The answer to this question probably does not lie in any specific profit-sharing equation or in any improved version of the present arrangement.

It seems that straightforward increases in government oil revenues, however impressive these might be, are not enough. Even though the producing countries have conspicuously succeeded in enhancing their benefits from oil, in the eyes of the popular press they still continue to "plunder" and make "fabulous profits" in the way they always did. Even supposing the Middle East producers did now succeed in significantly improving their share of profits, there is nothing to guarantee that they would regard this improvement as permanent and binding. The implication is that only a radical departure from the present system is likely to satisfy the producers for long.

¹This report, which dealt with the economics of the Middle East oil industry over the period from 1956 to 1960, was prepared by Arthur D. Little Inc. of New York.

²See The Financial Times, London daily, 5 January 1963.

³Dr. Paul Frankel, Oil-The Facts of Life, Weidenfeld and Nicolson, 1962.

Participation: A New Departure

The satisfaction of one of the oil-producers' demands--for government participation in the ownership and management of the concessionary oil company--would constitute a new departure, a breakthrough in government-company relations, quite as significant as the advent of the fifty-fifty profit-sharing formula in 1950. Participation would result in straight financial gain, but, so far as the producers are concerned, this would be incidental to a much more important benefit. For the value of participation is that it offers a modified version of nationalization. So far as it goes, it provides a comprehensive solution. The problem of profit-sharing is not the only one that falls within its compass. To appreciate what it would mean, let us examine some of the views of one of its leading advocates.

It is the opinion of Shaikh 'Abd Allah al-Tariki that the Middle East producers will never receive fair treatment from the companies until they themselves exercise greater control over the oil industry in their midst. So far as Saudi Arabia is concerned, ~~what~~ Tariki used to advocate that Aramco become a fully independent company, instead of an affiliate. It would engage in integrated operations both inside and outside Saudi Arabia. The Saudi government would participate in all stages of these integrated operations.¹ Of the concession

¹See interview with Shaikh 'Abd Allah al-Tariki in al-Ahram al-Iqtisadi, Cairo economic fortnightly, 15 February 1961.

agreement with the Japanese Arabian Oil Company, which incorporated some of Tariki's participation ideas, Tariki said that this made "the government into a real participant in the company and not a mere tax-collecting agency. It is thus able to participate in the making of decisions, to keep informed of all the company's activities and to share in the profits from all phases of its operations both at home and abroad."¹

"To participate in the making of decisions," of course, would automatically include consultation on matters such as production and prices. Sharing in integrated profits would give the producing countries the assurance that they are not being deprived of what is rightfully theirs by the companies' device of shifting profits downstream. As for "keeping informed of all the company's affairs," this is not quite the anodyne statement it sounds. And the proof of it is the proceedings of the Second Arab Petroleum Congress.

At this Congress, Tariki produced a highly provocative paper in which he calculated that the oil companies operating in the Middle East, with the aid of "phantom freight," had deprived the producing countries of something like \$5.5 billion in oil revenues over a period of seven and a half years.² The precise figure is not in itself especially interesting. What is interesting is that Tariki, then the Arab world's leading oil official, should make such startling

¹Shaikh 'Abd Allah al-Tariki, letter to al-Bilad, Saudi daily, 7 March 1961.

²Shaikh 'Abd Allah al-Tariki, The Pricing of Crude Oil and Products, paper presented to the Second Arab Petroleum Congress held in Beirut from 17 to 22 October 1960.

calculations and then brandish them, as it were, under the noses of the companies. It has been said that Tariki's whole purpose was not so much to make accurate estimates of the companies' illegitimate gains as to stir these companies into refuting his allegations and, in doing so, to make public their accounts--which is something they had never done before.¹ So defiantly did Tariki throw down the gauntlet into the debating arena that the company officials had little choice but to pick it up. Tariki's replies to the barrage of questions put to him by these officials were an emphatic demonstration that the real weight of Arab grievances cannot be measured in purely monetary terms. Their real weight lies in such statements as this, which an argument about the details of company earnings elicited from the frustrated Tariki: "How can we prove or disprove these things? We are using what information we have and you are hiding yours. You don't want us to find out for ourselves that we are mistaken. When we officially asked you to come and discuss posted prices with us you refused. Our figuring is based on the information we have--the posted prices, the tanker rates and the value in the consuming centers. Where did the money go? Maybe it went in the ocean. Ask yourselves about that."²

¹The Financial Times, London daily, 23 October 1960.

²Debate on Shaikh 'Abd Allah al-Tariki's paper at the Second Arab Petroleum Congress. (See supplement to Middle East Economic Survey, 4 November 1960)

CHAPTER III

THE MORAL AND LEGAL ASPECT

The General Setting

The Middle Eastern critic of the oil companies tends, naturally enough, to express himself primarily in economic and political terms. In doing so, his views are to some extent conditioned by a well-established frame of reference. Falling outside such a frame of reference, unclassified, often inarticulate, is an underlying sense of grievance against the oil companies which expresses itself in the more immediate, spontaneous and unpretentious language of everyday human relations. Precisely because it has not been fitted into a fixed pattern of ideas, criticism of the companies' human, or moral, qualities is all the more valuable as a barometer of public opinion. As will be seen, it is these moral issues which form the basis for the proposals concerning the state's right to alter concession agreements in the higher interests of its people. Again, it is appropriate to approach this moral question from the general standpoint of the great divide between the rich and poor of this world.

No government in the Middle East ever tires of assuring its people, who are for the most part desperately poor and backward, that it is striving with all its might to improve their lot. In the same vein, to minister to the crying needs of the people is proclaimed as the 'noble' aim behind all the demands for greater benefits from the oil industry.

Almost every public statement on this subject refers to the enormity of the task facing the Arab governments. That this is to a large extent only the necessary cant of rulers does not affect the main issue. The people of the Middle East expect, or at least are told to expect, a more generous attitude on the part of those who can afford it--the oil companies and the West in general.

An appeal to the conscience is not all however. At a press conference in London in 1961, former Iraqi Oil Minister Muhammad Salman, after stressing the great capital expenditure required to raise the living standards of his people, went on as follows: "I should like to emphasize that this is not a purely national concern, but a matter of fundamental interest to the world at large and to the cause of international peace, since it is now agreed by all world leaders, and particularly by the statesmen of the West, such as Mr. Kennedy and Mr. Macmillan and others, that there can be no more general progress or peace in the world if certain countries are left in an underdeveloped state." The Shah of Iran makes a more eloquent--and calculated--appeal. Speaking to a Western oil correspondent, he asks: "Why do you ignore your friends? If Iran is not strong and stable, what good will all the other Middle East oil be to the West. In twenty years from now, we expect our population to have doubled to 40,000,000 people. If we can push our economic development to the point where we can reach a living standard comparable to that of Europe today, just imagine what a nation of 40,000,000 prosperous

¹ Muhammad Salman, opening address to Second Arab Petroleum Congress, held in Beirut from 17 to 22 October 1960.

happy Iranians can mean. Iran would then be a bastion of freedom and sound policy in this part of the world."¹

Meanwhile, like the rich and powerful Western world of which they are an outgrowth, the oil companies are expected to look beyond the borders of their own self-interest to the great expanses of suffering and hardship which, quite literally, lie just outside them. Perhaps the most striking attempt to bring home the reality of this situation was made by General Kassem prior to one of the sessions in the long-drawn out Iraqi-IPC negotiations. He took the IPC delegates on a tour of the poorer quarters of Baghdad--a stunt, perhaps, but to the point.

Moral Attributes of Companies

The Arabs judge their recent history in terms of their gradual emancipation from imperialism. It follows that they regard any improvement in the human attitudes of the oil companies, whose arrival on the scene coincided with that of Western imperialism, as a stage in the process of sloughing off their imperialist mentality. Whatever objectionable characteristics the companies are felt to possess now, in the imperialist heyday these were certainly much worse. But even in their milder form, they are still objectionable. Stripped of all refinements they fall under four general heads: They are, guile, capitalist selfishness, paternalism and, worst of all, conservatism.

¹Interview with Petroleum Week, 9 December 1960.

Although the oil companies may not possess the same power as their imperialist parent states, there is no reason why they should not possess their guile and ingenuity. Quite apart from the political intrigues which they allegedly carry on in their host countries, they also, so some people believe, resort to other subterfuges which are just plain dishonest. Concealing oil discoveries,¹ using false measuring instruments,² falsifying accounts,³ smuggling out oil from the producing area,⁴ --the popular press frequently attributes these and other such practices to the unscrupulous oil monopolies. Just what proportion of dishonesty there is thought to be in other company practices--such as price-cutting and production manipulation, etc.--is, as we have seen, one of those variants which depend on the individual or newspaper expressing the opinion. There is no doubt, however, that very few people are prepared to accept the companies' arguments at their face value. They may not believe, with ~~the~~ former Iraqi government, that the companies always arm themselves with "feeble and totally unacceptable arguments full of distortions and tendentious claims,"⁵ but they certainly do believe that the mistrust which their points of view encounter in the Middle East is very much of

¹ See al-Ayyam, Damascus daily, 21-22 August 1959.

² See al-Kifah al-'Arabi, 12 September 1958.

³ See al-Kifah al-'Arabi, Beirut daily, 12 September 1958.

⁴ See al-Nasr, Damascus daily, 9 February 1960.

⁵ Explanatory memorandum to the Iraqi-IPC negotiations, 17 October 1961.

their own making, in that they are inclined to follow a tough, tricky policy, with too keen an eye for their own advantage, rather than that of their host country. Free enterprise, as we have seen, does not enjoy the same respect in the countries of the Middle East as it does in its true home, the United States, and that aggressive, acquisitive spirit which goes with it is naturally suspect in the service of other interests than their own.

It is this kind of spirit which Dr. Omar Haliq, an Arab oil consultant, had in mind when he made an eloquent appeal for "political statesmanship" on the part of the international oil companies rather than just "mercantile articulation". The oil industry, he submits, is guilty of purposeful indifference to the realities of the world in which it operates:

The marginal existence of millions in the Middle East amidst the background of an obsession for industrialization, and of the fantastic affluence of a few irresponsible patricians, with their waste and indulgence, explain the insecurity of oil supplies and prices--not the machinations of the Matteis, the inner fury of the Tarikis, the dumping of the Russians and the monkeying of the independents.¹

Mr. Muhammad Salman takes this argument a stage further when he says of the 1960 price cuts: "It does not occur to the companies to sacrifice a part of their profits--even assuming that market competition is intense enough to justify the price cuts--and they overlook the losses incurred by the people of the area or the benefits they will forfeit as a result of these cuts."²

¹Dr. Omar Haliq, letter to The Economist, London weekly, 16 September 1961.

²Muhammad Salman, opening address to the Second Arab Petroleum Congress, held in Beirut from 17 to 22 October 1960.

On the other hand, a desire to make the oil companies show more understanding of the Arab world's problems should not be seen as conflicting with what is almost an article of faith among underdeveloped neutralist countries--namely, that their relations with the developed countries should be on a strictly commercial basis. The last thing the Middle East countries want is a return to a paternalist, meddling attitude which they associate with imperialism. But they do not want the companies to go to the opposite extreme and to adopt a too literal and unimaginative conception of their role based on the philosophy that a deal is a deal.¹ They must not withdraw into a protective shell of narrow, cold professionalism.

In recent year the companies have come in for a good deal of criticism on this particular score. Naturally the Middle East producing countries find such an attitude especially irksome at a time when they are making a serious bid to secure a more active role in the running of the oil industry itself. Shaikh 'Abd Allah al-Tariki's sallies at the Second Arab Petroleum Congress are an indictment of one of the typical manifestations of this attitude.

This is their unwillingness to publicize their accounts. Quite apart from the purely economic considerations involved, this secretiveness is quite as irritating to the Middle East producers for its human implications. The companies' failure to respond wholeheartedly to Tariki's appeal has been specifically held up as one of the direct

¹See, for example, address to the John Hopkins School for Advanced International Studies, Washington, by Francisco Parra, Economic Adviser to OPEC (see Middle East Economic Survey, 7 November 1962).

causes of the general hostility towards the companies in the Middle East, a hostility which they themselves recognize as one of their greatest difficulties.¹ This 'policy of silence', as it has been called, amounts to more than canniness with regard to certain trade secrets. It is but one aspect, possibly the most striking one, of a behavioral pattern which, taken all in all, is wounding to the self-respect of the producing countries.

Again, a key insight is to be found in Tariki's spirited performance. He rails sarcastically at the company officials' habit of talking about "this complicated oil business". This is a pointed reference to the whole tenor of the oil companies' attitude towards their host countries. With memorable explicitness, he goes on to make it perfectly clear how this attitude is resented: "They treat us like children," was a remark, said one Western correspondent, that exploded like a firework in front of this sophisticated audience. The same correspondent went on to say that Shaikh 'Abd Allah al-Tariki was no extremist for all his fervent nationalism. As such, we might add, he probably would not subscribe to the thesis, as real extremists do, that the oil companies have always assumed a manner of calculated disdain, that the "oil cartels, following the example of the imperialist powers, have striven to infuse the Arabs with a sense of inferiority..."³ Insofar as the companies' aloofness is a reaction to a hostile environment--an argument with they themselves are inclined to use--it is

¹ Al-Rayid al-Arabi, Kuwait monthly, June 1962.

² Michael Adams, the Guardian, Manchester daily, 20 October 1960.

³ Ali Jamal, in Bina' al-Watani, Cairo monthly, 6 October 1961.

ironic that their excessive withdrawal could, if anything, have sharpened the resentment against them. Paternalism--which is the old accusation--is at least partially redeemed by implications of benevolence, but sheer hauteur--which is all that remains after this withdrawal--has no such saving graces.

It is worth noting, however, that Shaikh 'Abd Allah al-Tariki, who was so critical of the companies at the Second Arab Petroleum Congress, gave them credit at the third (on the orders of his government, perhaps) for having made a conscious effort to be more outgoing and communicative:

Thanks to the Arab Oil Congresses, the companies now have a better understanding of the needs of the areas in which they operate and have adapted themselves to Arab aspirations. In other words, thanks to these periodic contacts, the companies no longer wait for a dispute to arise before they seek a solution. They prefer to prevent the undesirable from happening, which is itself an enormous step forward.¹

Finally, there is the oil companies' conservatism. Conservatism is not necessarily a demerit per se, but to the Middle Easterner, as a dominant trait of company behavior, it most certainly is. For to him it simply appears as a dogged and unreasonable attachment to a position of unfair advantage--an advantage most flagrantly embodied in the original concession agreements. A company's showing on this particular score is very significant in that it provides a yardstick as to the degree of its emancipation from all those other ingredients, just mentioned, which make up the imperialist mentality. That is to

¹ Shaikh 'Abd Allah al-Tariki, 27 October 1961.

say, a company which insists on retaining some outmoded feature of its concession agreement is obviously correspondingly outmoded in its whole outlook on life.

The problem is to determine what is outmoded. This problem is fundamental; for it lies at the heart of that friction which, to a great or lesser extent, is always present in government-company relations. There is no permanent solution to this problem, for one thing because government-company relations are a complex of different issues, each of which involves a different set of criteria; for another thing--and this is much the more important in the present context--because the notion of what is outmoded and what is not is always changing. In this situation, the only static element is a certain way of thinking adopted by the producing countries in their concern to expedite and justify change, a way of thinking which comes closest to articulate rationalization in the controversial arguments of Mr. Frank Hendryx.

In his book Oil and State in the Middle East, George Lenczowski defines the three arguments with which Middle East countries sometimes challenge the validity of concession agreements: that these concessions were granted (a) by governments subject to foreign domination; (b) by immature governments; (c) by governments which did not represent the will of the people. Mr. Lenczowski points out that the law firmly upholds the binding force of such contracts on the last two counts, and fairly firmly on the first, because the law, being primarily an instrument for the maintenance of the status quo, cannot provide a solution to a situation which is essentially political in

nature.¹ But present-day Arab governments, insofar as they consider themselves nationally emancipated, mature and truly representative of their people, are to that extent determined to abolish what is unjust in their country's relationship with a particular oil company. This they can do in one of two ways: either by overriding the law as represented by the concession agreement or by persuading their concessionaire to accept a change in its contractual agreement.

In practice, the host government always chooses the second course of action, only turning to the first as a last resort. In either case, however, it always argues the case for change in moral terms (though, in any case, as we shall see, Mr. Hendryx contends that the true spirit of law that reflects higher moral necessity) as a means of persuasion and, if that fails, as a vindication of unilateral action already taken.

A closer scrutiny of the oil companies' reputation in the light of these general considerations will begin from the assumption that, basically, the producing countries prefer to effect change through negotiation.

If negotiations are to be really successful, it is essential that the companies should approach them in a spirit of good will. This is a truism which the producing countries never tire of repeating; and quite possibly the frequency with which they do so is rises in proportion to their distrust of the companies. Among other things,

¹George Lenczowski, Oil and State in the Middle East (Cornell University Press, Ithaca, New York), page 99.

good will should manifest itself as an appreciation of those changes which, in their various ways, have made it necessary for the host country to seek a revision of their relations with its concessionaire. Thus the companies are forever being enjoined to "keep up with the spirit of the times", not to "go against the march of history", to think of the long-term rather than the short-term advantage, and so on.

Sometimes, the oil companies apparently do succeed in keeping pace with the times. Relations between Aramco and Saudi Arabia, for example, have always been relatively satisfactory. One reason for this, of course, is that the Saudi government itself is a very conservative one and even when the zealous Tariki held office, it was never likely to run too great a risk of disturbing the majestic flow of gold into the royal treasury. Another reason--according to the present Saudi Oil Minister--was that since its arrival in Saudi Arabia, responding to the good will of the government, Aramco had "shown an understanding of the political, economic and social developments that have taken place in Saudi Arabia from year to year...The fact that the company realized the inevitability of this basic change was a principal reason for its continued existence and prosperity up to the present day. The development of the country and the company's understanding attitude toward it go hand in hand. It was these factors in common which ensured that the oil industry in Saudi Arabia expanded the way it has."¹

¹Ahman Zaki Yamani, Saudi Oil Minister, in the Saudi Oil Ministry Bulletin, July 1962.

Mr. Yamani comes close to disavowing this rather flattering estimate when, observing how necessary it is for the companies to be adaptable, he says that "even Aramco realizes this and occasionally cooperates."¹ It would be wrong to attach too much significance to such inconsistencies. For however firmly a host government may believe in the justice of its point of view, so long as it is interested in persuasion rather than unilateral action, it is bound to temper its sternness toward the company with the recognition that it too has a legitimate point of view. Thus, in the course of bargaining and negotiation, a government may appear to take an ambivalent stand, sometimes harsh and sometimes conciliatory. However, these tactical maneuvers should not obscure the fact that there is a current of thought in the Middle East which holds that normal, amicable dealings with the companies serve no useful purpose. How can they, it is asked, if the companies are congenially incapable of showing good will and a proper appreciation of the host countries's rights? Negotiations never succeed.² Or--to cite a milder version of the same view--if the companies do learn to adapt themselves to changed circumstances, they usually do it the hard way; their most salutary lesson to date, says one critic, was the nationalization of the Anglo-Iranian Oil Company in 1951.³

¹ Ahmad Zaki Yamani, interview with the Middle East Economic Survey, 22 June 1962.

² So said, for example, Setarah Teheran, Teheran daily, 21 October 1962.

³ Samir Shamma, in al-Bilad, Saudi daily, 26 August 1960.

Naturally, excessive rigidity on the part of the companies is liable to give an additional impetus to this current of thought--perhaps sufficient impetus to provoke a Middle East government, exasperated by arduous and unpromising negotiations, to dispense with peaceful persuasion in favor of unilateral action. It was in this manner that the IPC-Iraqi negotiations broke down in November 1961. At the time the Iraqi press proclaimed that one of the fundamental reasons for the breakdown was the stand-pat inflexibility of the companies. The Baghdad daily, al-Bayan,¹ for example, commented that IPC suffered from a "status quo complex" with regard to the terms of the concessions agreement. Owing to its conservative mentality, it was unable to grasp the fact that Iraq's oil resources belonged to Iraq alone. Accustomed to the old regime it was unable to adapt to the new realities, and it would never attain a satisfactory relationship with the government until it discarded this conservative outlook.²

Middle East oil politics, in fact, give the impression of permanently vacillating between two opposing tendencies, with the oil companies' behavior the critical factor that could at any time cause one or other of them to gain the upper hand. For even such complimentary statements as Mr. Yamani's are rarely unaccompanied by their warning note: "My earnest hope is that the spirit of cooperation that prevailed during past negotiations will continue, thereby ensuring the continued existence and prosperity of the company..."

¹15 October 1961.

²Ahmad Zaki Yamani, op.cit.

From Morality to Legality

Mr. Frank Hendryx¹ made his dramatic entry into the arena of Middle East oil debate on behalf of the oil producing countries in order to challenge the companies' carefully publicized views about the sanctity of oil concession agreements. Although the producing countries have proved wary of making too liberal use of Mr. Hendryx's thesis, the fact remains that this represents the most complete and articulate attempt to give hard legal shape to what otherwise would have remained a vague moral sentiment--strongly felt, perhaps, but ineffectual because immature and undefined.

In the process of laying down a general principle, Mr. Hendryx's thesis also provides an answer to the companies' conservatism, and, for this reason, it is of special interest to this study. He defines the companies' posture as follows:

"All established institutions find it difficult to accept change; the oil companies in the Middle East are called upon to accept change of exceptional rapidity." The result is that "often the oil enterprises have seemed unable to forsake their original impressions of the nations involved to any substantial degree." But despite, or perhaps because, of this change, the "companies have managed to preserve their relationship with their host nations in an atmosphere

¹Mr. Frank Hendryx, an American lawyer, is now legal adviser to the Libyan Oil Minister. He first came into prominence in Middle East oil affairs as legal adviser to the Saudi Ministry of Petroleum and Mineral Resources.

of legal morality which had no legal basis either in creation or in continued existence." "The original concession agreements were surrounded with an assumed aura of untouchability and permeated with a self-created sanctity." There have been changes of course, but "all the while the companies have been able to sustain the illusion that no matter of what nature or quality these changes were neither inevitable nor matters of right, but contrarily were isolated phenomena that at all times were to be negotiated by and between the parties." The idea that oil concessions are "something inherently sacred in origin and operation, separate and distinct in law from other commercial agreements and to be governed by special and separate legal rules"--this idea, which was deliberately fostered by the oil companies, is a legal "fable and fancy." The real reason for this distortion is simply "because of the large amounts of money invested by producing enterprises, and because this was being done necessarily outside the home land of the producing country involved."

Upon these formidable legal fortifications of company conservatism, Hendryx trains the artillery of a higher morality:

There must be no more mistaking "economic expediency for law or for morality." In its true spirit the law postulates the necessity for change and, in particular, "there is no longer justification in the modern world for strict adherence to the idea of contract sanctity," which in many instances "means merely the sanctity of an unequally acquired advantage." As "economic, political and social conditions change and mature, as they do continuously, the relationship between

government and company must be flexible enough in operations to accommodate the changed climate in which it must exist." It follows, therefore, that the sovereign nation, acting in the ever-evolving interests of its people, should have the right to exercise its legislative authority to ensure an equitable relationship with its concessionaire. An equitable relationship means that "in any future balancing of the financial interests of producing companies with the financial, economic and social interests of the host producing nations, the scales must no longer indicate that the former outweigh the latter." The companies, of course, may in the process of change lose some of their old advantages. This is recognized; but "the lesser interest must, as always, give way to the greater, and the courts of the United States, England and France are unanimous in agreeing which are legally the greater and which the lesser interests...It is also impressive that such an evaluation of interests in the formulation of legal principles has required no tortuous or finespun reasoning. The basic necessity for sovereign unimpeded freedom to act, within reasonable limits, must be accepted as obvious and unchallengeable."

A Way out of the Impasse

There remains the problem which can never be solved to everybody's satisfaction: what, at any given moment, constitutes a fair relationship between the producing country and its concessionaire. The Hendryx thesis may be unimpeachable, but, as he himself admits, it is open to abuse.

It has been pointed out with regard to the second subject in the OPEC memorandum--the right of the host countries to a larger royalty--that the producers are thinking in terms of principles rather than practical economics. By contrast, we might add, the companies do not appear to be very interested in the principles involved in the royalty payment; quasi-philosophical theorizing about the intrinsic value of non-renewable resources is of little importance to them compared with the hard cash realities which result from the application of such principles. The producing countries are, of course, very much concerned with hard cash too. Indeed, OPEC's could be interpreted as just another gambit to secure more cash. But this would not make it any the less symptomatic of a whole outlook. Its germinal idea belongs to the realm of national sentiment, as much as any other. First and foremost, it is the right of the host country which must be respected; if this involves a higher income from oil, and it certainly does, then it only goes to show that hitherto these rights had not been properly respected.

The concern with national rights and aspirations reaches its most advanced form in the demand for participation. Just as the real weight of the pricing controversy lies not in the restoration of prices to a specific level, but in the producers' right to determine that level, so, here, it is not a question of extracting a maximum fee from the companies, but a question of the landlord, hitherto content with collecting the rental, seeking to participate in the management of his own property.

It has already been noted that participation, as a modified form of nationalization,¹ provides the host country with a means of exercising some control over the oil companies' policy, thereby keeping in check their selfish and disingenuous economic practices. But it also affords a similar partial satisfaction of an aspiration which nationalization, considered as a supreme act of sovereignty, satisfies in full. In the words of Mr. Hendryx: "The major Arab oil producing nations...desire participation in the ownership of the concessionaires. Their purpose in this is not primarily one of additional profit but rather one of further confirmation of their interests in the operations of the companies involved. Even a small percentage proprietor will be respected where a lesser may be disregarded. Major Arab producing nations feel that they should no longer entrust their nations' sole important economic asset to others to exploit and administer, when, as, and if they so desire and in major respects without notice to or consultation with the nations themselves."²

In the present context, participation is simply a matter of national self-respect. It would go a long way towards making equal partnership and mutual trust the reality which, according to the opinions reviewed in this chapter, they are very far from being at present.

¹Chapter II, page 56

²Frank Hendryx, in the New York Herald Tribune, Monthly Economic Review, June 1961.

CHAPTER IV

THE BRIGHTER SIDE?

Undoubtedly, long before he had completed the first three chapters, the reader had begun to ask himself whether this was not a one-sided review of Middle East opinion on oil, whether nobody had a good word for the oil companies to offset this massive, monotonous criticism. The fact is, however, that praise of the oil companies--praise in the pure, spontaneous sense--is very rare indeed. In fact, whenever a company gets a favorable mention it is usually safe to conclude that there is an ulterior motive behind it.

This indirect praise occurs in its most typical form when a critic points to the commendable aspects of one oil company simply in order to show up the shortcomings of another one. Indeed, this technique plays an important part in bringing about a gradual improvement in the benefits derived by the host countries from their concessionaires. For it is now generally accepted that whenever any company in the area grants new and better terms to its host country other companies should follow suit vis-à-vis their own host governments.¹ This indirect praise is for the most part concerned with relatively minor issues, and in particular the multitude of possible

¹The general practice has to some extent become legal prescription. A letter agreement between IPC and the Iraqi Government, for example, stipulates that should the governments of Saudi Arabia, Iran or Kuwait receive a higher revenue per ton than the Iraqi Government then the two parties should "consider and discuss" the matter.

more widespread than this
e.g. T2plm

services and fringe benefits with which the companies are expected to provide their employees. In one important and fundamental instance, however, this indirect praise has been upgraded into praise for its own sake. The so-called 75:25 agreements introduced by Italy's ENI have often been cited as the best terms yet to have been won by a Middle East country from a foreign oil company. Though the novelty of ENI's new approach to the producing countries has to some extent, worn off, the company's standing in the Middle East is still very high. Apart from its own original items, the Arab press¹ often reproduces reports put out by the Italian news agency Mondar (controlled by ENI itself) to the general effect that ENI has always done its best to satisfy the growing aspirations of the producing countries--in contrast with the established majors, which are still jealously guarding their outdated fifty-fifty formula. ENI, in fact, is the best illustration of the general rule that the newer a company is, and the least associated with the big seven, the less likely it is to incur the hostility of its host country.

As a rule, too, companies also tend to benefit from indirect praise upon the conclusion of a new agreement with a Middle East government. Every government has to glorify its own achievements. When government officials and the local press, controlled or otherwise, praise a newly-signed agreement, at least some of the credit for this automatically redounds to company in question. In May 1962

¹See, for example, al-Dinashq, Damascus daily, 15 September 1959.

there was general satisfaction in Lebanon at the agreement concluded between the Government and IPC for the expansion of the company's refinery at Tripoli. Most of the Lebanese press, despite the wide-ranging diversity of its political views, went to considerable lengths to describe the advantages of the new agreement. The IPC Refinery Workers and Employees Union addressed messages of thanks to Prime Minister Rashid Karami and IPC's Chief Representative in Lebanon.¹ The economic community noted with satisfaction IPC's constant willingness to arrive at an understanding with Lebanon--in marked contrast, it observed, with Tapline's continued failure to reach any agreement.² And, in a final benediction, Premier Karami said of the company that it regarded its employees as its "dear sons."³

In Lebanon too, it is possible to detect an occasional and unusual note of genuine understanding, even partisan support, for the oil companies. It was noteworthy, for example, that in the strained atmosphere which preceded the signing of this same Tripoli refinery agreement, one or two Tripoli newspapers approached the whole problem in a much more constructive spirit than their Beirut colleagues. The explanation for this is presumably that the Tripoli community, whom the papers represented, have an immediate day-to-day contact with the

¹See al-Insha, Tripoli daily, 24 May 1962.

²Al-Jaridah, Beirut daily, 20 May 1962.

³Al-Insha, Tripoli daily, 19 June 1962. Some 6 months later, no doubt to Mr. Karami's considerable embarrassment, the press and unions were up in arms against IPC's dismissal of some 250 employees and a member of Parliament went so far as to call IPC's action a "butchery and a calamity." (Suleiman Frangieh, Deputy for Zghorta, on 19 December 1962.)

Middle East oil industry which is denied to most of their compatriots, who think of it as an abstraction and a symbol. Accordingly, the Tripoli community is less receptive to hostile preconceptions than it otherwise would be. But such an unconventional popular conception of the oil companies is a frail growth at the best of times, and stands little chance against the massive consensus of disapproval voiced by Arab society as a whole. Indeed, in Tripoli it appeared to have been crushed in embryo; six months later everything was forgotten in the furor caused by the IPC dismissals. Still, the Tripoli press can be excused for failing to resist the current, or rather the tidal wave of abuse, which broke on IPC on this occasion.

It is also worth mentioning that the Lebanese press, and not just for sectarian motives, sometimes comes to the rescue of the oil companies in an effort to correct some of the misrepresentations to which they are often exposed.¹

Another point to the companies' advantage is the fact that they are almost never criticized for technical inefficiency. But there is little consolation in this; for it goes without saying that if they are efficient, then they are efficient first and foremost in their own interests.

Finally, it should be pointed out that in certain countries of the Middle East--such as Kuwait and Saudi Arabia--press criticism of the companies is on the whole less violent in tone than in those

¹See Le Commerce du Levant, Beirut weekly, 12 January 1963.

countries with a more frankly nationalist outlook. It is also worth noting that a large section of the Lebanese press--in particular the pro-Western spectrum ranging from moderate nationalists to Christian extremists--neither praise nor disparage the companies. However, the companies should not attach any significance to this, which is merely the characteristic indifference of a minority group (and so far as oil is concerned an unimportant one) toward any outside issues which do not have any far-reaching implications for their own situation.

Militating against all these favorable tendencies is one intangible but undoubtedly very important factor. It is generally recognized that Muslims, however much they may be divided among themselves, have an abnormally strong sense of solidarity towards the outsider. This tradition certainly appears to be very much alive in the political attitudes of the Arab world today. In an Arab world for the most part prey to a strident nationalism, the pressures to conform are very great. In the field of oil, this means that any Arab who takes a too favorable stand towards the companies is liable to earn the ill-will of most of his compatriots. The best example of this is provided by the late Emile Bustani, whose friendliness to the oil companies and to the West in general, was frequently denounced in the Arab press. One of the explicit purposes of the Arab Petroleum Congresses is to provide a forum for free public debate on oil issues. The Egyptian press apparently did not understand the meaning of free public debate when, after the Second Arab Petroleum Congress, it criticized those Arabs who had expressed views that did not contribute to

the solid front of Arab opposition to the companies.¹ At the Fourth Arab Petroleum Congress certain Egyptian labor delegates were rather brusque and ungracious in their interrogation of three Saudi Arabians who presented a paper on behalf of Aramco--the implication being, of course, that these Arabs were disloyal to the Arab cause.

Conclusions

The reader may not believe that Arab feelings about the oil industry are as intense as first part of this thesis, a veritable encyclopedia of criticisms, at first sight suggests. And indeed, there are a number of very pertinent arguments which he can adduce in support of this opinion.

One argument is that in no country does big business, of whatever kind, readily enjoy the whole hearted acceptance, let alone the unsolicited praise of the community at large. That big business is an obvious target for public animosity is abundantly clear from a study of the history of labor relations. The United States--this argument might go on--is not only the country where capitalism has prospered most but where it is most deeply rooted in social tradition. Nevertheless, even there, and in this age of relatively enlightened and humane capitalism, the big industrial and commercial companies are acutely conscious of the need to publicize their image as public-spirited members of the community.

¹See, for example, Nasir al-Din al-Mashashibi, in al-Jumhuriyah, Cairo daily, 28 October 1960.

Another argument--and this has already been touched upon earlier--is that in the nature of things, organs of public opinion are always inclined to take a stronger line than the body of opinion they claim to represent.¹ Moreover, this is especially true of the Middle East, where public opinion is largely an artificial creation in which the people as a whole do not really participate--certainly much less, at any rate, ^{than} ~~and~~ they do in the more educated societies of the West.

Thirdly, and most important, it could be argued that public opinion, however hostile it seems to be, is irrelevant if governments--who are ultimately responsible for dealing with the companies--do not act upon it.

There are, as always, counterarguments. The first argument can be contested on these lines: in the United States big business may not be the object of universal affection, but it is an organic part of the American way of life, the product of a social system which has always pinned its faith on free enterprise and individual initiative. In the Middle East, by contrast, the oil companies are not rooted in the social system, and there is no class, not even the wealthy merchants and bourgeoisie of some Arab societies, whose interests coincide very closely with those of the oil companies.

As for the second argument, the gap between the actual strength of feeling and the vehemence of its expression may indeed

¹See Chapter I, page 6.

be great, but the fact remains that Middle East opinion on oil is on the whole incomparably more extreme than opinion of similar themes in the West.

Thirdly, even though the rulers' response to public opinion is a far less smooth and effective process than it should be in the ideal democracy, it does have some bearing on government policies in the Middle East.

Although these questions relate more particularly to the mechanics of public opinion, and will therefore be dealt with the next section of this thesis, they do entail certain reservations on the main theme of this section. But even if they do, the fact still remains that the oil companies operate in conditions of far greater insecurity than they do in their home countries and this study of public opinion,--public opinion in the purely static sense^s of a system of ideas--has shown the one comprehensive reason why they do: the companies are, in the fullest sense of the word, alien intruders.

It is contended here, therefore, that the only way the oil companies can alter this system of ideas is to strike at the root cause of their unpopularity. They must, in other words, identify themselves as closely as possible with the countries in which they operate; they must bridge the great divide. This process of identification--as has already been suggested¹--would find its logical conclusion in the nationalisation of the companies. But as far as

¹Chapter III, page 76 ; Chapter II, page 56 .

the companies are concerned and no doubt some producing countries too, this is unthinkable. The next best thing to nationalization is some degree of participation by the host country in the capital and management of the concessionary company. In participation, the grievances of the Middle East producers should find some relief on the political, economic and 'moral' level--by softening the 'imperialist' image of the companies, by providing a fair degree of commercial control and, perhaps most important of all, by gratifying the national sensibilities of the host country.

PART II

TWO CASE STUDIES

In Part I we analyzed the various themes which make up Arab opinion on oil. Part II consists of two case studies designed to illustrate the behavior of public opinion in specific situations. The two subjects chosen, the Iraqi-IPC negotiations conducted during General Kassem's regime and the creation and subsequent development of OPEC, are complementary to each other in that they typify two opposing tendencies. On the one hand, General Kassem used the oil negotiations as a means of making political capital for himself and his regime, and found it necessary to appeal to a lower level of opinion. On the other hand, OPEC has constantly sought to remove oil matters from the realm of ordinary politics, and in doing so appealed to a higher level of opinion.

CHAPTER V

THE IRAQ-IPC NEGOTIATIONS

As soon as it came to power, on 14 July 1958, the revolutionary government of General Abd al-Karim Kassem resumed the negotiations with the Iraq Petroleum Company and its associates (henceforward referred to as IPC) which its royalist predecessor had begun. These negotiations finally broke down, more than three arduous years later, in October 1961. Their final dénouement came two months after that, when the Iraqi Government issued legislation depriving IPC of 99.5 per cent of its concession area.

The following analysis of the Iraqi-IPC negotiations does not go into a discussion of the particular issues involved, nor does it pretend to be a chronological account. Its main purpose is provide a commentary on the role of public opinion, in the broadest sense of the word, as it evolved during the course of the negotiations.

The political background against which these negotiations took place is well-known. General Kassem's regime came to a bloody end on 8 February 1963 at the hands of the Ba'th Socialist Party. During the four and a half years that it had survived, it had been a failure from almost every angle. Nationalist in outlook, it soon estranged itself from the rest of the Arab world and in particular from that focal point of Arab unity--the Egypt of President Nasser.

Proclaiming itself a champion of social progress, it only succeeded in aggravating agrarian unemployment and labor relations, lowering productivity and discriminating among workers for political ends. Despite frequent promises of a new constitution and democratic elections, General Kassem became more and more autocratic in his vain struggle to hold on to power. A country already divided by social and religious differences was further rent by internecine strife, degenerating on two occasions into wholesale slaughter, between so-called nationalists and communists. In June 1961, Kassem threatened to occupy Kuwait, but at great cost to his own prestige failed to do so. And shortly after that, to add to all his other problems, he launched a costly but fruitless military campaign against the Kurds of North Iraq.

Particular aspects of the general political situation will be touched upon in the course of this study. But there is one important point which must be made at the outset. It is that the Kassem regime, from the moment it came to power, was in a state of constant degeneration, with the result that as time went on it had to consider more and more drastic measures to recover its fortunes. This situation had an important general effect on the oil negotiations. It is of course impossible to say exactly how important, but it is certainly safe to say that it contributed in no small measure to what is the most obvious single feature of the negotiations--their increasingly political character.

If we chart this trend we shall find that the negotiations fall into two distinct stages. At the risk of being arbitrary we can make use of certain convenient landmarks to designate these stages: (1) the first one, that of secret or semi-secret negotiation, lasted from the beginning of the revolutionary regime till 18 December 1959, when Kassem made his first, very cautious, revelation about the progress made on one particular issue; (2) a transitional period covered the intervening 10 months till 30 September 1960, when the publication of the minutes of one of the meetings between the two sides ushers in (3) the final stage, that of public negotiation, which continued till the end of the road was reached in October 1961.

The First Stage

One week before the revolution of 14 July, negotiations had begun between IPC and the royalist government concerning various demands which had been put forward by Iraq. The Iraqis were interested in achieving the following main objectives: (1) a more favorable profit-sharing formula, to match the so-called 75-25 profit split pioneered in a recent concession agreement between Iran and the Italian state-owned oil corporation ENI; (2) the relinquishment by the company of part of its concession area; (3) an increase in Iraqi oil production, (4) a final settlement of disputes over deductible costs; (5) better employment opportunities for Iraqis in the oil industry. After a week's negotiation between IPC and the royalist

government agreement was said to have been reached in principle on most of the issues involved, including the increase in Iraq's share of profits.¹ More than three years later, with the final breakdown of IPC's negotiations with the succeeding regime, tentative agreement had been reached on some of these issues. But since the Iraqi Government eventually came to regard them all as "links in a chain", conclusive agreement had not been reached on any of them, nor on any of the others--the most important being Iraq's request for a 20 per cent participation in the ownership of IPC--which were raised in the meantime.

In retrospect, the most interesting aspect of the negotiations between the royalist government and IPC was their unobtrusiveness. Government and press made little attempt to excite public interest in the negotiations or to instruct the public in the points at issue. They acted alike in treating the negotiations, and the events which led up to them, as a routine business whose importance lay primarily in the matter in hand rather than in its political potential. The press, for its part, simply reported the facts, insofar as they were known, with a minimum of comment. It goes without saying that the press was subservient to the executive, with the result that the latter always appeared to be the pacemaker, though scarcely a dynamic one, in any tussle with the oil company. The royalist regime, in

¹Probably this means that the government agreed with IPC that Iraq could expect to receive a higher share of profits only when it had been definitely proved that the so-called 75-25 profit split was an improvement on the present arrangement.

fact, with its indifference to public opinion in general, had very little to win or lose in the way of popular support, however successful it might have been in securing better terms from IPC.

It should be noted, however, that on the face of it the government was subject to pressures on oil matters. In parliament deputies occasionally expressed their dissatisfaction with the government's oil policies. But to the extent that this parliament was a mere democratic facade (opinions differ as to how much it was) parliamentary protest had not the effect on the government's behaviour which, in an authentic democracy, it is supposed to have. On occasion, deputies went so far as to urge the nationalization of the oil companies. It is perhaps unfair to conclude that these demands were mere lip-service to Arab nationalist sentiment. All that can be said with certainty, however, is that nationalization of the oil industry would have been so completely out of character with the methods and outlook of the royalist regime that these demands could not be taken very seriously.¹ There was no danger of their forcing the government into an uncomfortable extremism.

It is a remarkable fact that during the first, secret, stage of the negotiations between IPC and the revolutionary government, ~~that~~ the latter actually gave the impression of taking quite as moderate a stand as its predecessor. The negotiations were a natural continuation of those which had begun under the old regime.

¹It seems likely, however, that a motion tabled by 34 deputies in February 1958 demanding the nationalization of France's 23.75 per cent share in IPC might have proved embarrassing to the government. But the matter was never discussed; parliament was dissolved before it could be.

They took place in much the same atmosphere. Indeed, if anything, there appeared to be even less public pressure on the government than in pre-revolutionary times. However sham parliament may have been, at least it had provided a semblance of democratic processes. Under Kassem the press was quite as docile as under the old regime. In this first stage of negotiations, apparently, General Kassem regarded oil negotiations as an exception to the revolutionary rule.

The fundamental paradox of this situation is best exemplified in the question of nationalization.

The revolution, which took almost everybody by surprise, caused deep concern in Western oil circles. Any change of regime would naturally have produced apprehensions, but a change so violent, bringing in a regime dedicated to making up for the pro-Westernism of its predecessor and to transforming the existing social order, naturally gave rise to very real fears that the oil companies would soon be nationalized. It is striking evidence of the oil companies' sense of security during the old regime that they showed no alarm at the various nationalization hints and threats, but that they were immediately alarmed at the advent of a regime which bent over backwards to deny its intention of nationalizing the oil industry, and proclaimed its adherence to agreements with the oil companies.¹

¹On 18 July, General Kassem stated categorically that the new regime "upholds all its obligations to all parties concerned." Two days later the Managing Director of IPC in Kirkuk made a statement thanking Kassem for his assurances and expressing the company's good will toward the Iraqi people. One could almost hear the company's sigh of relief.

At the same time, however, there was a strong body of opinion in the West which believed that, though there was perhaps no immediate cause for apprehension, the long-term prospects were not very good. The Iraqi reassurances, it was felt, were simply a means of gaining time. King Hussein, whose strong feelings were understandable, assured the British television public that the new government's restraint was simply Communist tactics designed to disguise the ultimate objective, which was to bring the flow of oil from the Middle East to a complete standstill.¹ In the months that followed the Iraqi Government found it necessary repeatedly to deny that it had any intention of altering the terms of its concession agreement other than through peaceful negotiation. Yet despite this the least incident was likely to give rise to rumors that nationalization was imminent.

There were of course good general grounds for Western doubts about Iraq's intentions. Everything about the regime made it logical that the industry should be nationalized. Internally, the Government had committed itself--whether sincerely or not is irrelevant--to a utopian socialism whose disciples were predisposed to see in a rich, powerful monolithic enterprise, the only one in the country, the Great Capitalist Beast par excellence. The socio-economic philosophy of the regime looked more and more threatening to the oil companies as Communists and Communist sympathisers found their way into positions of power. One of these was Dr. Ibrahim Kubbah, the Minister

¹ King Hussein, interview with British Independent Television, 25 July 1958.

of Economy, who was the moving spirit behind his country's growing economic relations with the Soviet bloc. In March 1959, he concluded a 140 million trade and aid agreement with Russia. It was this particular development which was regarded as the most ominous of all and led to predictions of a Russian stranglehold on Iraqi oil.¹

Another related reason to expect a tough line from the Iraqi Government was General Kassem's great loss of prestige in Iraq and the Arab world as a whole. By setting himself up as a rival of President Nasser and by conniving with the Communists, General Kassem soon lost the support of those nationalists who looked to Nasser and the UAR for the leadership of the Arab cause. He was finally damned in Arab nationalist eyes in March 1959, when he allowed the Communists to take bloody toll of a nationalist uprising in Mosul.²

¹It has been said that during his visit to Russia to negotiate this agreement, Kubbah agreed, in principle, under Soviet pressure, to the nationalization of Iraqi oil, which was to have been marketed in Russia. General Kassem is said to have rejected this offer (see al-Jaridah, Beirut daily, 9 April 1959).

²It was this incident which gave rise to the first nationalization scare. Suddenly, for no specific reason, a meeting between General Kassem and the IPC Chief Representative, Mr. R.G. Seawright, was the subject of much speculation in the Western and Middle East press. In the London Daily Telegraph of 6 April, for instance, Douglas Brown wrote that it was believed in Iraq that the meeting marked the first move toward the nationalization of the oil industry with the ultimate objective of integrating Iraq's development plans into a master plan devised by the Soviet Union. What gave rise to these fears was the argument that Kassem was likely to try to retrieve his rather desperate situation by focussing public attention on some spectacular measures against the oil companies; this argument was certainly plausible, but to give it weight these observers read much more into events than was justified. Douglas Brown wrote: "In the press and in the proceedings of the People's Court the oil companies were linked with Nasser, Zionism and Western imperialism generally as originators of the plot...Not unnaturally it was the Mosul Petroleum Company which bore the brunt of the attack." In actual fact, however, very little attempt had been made to implicate the oil companies in the Mosul massacre (see page 12).

Yet despite his Communist associations, the Arab nationalist press, led by Cairo, managed to brand Kassem as an ally of Britain. According to Muhammad Hassanain Haikal, editor of al-Ahram and confidante of President Nasser, the British had at this time accepted the idea that Kassem should make a fake nationalization of the oil industry so as to gain popularity.¹ The British plan was to help Kassem so that he could turn against the Communists after having subdued Arab nationalism. Haikal's interpretation is a fanciful attempt to rob Kassem in advance of the prestige which he would have won if he had gone on to nationalize IPC.

Kassem himself can have had no doubts about the short-term success that nationalization would have brought. It is significant in this connection that in November the Government received a flood of letters congratulating it on a step which it had not taken--the nationalization of the Khanaqin Oil Company. The Government had in fact terminated the company's (a BP subsidiary) concession in agreement with the company itself. The mistake arose as a result of the way in which the Minister of National Economy made the announcement. But the popular approval which it evoked cannot have been lost on the Iraqi leaders.

With all these factors militating in favor of nationalization, people were naturally inclined to view the assurances of the Iraqi leaders with a certain amount of scepticism. General Kassem himself

¹Muhammad Hassanain Haikal, in al-Ahram, Cairo daily, 6 April 1959.

once maintained that the idea of nationalization had originated from the foreign press and not from himself.¹ Strictly speaking, he was correct.

It might seem paradoxical, at first sight, that Western fears of nationalization should actually have begun to die down at a time when Kassem's attitude towards the companies became more aggressive. But such is the case. On the one hand, no doubt, Kassem's reassurances had, over time, taken effect; on the other hand, as will be explained later, though the Government became more aggressive, it also became more explicit. It is easy to see in retrospect that rumors of nationalization were a parasite which thrived on the enigma of Kassem's intentions.

One very important respect in which the new government imitated its predecessor was by continuing the negotiations with a minimum of publicity, so that the public only had a very general idea of what was being discussed. The government's statements were vague, non-controversial and inconsistent. Apart from the agreement for an increase in production (see page 99) all that was known was that agreement had been reached on a number of minor points² which the government could not have presented as a great achievement on the part of the Iraqi negotiators, even if it had wished to do so.

As regards fundamental issues, the public was completely in

¹See statement by Lord Monckton in London on 23 April--Reuters report, 24 April 1959.

²These were: (1) relinquishment of concession rights in Iraqi territorial waters; (2) more favorable terms for Iraq's taking its royalties in kind; (3) granting Iraq the right to export surplus products; and (4) the termination of the Khanaquin Oil Company's concession.

the dark. The first very general indications as to the government's intentions came immediately after the revolution. They were, it appeared, exactly the same as its predecessor's. In particular, the new Government was anxious to benefit from the agreement contained in an exchange of letters between the two parties in September 1951, whereby, in the event of a neighboring country receiving a higher revenue per ton, Iraq would be entitled to claim a similar benefit.¹ Yet not until 14 October 1960, when, as we shall see, General Kassem took the unprecedented step of publishing the minutes of his meeting with company officials was it definitely known that this matter was indeed under discussion; and even then it was not known when it had first been raised.

In the meantime, official statements had merely confused the issue. Ibrahim Kubbah, for example, who was the most communicative of the Iraqi officials and among the most extremists, never stated categorically that Iraq sought a revision of the profit-sharing arrangement. He would not even adopt this line for the benefit of official party newspapers in the Communist bloc, where, it was said, he was spiritually at home.² On at least one occasion, Dr. Kubbah gave a list of the main points under discussion, and the revision of profit-sharing was

¹Middle East Economic Survey, Beirut weekly, 5 September 1959.

²For example, Dr. Kubbah had an interview with the Polish Communist party newspaper, Trybuna Ludu, on 1 May 1959. With what must have seemed a most distressing moderation, Dr. Kubbah said that the Iraqi Government was "examining the possibility" of demanding a change in the fifty-fifty profit-sharing principle.

not among them.¹ As in the case of nationalization, in fact, during this first stage of the negotiations rumors concerning more extreme Iraqi demands appear to have originated in the foreign press or from other foreign sources.²

The only major demand which was known to be under negotiation all the time was that of relinquishment. But almost nothing was known of the give-and-take of the argument on this matter as it must have gone on, month in and month out.³

In the first stage of the negotiations, the Iraqi Government behaved like its predecessor in another respect. It indulged in a minimum of criticism of IPC. And the press, of course, followed suit.

The first official Iraqi comment after the revolution was that the company representatives were showing the "fullest cooperation." Thereafter, though never again so favorable, the Government statements were certainly moderate in tone, containing very little that would excite public opinion.

¹See, for example, statement broadcast over Baghdad Radio on October 6 1959, in which Dr. Kubbah described the four main issues under negotiation as follows: (1) production costs; (2) capital expenditure and amortization; (3) increased government supervision over company operations; and (4) relinquishment.

²For example, the French Foreign Office said on 10 April 1959 that Iraq was seeking a higher royalty. This was the first statement to this effect from any official source and, until the publication of the transcripts, the last. The French press carried similar reports at this time, but thereafter, except for one isolated mention it said no more on the subject.

³In January 1959 an unconfirmed report in the US Petroleum Week stated that IPC had agreed to hand over to the Iraqi Government 50 per cent of its territory immediately and a further 25 per cent in the future. Nothing precise was known about this question, however, until General Kassem quite unexpectedly, on 3 December 1959, came out with details of the Iraqi point of view. This was, as we shall see (page) his first significant move in the direction of public negotiation.

To begin with, it is true, General Kassem had one very good practical motive for adopting such a moderate line. IPC had agreed to embark on a large-scale expansion program¹ and it is unlikely that it would have done so if it had been subjected to violent abuse and threats by its host government.² As it was, many people no doubt believed, as one observer put it, that the oil companies were behaving like "Western simpletons," allowing themselves to be duped into building new installations which would be taken over by the Iraqi Government as soon as they were completed.³

Within five months of the revolution, then, the most that Dr. Kubbah, the left-wing extremist, would permit himself was a mild complaint about "the slowness on the part of the companies in understanding the new situation."⁴ Five months later, the negotiations were still "proceeding in a cordial spirit."⁵ Six months after that

¹Significantly, the Government appeared to believe that this agreement was more beneficial to Iraq than, according to the company's interpretation, it actually was. Thus, whereas the government gave to understand that IPC had agreed to expand production to 70 million tons a year by 1962 (as stated by Dr. Kubbah at a press conference in Baghdad on 27 April 1959) the company maintained that on completion of these projects export capacity would indeed be double that of 1958 but that the actual increase in production would depend on market conditions at the time (IPC statement, 28 April 1959). This important discrepancy sowed the seeds of the dispute which later arose when production increase did in fact fall far short of government expectations.

²In the commentary dated 12 February 1962 on the Iraqi-IPC negotiations written at IPC's request by "an experienced outside observer" the opening paragraph states that the company undertook its 100 million expansion program acting upon assurances, "several times publicly repeated", that the oil industry would not be interfered with and the right of the oil companies operating in Iraq would be protected.

³Woodrow Wyatt, Reynolds News, London weekly, 12 April 1959.

⁴Interview with the Financial Times, London daily, 6 November 1958.

⁵Interview with the Iraq Times, Baghdad daily, 8 April 1959.

Dr. Kubbah was still at the stage of polite warnings: "If the companies want to maintain their cordial relationship with the Iraqi Government, it is essential that they recognize that political and economic conditions both in the Middle East and the world as a whole have undergone a radical change."¹

Dr. Kubbah never had the chance to get beyond this stage. In February 1960 he was relieved of his post. There is little doubt, however, that had he been given his own way, relations between IPC and Iraq would have become embittered much earlier than they actually did. In fact, Dr. Kubbah was apparently deposed precisely because he was so intransigent.² Obviously, however, he was never able to turn his intransigence into a propaganda asset; for however he behaved

¹Broadcast over Baghdad Radio, 6 October 1959.

²Both Kubbah and 'Abd al-Fattah al-Ibrahim, the leftist Director of the Iraqi General Petroleum Commission, who was also dismissed a little while later, were held responsible by the Iraqi Government (which means General Kassem) for the delay in reaching a settlement with IPC due to their "unreasonable and unrealistic" demands on the company (see Middle East Economic Survey, Beirut weekly, 1 April 1959). Just how extreme Dr. Kubbah was can be seen from a booklet dealing with oil affairs under the old regime which was published while he was in office. This booklet describes what it claims to have been the unspeakable corruption of the Government Oil Refineries Administration and the rank inefficiency of the British-owned Khanaqin Oil Company. It is difficult to avoid the impression that IPC--though it is not mentioned once--is in the dock by implication if not in name. But it is difficult to go so far as the Middle East correspondent of the London Times (26 May 1959), who says: "The whole publication bears the imprint of the Minister of Economics, Dr. Kubbah, who although he often speaks with two voices on oil affairs--placating the oil companies while arousing the chauvinist sentiments of the Iraqi people--has never made any secret of his intention to squeeze the Western companies to the limit." It was, as we have just noted, the paradox of Kubbah's situation that he was not allowed to give free expression to his extremist ambitions.

at the negotiating table, he had no chance letting the public know about it. This restraint was undoubtedly imposed from above -- by a General Kassem still wedded to a policy of secrecy and caution and who in any case was apparently aware that by giving free rein to his Marxist lieutenant he would himself have been drawn irrevocably into a Communist net.

It is one of the many contradictions of the Kassem regime that during the ministry of Dr. Kubbah, an extremist, the government pursued a moderate policy toward IPC, but that during the ministry of Dr. Muhammad Salman, a moderate, a calculated extremism gained the upper hand. Nothing illustrates more clearly what an autocrat General Kassem was: the individual personality and convictions of ministers had little or no effect on the course of events, which flowed almost exclusively from the mind of Kassem himself.

What emerges from all this, so far as the political import of the negotiations is concerned, is a government at war with itself. Its natural bent was the flamboyant gesture, vigorous self-assertion, and a strident nationalism, lapsing on occasion into purest chauvinism. These ingredients were not at all conspicuous in the first stage of the negotiations. It was, as one British correspondent observed, "odd that one of the elements that remained apparently unchanged should have been relations between the government and the company."¹ Yet, even as early as October 1958, only three months after the revolution, another correspondent was able to report, very shrewdly, that the negotiations had from the very beginning been conducted with an eye to

¹The Times, London daily, 6 March 1959.

the ultimate propaganda triumph.¹

It would be false to say that during this first stage there was no anti-company invective, no warning rumbles of what was to come. The Government looked as though it might stray from the deferential norm on two occasions. But what is remarkable is that it did not actually do so. The first of these occasions has already been mentioned.² In the period following the Mosul revolt, it was feared in the West that Kasseem would resort to the characteristic technique of unstable governments and use the IPC as a convenient scapegoat for the troubles which were befalling the country. Some newspapers began to take for granted a deterioration in government-company relations which had not in fact come about. It was merely a likely development. But as it was, "there had been no demand for nationalization either from the public or the Communist press...little attempt was made to implicate the oil companies in the Shawaf (Mosul) revolt."³ "Significantly, the discussions with IPC still appear to be proceeding moderately and reports of imminent nationalization are being discounted because such a step would wreck Iraq's only thriving national industry. The twin dangers of the moment are that the Communist grip on the country will become complete or that if Iraqi sentiment turns against the Government, and the regime looks like collapsing,

¹The Financial Times, London daily, 17 October 1958; according to this correspondent, the Government considered that it had shown its friendly intentions by avoiding any public declaration or threats, by protecting IPC installations in every way, and by continuing the negotiations where the old regime had left off.

²See page 94

³The Financial Times, London daily, 9 April.

Kassem will go to more desperate expedients."¹ Not only did this crisis fail to rouse official and popular indignation against the companies, but it preceded the only important agreement that the company ever reached with the government--for the £ 100 million expansion program.

The second aberration from the deferential norm occurred seven months later in October 1959, during the period of internal unrest just before the attempted assassination of General Kassem, when there was a strangely isolated outbreak of polemic against the company. This came from the Communists,² whose star had by this time almost reached its zenith. Their main accusations were that the companies, together with hostile newspapers, were spreading rumours concerning the critical state of Iraq's finances with the object of weakening the position of the Iraqi Government in its negotiations with IPC. Egypt, the bitter enemy and rival of the Kassem regime, was chiefly responsible for these rumours. The oil companies were merely a convenient scape-goat. But the criticism was singularly short-lived. Presumably General Kassem put a stop to it.

The Government must at all times have been under a strong temptation to whip up popular feelings against the oil companies, to blame them for the country's misfortunes. On these two occasions, apparently, it came nearest to giving in to this temptation. But the fact that it did not do so emphasizes the fundamental contradiction of a demagogic regime straining itself into attitudes of studious correctness in one particular field.

¹Ibid.

²Ittihad al-Sha'b, Baghdad daily, 3 October 1959.

The Transitional Period

The event which, for the convenience of this study, is taken to denote the beginning of the transitional period between secret and public negotiation is by no means spectacular. It is merely symptomatic of a new approach. On 3 December 1959, in the course of a six-hour press conference, General Kassem made his first revelation about the course of the negotiations. He did not criticize the companies; on the contrary, he acknowledged that they had kept their promise and started to increase production. He only touched on one issue under negotiation--relinquishment¹--but the significant thing is that by bringing it into the open and explaining the government's stand on it, he put a gap between the Government's actual achievement and the achievement it aspired to. The cost of failure would therefore be greater, but so would the dividends of success.

It may have been a development outside the negotiations proper which finally prompted General Kassem to convert the negotiations into an all-out propaganda vehicle. This was the Basrah Oil Company's decision, in July 1960, to cease production from its Rumailah field--a natural commercial consequence, the company claimed, of the increase in cargo dues on oil shipments introduced by the Basrah port authorities.

¹He said that the Iraqi negotiators had managed to persuade the companies to relinquish 90,000 sq. miles of their present concession area, but that they wanted them to relinquish 60 per cent (more than 100,000 sq. miles) and to give the government a voice in selecting the areas to be handed over. In other words, the people were meant to infer, the Iraqi negotiators had already achieved impressive gains--gains which were insufficient, nevertheless to a body of men so resolute in the service of their country.

Though production was subsequently resumed at a reduced rate, General Kassem promptly denounced this "excessive and arbitrary economic pressure which the oil companies are exerting in order to halt the rise in the people's standards of living and the country's development."¹

Kassem went on: "It is evident that the Chief Representative of the oil companies operating in Iraq has from the time he took up his post continually been making difficulties in a deliberate attempt to create a dispute between the Iraqi Republic and the companies, thereby abandoning the spirit of amicable cooperation between the two parties."

It is very likely, of course, that General Kassem was in any case intending to resort to a tough line with the companies, with the full demagogic accompaniment. The fact is however, that IPC's action, though understandable, was clumsy and ill-timed, and hardly consistent with the £ 100 million expansion program. With this action, the companies entirely dissipated such good will as they had laid up for themselves against the difficult days of negotiation ahead--or, at least, they gave General Kassem the opportunity to say that they had.²

The decision to take a tough line against the oil companies may have been maturing in Kassem's mind for a long time, but of course government officials did not have to think twice about following his lead; nor, too, did the press which delivered its first full-scale assault against the "imperialist monopolies." Most Baghdad newspapers

¹Statement to the Iraqi News Agency, 21 July 1960.

²In the opinion of the Paris weekly, France Observateur of 24 March, it was this increase in production which had created an atmosphere not unfavorable to IPC in its negotiations with Iraq.

emulated General Kassem in accusing IPC of failing to fulfill its contractual obligations and attempting to undermine the country's economic position for its own sinister purposes. At the same time, however, the press obviously went further in the violence of its denunciations and the demands it made of the companies that Kassem had expected or intended. Thus on the eve of a new round of negotiations he found himself making a plea for restraint--expressed in the indirect fashion of stressing the need for patience and the use of peaceful methods of settling outstanding issues.¹ The most vehement abuse came from the Communist press, headed by Ittihad al-Sha'b, organ of the unlicensed (but authentic) branch of the Communist party. Arguing that the oil companies were now much weaker than in the past it urged that Iraq need have no fear of the "ghost of Missadiq." Al-Thaurah, a newspaper which closely reflected the Prime Minister's views, was quick to denounce "this implied demand for nationalization." Al-Thaurah's reaction was a reflection of the quandary which Kassem had put himself in. It was easy enough to open the floodgates of criticism, but, once they were open, it was not so easy to keep the flood in check.

Ittihad al-Sha'b's "implied demand for nationalization" was only the most striking of a number of indications that the press campaign was intended to influence the government's behaviour as much as that of the company negotiators. Obviously, certain newspapers

¹"Patience is the key to success"--this was the key phrase of a speech delivered by General Kassem at the Army Reserve College at al-Rashid Camp on 15 August 1960.

doubted the Government's ability or willingness to bend the company to its will and, so far as they dared, said so.¹ Some of the bolder newspapers soon began to criticize the Government for failing to keep public opinion informed of progress of the negotiations.² Confronted with this criticism Kassem's first reaction was to stress the need for secrecy, on the strength of a not very convincing analogy--"secrecy was in the interest of the people. Secrecy was the main factor in the success of our revolution."³

At the same time, the Iraqi press began to match its sweeping denunciations of the companies with detailed analyses of the issues under negotiation (though it still was not definitely known what these were). For the Government, this had its advantage and its disadvantage. Its advantage was that by focussing people's attention on a number of specific, limited demands--increased royalties, participation, relinquishment, etc--it finally scotched embarrassing speculation about nationalization. In doing so it contributed another typically paradoxical facet to the Iraqi-IPC negotiations as a whole: in the earlier days, when moderation prevailed, rumors of impending nationalization were frequent, but in the final stage, when extremism gained the upper hand, the dangers of nationalization were not taken very seriously. On the other hand, the close attention paid by the press

¹The Baghdad daily al-Hurriyah of 24 August, for example, went so far as to call in question the qualifications of the Iraqi negotiating team as well as the sincerity and reliability of the British adviser retained by Iraq.

²Ittihad al-Sha'b, Baghdad daily, 24 August 1960.

³Interview with al-Thaurah, Baghdad daily, 2 September 1960.

to specific objectives was a liability to the Government in that it had to make absolutely sure that it achieved them. Nationalisation would have been the consummation of nationalist ambitions; but this was disqualified; all the more deplorable, therefore, would be the failure to achieve much-publicized objectives which already represented a serious derogation from these nationalist ambitions.

The Second Stage - Public Negotiation

It was in this situation that General Kassem decided to publish the minutes of one of the meetings¹ between the two sides, thereby inaugurating, for the purpose of this study, the last stage of the negotiations--that of public negotiation. The meeting whose minutes he decided to publish was well chosen in that it showed off to good advantage the particular negotiating method--"peaceful but purposeful"²--to which he had pinned his colors. On every issue the company negotiators were permitted to state their case, but the Iraqi point of view was also firmly put. There was not much evidence of give-and-take, which was satisfactory from the propaganda standpoint in that this might have been interpreted as weakness on the Iraqi side. But perhaps the most significant feature of the published minutes was the honor they did to General Kassem in person. During the whole seven-hour meeting he acted as virtually the sole spokesman for the Iraqi

¹These minutes, recording a meeting which took place on 31 August 1960, were first made public on 30 September 1960.

²See speech by General Kassem at the opening of the Iraqi Educational Conference, Baghdad, 15 September 1960.

side. In his grasp of the complex issues involved, his resolution and skill in debate and his confidence in the justice of Iraq's case, he gave a good account of himself as the Beloved Leader of the Iraqi people.

Obviously, then, there was an element of calculation in the choice and presentation of the minutes, once it had been decided to publish them. It is interesting to speculate, however, how much calculation there was in this decision itself. Was it, in other words, the master stroke of a preconceived strategy, or was it a genuine reaction to public opinion?

¹ Whichever it was, its importance was not lost on some observers. In an article in the Riyadh weekly al-Yamamah of 27 November, for example, Shaikh Abd al-Aziz al-Mu'ammir, Adviser to King Saud, commented on the publication of the minutes as follows:

It has been the custom for the governments of the Middle East oil producing countries to shroud the negotiations which they hold with the oil companies in complete secrecy, for fear that public opinion in their countries may accuse them of giving way to the companies and surrendering the country's rights. This tradition has benefited the companies in countless ways and been a cause of grave injustice to the oil producing countries. The principle of secrecy is embodied in the Iraqi and Saudi agreements, and its pernicious influence is apparent in the provisions of both old and new agreements. This tradition continued up to the time when the Iraqi Government, in response to public demand, broadcast the minutes of the discussions with IPC which took place on Wednesday 31 August 1960. The company officials received the news with something like astonishment, and many people consider that the publication of these minutes is a momentous event equalled in importance only by the publication of the Sykes-Picot Agreement of 1917--the agreement by which Britain, France and Czarist Russia carved up the Middle East with their eyes on the area's oil resources. The publicizing of these minutes has paved the way for the establishment of a most important principle which will have a far-reaching effect on future settlements and agreements. In future, it will be extremely difficult for a government to conclude and ratify any unfair agreement. Also, there is no doubt that agreements which are reached in an atmosphere of publicity and after

It is quite possible (to discuss the first alternative) that General Kassem, whose methods were never simple, planned this whole sequence of events--violent press campaign, inconclusive round of negotiations and publication of minutes--with the sole objective of enhancing his own prestige. Advance information could have been supplied to one or more newspapers concerning the nature of Iraq's demands. The newspapers could have put these forward as proposals of their own; and then, in the official disclosures on the progress of the negotiations, the impression could ^{could have} been given that the government had taken its cue from public opinion. It is noteworthy in this connection that the particular newspaper whose demands came closest to those actually put forward by the Iraqi Government itself was not only the first newspaper to put forward any demands at all but it was the only one to do so before General Kassem, in the wake of the Basrah port dues incident, gave the signal for a violent press campaign against the companies. More significantly still, however, it was also the first newspaper to ask the government to publicize the negotiations--a request which the Government, piously responding to the wishes of the people, duly acted upon. It is true, of course, that this particular newspaper, the Communist daily al-Ittihad al-Sha'b, was not normally the Government's mouthpiece. But this may have been the crowning ingenuity. For the use of the Government's normal mouthpiece, al-Thaurah, might in this case have seemed too obvious a device. Moreover, the Government

negotiations where the negotiating teams enjoy complete equality, will be characterized by permanence and stability.

had the additional advantage of appearing to meet the requirements of the section of public opinion which was traditionally the most extreme.

However, as we have already noted, there is plenty of evidence --too much, in fact, to allow the above to be passed off as more than mere hypothesis--that Kassem did feel the need to make concessions to public opinion. The publication of the minutes was just such a concession. And even if we take the view that he was considering publishing them all along, it still seems clear that he was hustled into this much less ceremoniously than he would have liked.

In fact, both theories are probably partially valid. Kassem was one of the parties to a two-way process. He certainly did try to manipulate public opinion, alternately exciting and subduing it, but unfortunately for him could not keep full control over this wayward, dangerous force, which, once set in motion, developed a powerful will of its own. The rest of the negotiations have to be seen against this background of Kassem's fundamental predicament--to ride this force which he had released, not to be thrown and not to tame it altogether.

Some three months after the publication of these minutes an event occurred which threw this dilemma into sharp relief. Thousands of workers and students staged a mass demonstration against French policy in Algeria; they marched through the streets of Baghdad demanding the nationalization of France's share in IPC. But in its report on the demonstration, the Baghdad press and radio made no mention whatever of the nationalization demand. This remarkable oversight

was no doubt occasioned by Kassem's desire not to be forced into an extreme posture which would interfere with his negotiating strategy. However, as observers pointed out at the time,¹ if pressure had continued to mount, Kassem would not have been able to ignore it altogether. Here is a case, therefore, where Kassem's efforts to make public opinion a mere chorus of approval for his own actions blatantly came to grief. The chorus was beginning to howl for a hero of sterner stuff.

In the circumstances, it was only natural that during the last nine months of the negotiations anti-company abuse should have become more virulent and Iraqi demands more dogmatic. Kassem fell in with the general trend. "Every day we make new demands on the companies, because the people are entitled to their demands and rights," he said² --in a candid contribution to the companies' later contention that his negotiating method consisted simply in raising the ante.

This process reached a climax--the last before the final breakdown of the negotiations--in April 1960. On this occasion the talks foundered on a minor issue--dead rents³--to which the Government suddenly attached an importance entirely inconsistent with its larger ambitions and with the promises of impending "good news"⁴ with which

¹See, for example, AP dispatch from Baghdad, 23 December 1960; this and other such reports, were prominently featured in the Cairo and pro-Cairo press.

²Speech to Second Conference of Iraqi Oil Workers and Employees Union, 12 November 1960.

³Both sides had agreed that the deadlock which had been reached over dead rents should be submitted to arbitration, but the Government demanded that the recovery of these rents should cease until the arbitration decision had been handed down. IPC disagreed.

⁴See, for example, Middle East Economic Survey, 17 March 1961.

Kassem had been regaling the public over the previous three months. A few days before this particular round of negotiations began Kassem had implicated the companies in the disturbances that had recently taken place in Baghdad: "Every time we have tried to enter into negotiations with the foreign companies," he said, "imperialism has made use of its stooges to commit irresponsible acts against our Republic."¹ And if we take the view held by most foreign observers, that the suspension of the talks was the outcome of the political situation, then this attack can be regarded as a preliminary maneuver designed to give maximum effect to what was to come. Seen in this light, the negotiations themselves were a mere formality, held for the convenience of being broken off by General Kassem who took care to mark the occasion with this impressive reproof: "I hope you know that since the Revolution no one can detract from our rights, even if we have to stop the pumping of oil from wells by force. It is enough that you have swindled the people and the former Government for a long time."²

At the same time, fitting the deed to the word, the Government ordered IPC to discontinue all exploration and drilling operations outside the immediate vicinity of their wells until an equitable agreement had been reached between the two sides. It warned IPC that if it persisted in disregarding Iraq's legitimate demands, the revolutionary government would be "compelled to handle the matter

¹Speech to opening of Medical Conference, Baghdad, 28 March 1961.

²Minutes of meetings held between Iraq and IPC on 2 and 6 April and made public on 11 April 1960.

in a manner which will safeguard the rights of the Iraqi people, who were liberated by the 14 July Revolution and whose rights will not be forfeited again." It delivered this warning in a statement whose other main feature was a reiteration ad infinitum of the contrast between, on the one hand, the "shameful and arbitrary" attitude of the company, its deliberate and futile procrastination, its indifference to Iraq's rights, and, on the other hand, the patience and good will, endurance and good faith of the Iraqi negotiators.¹

Taking its cue from this statement, the press simultaneously reached the conclusion that, in view of the companies' procrastination and evasiveness, the Government was now entitled to employ appropriate means to rid Iraq of the injustices of the existing concession. Significantly, al-Thaurah, which reflected the views of General Kassem, urged the Government to issue a decree excluding all undeveloped portions of the companies' concession from the jurisdiction of the 1952 concession agreement.²

How great an impact Kassem's firm stand really made on public opinion is difficult to say. But the correspondent of the Financial Times described the climate of opinion at this time as follows:

Some Iraqis question Kassem's negotiating methods and his abuse of the company as 'Imperialistic' but it would be foolhardy not to believe that the country is solidly behind him in his general approach. The government has been at pains to explain its position in great detail in daily statements to the local press. These have undoubtedly had some effect. Iraqis are united on oil as perhaps on no other issue.

¹Official statement, 14 April 1961.

²Al-Thaurah, Baghdad daily, 17 April 1961.

Sober observers in Baghdad believe it in the interest of both sides to seek a quick agreement. Delays only give weight in the public mind to charges that the company is seeking to deprive the people of their 'rights' and by weakening the Prime Minister's position force him to seek an ever more spectacular triumph. Opposition groups of all tendencies have made it quite clear that were they in power they would not demand less than Kassem is now asking. It is a fallacy to believe that the company would get better terms by waiting for a successor government.

The majority Iraqi view is that the oil agreements now in force were concluded by a regime subordinate to Britain and the validity of these agreements is now in question. This background of public opinion is at least as important as the specific issues under discussion as it strictly limits the Government's freedom of manoeuvre.¹

This penultimate breakdown of April 1961 had left the door ajar for a further attempt to solve the deadlock, with the virtual certainty, however, that any failure to do so would be final.² In addition to the fact that it had already given warning of further unilateral action³--a warning which was of course taken up by the press--there were other reasons why the Government was now more than ever committed to a policy of uncompromising firmness. For one thing, it had in the course of April issued a series of explanatory statements setting forth its point of view on the issues discussed in the negotiations. These statements were well-documented and commendably free from the tendentiousness which was too often a principal feature of official pronouncements. But as a detailed and definitive declaration of Iraqi policy, they made it impossible for the Government to

¹The Financial Times, London daily, 17 April 1961.

²In a speech on 18 July 1961, Kassem said that the negotiations would end before the second half of August--a statement actually made before it was known when the negotiations would resume.

³See page 114

make any substantial concession to the companies which would not immediately be detected by Kassem's opponents. It was a natural consequence of this explicit commitment that the Government, which might in the past have been prepared to accept a 'package deal', now insisted on securing its 'rights' on all the issues at stake. As one paper put it: "Our oil demands are indivisible and we will not accept compromises. Iraq's oil demands are an integral part of the revolutionary government's program."¹

Although the companies had undoubtedly gone a long way toward satisfying Iraq's demands on some issues--of which the most important was relinquishment--it had definitely not given much ground on those two issues which were now emerging as the most important--namely, 20 per cent Iraqi participation in IPC and a revision of the fifty-fifty profit-sharing formula.²

Finally, in the broad political sense, General Kassem was at this time more than ever in need of a resounding propaganda victory. His failure to annex Kuwait, after proclaiming it to be an integral part of Iraq, had been one more blow to his battered prestige.³ And to cap it all, he now had a Kurdish uprising on his hands. He had duly accused "the British and their American stooges" of deliberately fostering it⁴--the kind of accusation which, however, vaguely expressed, implicitly included the companies in its target area.

¹See Middle East Economic Survey, 7 July 1961; on 18 July Kassem endorsed this: "We shall obtain our full rights. They (the companies) must realize that we will not budge one inch from these rights."

²See statement by Muhammad Salman, 4 April 1961.

³During the Kuwait crisis rumors were current that Kassem was contemplating the nationalization of the oil industry on 14 July, the

The situation, in fact, had all the makings of a grand climax, and that the Government regarded it as one was made clear when, just before the negotiations resumed on 24 August,¹ Baghdad Radio pronounced what in effect was the Kassen's regime first unambiguous warning that it might nationalize the oil industry: "The cancellation of the companies' concessions will be the natural outcome of the oil talks if the companies persist in their tyranny and disregard of Iraq's rights." The company, for its part, had despatched to Baghdad a top-level negotiating team who included some of the most capable and experienced negotiators in the oil industry. The team was led by Mr. Harold Fisher, a director of Standard Oil (New Jersey), and included Mr. Frederick Stephens, a managing director of Royal-Dutch Shell. IPC's decision to send such a high-powered team was a concession to the Iraqi Government, whose charge that the company deliberately sought to prolong the talks was founded largely on the fact that the previous team, headed by Mr. Geoffrey Herridge (who was a subordinate member of the new team), constantly had to refer back to IPC headquarters in London for further instructions.

At this last confrontation the Iraqis could reasonably have been spared a continuation of this constant commuting between London and Baghdad. But they were not. On 30 August, after six days'

anniversary of the revolution, in an effort to distract attention from his reverses over Kuwait. The Government had approached the Italian state-owned oil corporation, ENI, with a view to hiring technicians to replace all non-Iraqi technicians employed by IPC.

⁴Statement on 23 August 1961.

¹In order to ensure the resumption of negotiations, the companies had agreed, among other things, to suspend the recovery of dead rents until an arbitration decision was handed down.

negotiations, the delegation returned to London for further consultation on Iraq's two main demands--for a 20 per cent participation in IPC's capital and a larger share of profits -- which even this high-level delegation had not been empowered to take a decision on. It was virtually a foregone conclusion that the IPC parent companies would reject the demands and when Mr. Fisher publicly said as much the Baghdad press, which had been relatively restrained in anticipation of the final outcome, could not resist a preliminary bout of polemics. At the same time, Kassem announced that the Government would, if necessary, resort to unilateral action and that it already had "legislation ready to be announced at a suitable time should the oil companies persist in refusing to grant us our rights."¹

On 28 September, after a month's respite during which Kassem had stepped up his anti-imperialist tirades, the talks resumed for the last time. The company negotiators had previously submitted a memorandum to the Iraqi Government explaining the impossibility of IPC's accepting a 20 per cent Iraqi participation in its capital or a revision of the profit split in Iraq's favor. The most that IPC had to offer was to embark on a new venture in which the Government would be invited to participate. For this purpose IPC would have been prepared to give up exclusive rights to part of its concession area still retained after the first stage of its relinquishment program (IPC had agreed to relinquish 90 per cent of its concession area, the bulk of it immediately and the rest over a period of 7 years).

¹Statement to al-Thaurah, Baghdad daily, 2 September 1961.

The Prime Minister rejected this and made his own final offer, whose main terms were: (1) the three operating companies should each relinquish forthwith 90 per cent of their respective concession areas; (2) in the areas retained outside the producing fields, they should enter into new arrangements which included a participation for the Government; and (3) they should grant new terms to the Government more favorable than the present fifty-fifty arrangements. These demands were in turn rejected by the company negotiators. The deadlock was complete, bringing three years negotiation to an acrimonious conclusion.

It is interesting to note that at the last moment General Kassem dropped Iraq's participation demand. Even so, this does not necessarily mean that he had seriously intended to reach a negotiated settlement; for he must have been perfectly aware that though the gap between what Iraq demanded and what IPC was prepared to give ^{had narrowed it} was still quite unbridgeable. The inescapable conclusion--which most Western observers proceeded to draw¹--was that Kassem did not in fact have any intention of achieving such a settlement. His sole object was to extract the maximum political capital out of the talks consistent with the maintenance of Iraqi oil production at its current level.

Predictably, the Iraqi press greeted the news of the breakdown with unanimous expressions of support for any legislative measures which the government might be compelled to take and with blistering attacks on the companies. It is a reflection of Kassem's interest in

¹See, for example, The Economist and the Financial Times of 13 October 1961.

the prestige aspect of the negotiations, rather than the issues they turned on, that the press scarcely took any trouble to analyze these, but dwelt almost exclusively on the human attitudes of the negotiators and the companies they represented. They contrasted the patience of the Iraqi negotiators with the delaying tactics and maneuvers of their opposite numbers. They denounced the companies' insufferable arrogance, their reactionary outlook, and accused them of instigating plots against the Arab state (British landings in Kuwait, Kurdish uprising in Iraq and the secessionist coup d'etat in Syria). The pro-government al-Mustaqbal outdid its colleagues when it spoke of the "limitless forbearance and patience" shown by the Iraqi team towards a delegation "which in effect was representing a collection of thieves, monopolists and plunderers of the peoples."¹

The minutes of the final meeting between the two sides were later made public. The press commented on these in the same vein; rather than analyze what they revealed concerning the subject matter of the negotiations they hailed them as further evidence of the companies' malevolence and duplicity.

The real climax of this whole affair did not come with the breakdown of the negotiations, but with the legislation which the Iraqi Government issued two months later in order to obtain by unilateral action what it had failed to obtain by persuasion. On 15 December, after an appropriate build-up about the "tremendous repercussions" which the forthcoming legislation would have, the Government

¹Al-Mustaqbal, Baghdad daily, 13 October 1961.

issued Law No. 80, depriving the companies of 99.5 per cent of their concession area and ordering them to make available free of charge all geological and geophysical information on the expropriated areas.

From the propaganda point of view, the law was ideal. It was simple clear-cut, symbolic; the ordinary man in the street could not fail to be impressed by what he could immediately understand; the Government had asserted its sovereignty with a vengeance, taken over almost the whole of the companies' concession area, almost the whole territory of Iraq! It had given the companies as hard and humiliating a knock as possible without prejudicing the flow of oil--not at least for the time being.

The Government was anxious that the law should make an impact throughout the Arab world as a whole, not just in Iraq, where the plaudits of a captive press could be laid on to order. That it could have made a considerable impact is scarcely in doubt. Obviously, the Arab governments thought it could; for the Arab press outside Iraq, except for a desultory comment or two in Lebanon and Saudi Arabia, deliberately paid it a minimum of attention; Iraq's political rivals, of whom Egypt was the most important, naturally could not concede the merits of any achievements but their own. The attitude of the rest of the Arab world was strongly resented by Iraqi officials, who suggested that the Arab countries should at least lay aside their differences in confronting a common adversary. But Iraq was as isolated in the Arab world as Kasseh, behind all the fulsome protestations of

support which were his dictator's due, was isolated in Iraq. Kasseem's complete isolation at home and abroad was, as his eventual downfall was soon to show, was something against which the most desperate remedies could not prevail. Intrepid foe of the imperialistic and monopolistic oil companies he certainly was, but for all that he could not begin to wipe out the debit of failure and unpopularity which he had accumulated in almost every other field. His regime was bankrupt, catastrophe was in the offing, and in the eyes of the world his treatment of the companies was but a desperate bid to ward it off. But if his regime had been basically solvent, his treatment of the oil companies would have doubled his credit in the eyes of the world.

CHAPTER VI

THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES

The Organization of Petroleum Exporting Countries (OPEC) is now the most important agent of change in the relationship between the oil companies and the producing countries of the Middle East. In the opinion of some observers, OPEC's role may evolve still further in the context of an overall producer-consumer relationship. The creation of OPEC may seem to have been almost inevitable in the circumstances; it remains true, however, that OPEC could not have reached its present dominant position in Arab oil politics if it had not worked out a clear conception of its methods and of the kind of impact it would seek to make on Arab public opinion.

Above all, OPEC has always sought to justify its existence through its own competence and expertise. Such qualities can of course only be properly appreciated by a higher level of public opinion than that, say, to which General Kassem appealed. What follows is an attempt to trace the emergence and development of those methods, with special reference to their impact on public opinion, of which OPEC has made itself the undisputed custodian.

"That major Arab oil aspirations were arrived at independently and with little stimulation of one nation by another or by any

extraneous source is true and highly significant."¹ The two Arab countries which did most to develop an awareness of oil affairs were Saudi Arabia and Iraq.

When Shaikh 'Abd Allah al-Fariki became the Saudi Minister of Petroleum and Mineral Resources in 1958, he introduced an entirely new style into official Arab dealings with the oil companies. He made great efforts to explain to the general public the specific aims and achievements of his oil policy. He was always ready to express his views, both in interviews with the press or in specially written articles. He encouraged others to do likewise. Muhammad Joukhdar, Hisham Nazer, Samir Shamma, 'Abd al-'Aziz al-Mu'ammal are familiar names in the Arab oil world which first came into prominence at this time. Under their signatures, there began to appear in the Saudi press articles on oil affairs whose rational and analytic approach provided a welcome change from the facile emotionalism of the average Arab press treatment of the subject.

Meanwhile, in Iraq, Dr. Nadhim al-Pachachi, Iraqi Minister of National Economy, under the old regime, was one of the first to attempt to interest the public in oil affairs on a serious level. He published a book² on Iraqi oil policy covering the period August 1953 to December 1957, during which he had been responsible for a series of negotiations with IPC, primarily to reply to criticisms which had been

¹ Frank Hendryx, New York Herald Tribune Monthly Economic Review, June 1961.

² Nadhim al-Pachachi, Iraqi Oil Policy--August 1954-December 1957, Baghdad, May 1958.

levelled against his conduct of these negotiations. The book was also written because, in the author's words, "knowledge leads to gains." Al-Pachachi expressed the opinion that the Iraqi public had the right to know how the Government administered this vital sector of the national economy and to challenge its conduct through Parliament. He said that it was in the Government's interest to divorce matters related to the oil industry from politics and from the views of individuals. It was the duty of every Iraq oil official, he went on, to keep informed on international developments in the oil industry and to use every available opportunity to obtain new concessions and benefits from the oil companies operating in Iraq, and to create a suitable atmosphere for negotiations.

In urging the spread of 'oil awareness' for its own sake and the divorce of oil affairs from politics, Dr. Pachachi put his finger on two distinctive aspects of the oil experts' philosophy--a philosophy to which OPEC has given practical application.

The reasons for which the oil experts--or 'technocrats' as they are often called--insist on the need for an enlightened, responsible public opinion is clear enough. It should be clear to the oil companies for, as Tariki himself has said, they belong to those countries which understand public opinion.¹ For one thing, it is obviously advantageous to the host countries to encourage intelligent and well-qualified Arabs to seek employment in the oil industry and to develop technical skills and expertise on as large a scale as possible. It

¹ Shaikh 'Abd Allah al-Tariki, interview in the al-Bilad, Jiddah daily, 24 October 1960.

has long been recognized that 'Arabisation' of the oil industry is in the long run the most effective way of ensuring that Arab oil resources benefit the Arab countries themselves, not merely on account of the material well-being of a technical and managerial elite, but because the existence of this privileged few is indispensable to the development of a truly independent Arab oil industry.

On the other hand, the existence of a responsible public opinion versed in oil affairs, would constitute an invaluable basis of support for the technocrats themselves. Their appeal to public was from the beginning essentially apolitical, in that they did not identify themselves with any particular political group or interests in their home countries. Their sole object, were it in revolutionary Iraq or absolutist Saudi Arabia, was always to improve their country's 'take' from the oil industry. This involved above all, a thorough understanding of the workings of this industry and an ability to challenge the companies on specific issues. What they needed, therefore, was a public which understood the difference--a difference which they constantly stressed--between themselves and the early Arab negotiators, who in their ignorance and private disposed so casually of their countries' resources. They also needed a public which appreciated the difference between their methods and those of a General Kassem. If they could gain this support, then they would be in a position of strength to prevent oil affairs being drawn into the maelstrom of ordinary politics--as happened, for example, in General Kassem's Iraq. The relatively independent position of the oil technocrats

vis-a-vis their own governments and, by extension, Arab politics in general is well explained by J.E. Hartshorn in ^{his book} Oil Companies and Governments.¹

These youngish men differ rather significantly, to the casual observer at least, from the similarly aspiring intelligentsia of other developing societies. Their education is sometimes technological rather than legal. Their ladder of advancement has not been primarily political, but within the semi-technical administrative departments that each of the host governments has necessarily created to handle its contacts with its tenant oil company. They have benefited, within these departments, from the absolute shortage of Arabs educated to understand this industry. The rise of some of them, within these departments, has been meteoric, so that able young men not long out of their twenties are at the heads of departments that deal with the companies, and in some cases are government-appointed directors to their boards.

In some ways, the careers that have been so open to the talents of these young men have possibly made for political stability in certain of these countries. The surplus of briefless advocates and other unemployed intellectuals which has so often featured in national-ist politics in other developing (and developed) countries, seems less evident in the oil-producing Arab countries; and where violent political change has come, it has come mainly from military circles. The graduate, in the oil states, need not lack advancement. Educated 'technocrats' may or may not be, as one of them once suggested, 'well placed to enforce, in the long run, practically every point they mean.' Their personal isolation, in some cases, from the feudal social structure of the states they serve, may be uncomfortable and is certainly vulnerable. But they are entrenched in, and while they are in such short supply often essential to, the absolutist governments of these states. Some of them are radical in temper, which in countries of such glaring contrasts between riches and poverty is not surprising. But their radicalism does not need to express itself in politics. They already have the positions of influence that in other countries political radicals might dream of attaining.

¹J.E. Hartshorn, Oil Companies and Governments, Faber and Faber, London, 1962 (pp. 301-303).

These positions, however, do not guarantee them political influence inside their countries. Their political influence is likely to depend upon their success in dealing, on behalf of the host government, with the oil companies. This in itself might tend to canalize their radicalism into seeking always to improve the bargain that the government gets. The better that bargain, the better their chance of achieving, say, the economic development that they believe their country needs. But the tenant oil company, as a nexus of economic power controlled from outside, is liable to be an affront to their patriotic ambitions anyway. In a sense, therefore, nationalism, radicalism and the favour of the ruling families may all press the 'technocrat' in the same direction--towards seeing what more can be gained from the companies. Moreover these young men, whose position rests largely upon their talents and their scarce technical competence, are certain to see possibilities in common action by at least the oil-producing states; also, perhaps, personally but not unworthily, the strength that their own positions can gain from participation and recognition on a larger than national stage. Their training will help them to appreciate the possibility of joint economic and technical action among host governments.

On the whole, it is a moderate and realistic public opinion to which the technocrats have always sought to make their appeal. For to advocate extreme measures would bring them into conflict with the political executive in their home countries. This is not to say, however, that they eschewed altogether a broader, more popular appeal to the Arab public at large. "The oil experts are emerging as a powerful independent class. What they lack in official support they are determined to obtain in popular support, and their statements to the local press often lay stress on the 'need to improve the standards of living of the people of the oil-producing countries through their greater participation in the oil industry.' In this they are sincere

enough."¹ But this kind of appeal is sufficiently general, sufficiently a pious platitude, not to arouse the concern of their governments. It is true that Shaikh 'Abd Allah al-Tariki used to be regarded in some Western circles as the "Nasser of the oil world". But at the time at least this estimate was scarcely valid, even though Tariki was always more extreme, more nationalistic in outlook than most of his colleagues. While in office, he did not pander to the baser emotions of his people in the way that many politicians do--or are obliged to do. The trouble was, perhaps, that Western opinion is all too ready to assume that any outspokenness implies intolerant anti-Westernism. Obviously the more thoughtful sections of the Western press were aware of this danger, as is borne out by a characteristic hesitation to arrive at a definite assessment of Tariki's character: "Is he a fanatic or intelligent and crafty?" asks one uncertain observer.²

Tariki's extremism was probably as much a product of impulsiveness and candor as of a belligerent disposition. Some of his strongest statements were made on the spur of the moment in reaction to some company action to which he took particular exception. Thus, for example, after the second round of price-cutting in August 1960--an act so provocative that it brought OPEC into being--Tariki relieved his feelings in a number of unusually frank and rather ill-considered statements.³

¹Fuad Itayin, Middle East Economic Survey, Beirut weekly, 22 May 1959.

²The Times, 24 October 1960.

³For example, "The recent price cuts were the second step of a series of measures to reduce Middle East crude prices by perhaps as much as 50 per cent in ten years in favor of the consumer nations" (see Middle East Economic Survey, Beirut weekly, 27 October 1961).

On the other hand, while he was still in office, Tariki was realistic enough not to endanger his position by being drawn into an intransigent stand which would have found favor with nationalist opinion. During the Third Arab Oil Congress, he was asked by various newspapermen: "What is happening to the Arab congress--it is not fighting the companies any more...is anyone putting pressure on you, or have the companies bought you? You are not fighting them as hard as you used to." Tariki replied that the companies were now maturing after having been under attack for three years. "They are beginning to understand us," he said, "and the relationship between us is much better than it was three years ago."

Apart, then, from a reliance on generalities and only an occasional lapse into impatience, the Arab oil technocrats have from the beginning tried to make their way in public esteem on the strength of their own competence and, within the realistic limits they set themselves, their not inconsiderable success.

However the non-political ambitions of the oil technocrats originated, they have had very important results. They have had a part in creating an atmosphere in which OPEC could come into being and pursue effective policies of its own making in isolation from everyday Arab politics. Since the technocrats had no political commitment, they inevitably found themselves moving closer and closer to their counterparts in other Arab countries, whose problems and aims were essentially the same. Thus the unification of Arab oil policies developed into an integral part of ^{the} technocrat ambitions.

The unification of Arab oil policies had three main attractions. It would enable the technocrats (1) to exchange information on oil matters, (2) to widen the basis of their public support and (3) to strengthen their hand vis-a-vis the oil companies through the possibility of taking collective action.

It is interesting to note how, in the months preceding the formation of OPEC, the unification of Arab oil policy became more and more a concern of the producers at the expense of the Arab countries, in general. This was a development which grew naturally out of the technocrats' philosophy. A unified Arab oil policy, worked out on a regional basis within the framework of the Arab League, would have introduced interests alien to the one common objective of all oil producers--to increase their revenues and other benefits from the oil industry. The main aim of the 'have-nots', on the other hand, would have been to ensure that the oil revenues were distributed more evenly throughout the Arab world as a whole--an understandable objective, but one that would have detracted from the cohesion of a purely producers' organization and brought oil bodily into the arena of inter-Arab politics. The technocrats could only become an effective force by a deliberate limitation of their field of action. The limited aims which they set themselves could not possibly conflict with the policies of their own governments. Only their methods might displease, and would have to be modified accordingly. But the non-producers were inevitably left out in the cold.

To the non-producer the main premise for a unified Arab oil policy was that Arab oil belongs to the Arab nation as a whole. In August 1957, a prominent Syrian oil official¹ expressed the view that, on the strength of this premise, a unified Arab oil policy should involve the following: (a) Arab oil revenues should be distributed among the Arab countries according to individual needs for industrialization and raising their standards of living; (b) the oil transportation industry should be regarded as an integral part of the oil production industry.

This was very definitely a non-producer's view. Iraq, an important producer, was the first country to put forward an official proposal for the coordination of Arab oil policies. Not surprisingly, this turned out to be a far cry from the 'regional' concept of oil policy favored by the non-producers.

The Iraqi proposal was submitted to the Arab League Economic Council in January 1959 and to the Arab Oil Experts Committee in October 1959. But though it was thus first rooted on a regional level--the Arab League providing the only official framework of inter-Arab cooperation--it did not belong there. For the proposal was to all intents and purposes the exclusive concern of the producers. What the Iraqi Government had in mind, above all, was that the producers should confront the international oil companies' solid front with one of their own. This implied a power relationship in which Arab non-producers had no part. Their place was to be taken, implicitly as yet,

¹ Abd al-Mun'im 'Allaf, Director of Mines and Minerals in the Syrian Ministry of Public Works, in the Beirut weekly al-Hadaf, 12 August 1957.

by non-Arab producers. Among the steps envisaged under this proposal were the following: (a) the formulation of a unified petroleum law regulating the relations of oil-producing states with the oil companies operating in their territories; (b) conservation of Arab oil reserves and maintenance of oil prices through production controls and the coordinations of the policies of the Arab oil producers with those of other producing states; (c) arrangements for Arab states to exchange information, technicians and other experts and to standardize oil accounting methods; (d) ensuring that oil is transported exclusively through Arab territory (this being the only provision, and scarcely an altruistic one, to be included for the special benefit of the non-producers); (e) the establishment of an Institute of Petroleum Studies, which would be attached to the Arab League. In the event, it was OPEC, a producers' organization, rather than a regional-minded Institute of Petroleum Studies, which later came into being.

Waiting in the wings at this time, before emerging as the principal champion of oil-producers' solidarity, was Venezuela. Venezuela is the world's leading oil-exporter; but it has smaller reserves to draw on than its Arab colleagues and has the most to lose from any weakening in the international pricing structure. It was therefore very disturbed by the crude price cuts of February 1959. Ever since the First Arab Petroleum Congress, which took place in Cairo in April 1959, Venezuela and the Arab countries had been moving closer together. On the Arab side, the moving spirit behind this entente was Saudi Oil Minister Shaikh 'Abd Allah al-Fariki. Iran, too, was feeling its way,

though more cautiously, into the producers' camp. These evolving relationships crystallized in August 1960, when a second round of price cuts prompted the producers to give official and effective shape to their common interests by forming the Organization of Petroleum Exporting Countries. With this action, the technocrats finally asserted their independence and special status. "We have formed a very exclusive club and no one will be able to join it unless he obtains the unanimous approval of the five founding members"--such was the verdict of the Venezuelan Oil Minister, Perez Alfonzo.

After the first flush of success, during which the OPEC representatives were inclined to over-emphasize OPEC's as yet untested bargaining strength vis-a-vis the companies, they settled down to a sober plan of action.

In the first two years of its existence OPEC was in the process of finding its role, working out a policy capable of fulfillment and acceptable to all its members. To begin with, it concentrated its attention on the question of prorationing. But although the proration plan was never officially shelved, it gradually faded out of the picture and in June 1962, at its Fourth Conference, OPEC came out with a comprehensive statement of its aims. These were threefold--to restore crude prices to their pre-August 1960 level, to have royalties treated as a cost item and to abolish the cost of sales discount, deducted from posted prices. To date, OPEC has partially achieved its third and least important aim; as yet, it has not had much satisfaction on the first and second.

What distinguishes OPEC in its dealing with the oil companies from Arab governments in general is the thoroughness and consistency of its approach. OPEC only decided on these three objectives after exhaustive studies, and it has stood by them ever since. It is conscious that by general Arab standards they are 'moderate' objectives, capable of fulfillment, with give-and-take on both sides, through normal channels of negotiation. So long as he was his country's representative in the Organization, 'Abd Allah al-Tariki was in the habit of stressing OPEC's 'moderate' and 'scientific' methods. There was a frank recognition by him and his colleagues that hitherto the Arab oil producers had not been properly equipped to deal with the oil companies. True, the oil technocrats had always been confident that they were an utterly different breed from those first Arab oil negotiators who had ^{formed} ~~framed~~ out the original oil concessions. But the most blatant inequities of these early agreements had now been eradicated. In order to make further progress, therefore, the technocrats had to go beyond the pre-conceived generalities and essentially emotional arguments about 'exploitation' and 'monopoly' and make a study of the oil industry in its broadest context and in painstaking detail. This was the only way to counter the company's deliberately technical arguments against improving the producing countries' terms.

The fact that when it was first formed OPEC had one particular aim in mind--pro-rata--and that it subsequently dropped this without in any way losing its sense of purpose is an indication of its flexibility and determination not to succumb to 'idees fixes'. The plan of action that OPEC eventually embarked upon was the result of studies,

rather than the studies being the post-facto justification of the plan of action. As Tariki said: "The studies to be undertaken by the Organization are expected to have a marked effect on the policies of the member states vis-a-vis the oil companies; they will be scientific studies, analyzing objectively the various oil concessions and indicating the merits and demerits of each. The producing governments who lack qualified (advisory) personnel will then be in a better position to understand the problems of the oil industry, to confront the oil companies with the combined expert knowledge of the OPEC members and to justify or defend their point of view."¹ The fact that OPEC commissioned independent experts to carry out studies on its behalf demonstrates the importance which it attached to their objectivity.²

We have already noted that moderation, and a deliberately restricted sphere of action, lies at the heart of the technocrat's philosophy. But it is also important to note that the emphasis on moderation, as a matter of political expediency, found itself naturally reinforced by the standards of objectivity and scientific thoroughness which OPEC also set itself. This, of course, is quite apart from the fact that most of the prominent members of OPEC, Muhammad Sultan, Fuad Rouhani, Ahmad Zaki Yamani, ^{have been} ~~are~~ moderates by temperament, endowed with a patience and stamina which has stood them in good stead for the arduous and complex negotiations with the oil companies.

¹ Shaikh 'Abd Allah al-Tariki, al-Bilad, Jiddah daily, 6 February 1962.

² None of these studies have been published, though the main conclusions of two of them have been divulged. These are a report by A.D. Little on returns on oil company investment in the producing countries and another by Professor G. Fan on downstream investments in the oil industry.

As far as public opinion in the Arab world is concerned, OPEC's main problem has been to convince people that its policy of moderation and objectivity is the best way of maximizing Arab gains from the oil industry and, in the realm of principle, that it does not amount to a renunciation of legitimate Arab oil aspirations.

Owing to its political and economic prominence, Egypt has always been the focus of regional Arab oil aspirations and as such, a potential source of trouble for OPEC. Egypt's attitude toward Arab oil has always been ambivalent, and often hypocritical. Two tendencies have vied with each other in Egyptian oil thinking. On the one hand, the Egyptian Government has sought to give the impression that it is not interested in benefiting from the oil revenues of the major Arab oil producers, and to that extent, it has refrained from setting itself up as a pioneer of oil policies in the Arab world. On the other hand, in the course of its general propaganda campaigns against the traditional regimes, it has inveighed against the deplorable squandering of oil revenues by the privileged classes. This has led Egypt, in accordance with its cult of the masses, to preach the ill-defined gospel of some kind of people's take-over bid. An article by Muhammad Hassanain Haikal, editor-in-chief of al-Ahram, explains how oil lucre has never sullied the integrity of the Egyptian revolution:

Arab oil gave rise to many complexes; those who acquired the new wealth acquired with it the habit of squandering, became arrogant, and, above all, developed an intense loathing for the parasites squirming at their feet, waiting for hand-outs. And those who stretched out their predatory hands --the opportunists--succumbed to greed and the lure

of fast money, abandoned all sense of honor, and, above all, developed a contempt for the oil barons whose coffers were overloaded with gold through no effort of their own. Meanwhile, here in the UAR we developed the complex of aloofness, striving to keep out of suspicion and to avoid the temptation of succumbing to opportunism. We needed large sums of foreign capital to broaden the base of our economic development. We could have asked the oil barons to invest their surplus funds in our development program, which was first and foremost a dynamic force for the Arabs--all the Arabs. But the UAR knocked on every door but that of the oil shaikhs... all this to remain aloof and avoid suspicion.

The result was that a deep silence surrounded the subject of Arab oil, and nothing was heard of how it was being squandered or the part it could have played in generating Arab dynamism. The UAR's attitude of silence was the last word in passivism, as if the matter were no concern of ours. This was not, nor could it be, the right attitude....

The UAR, fortified by its disinterest in the oil money, could have spoken out on behalf of the other Arab people. It could have spoken out without resorting to pressure, without causing embarrassment. But it chose to remain passive, negating the very logic of its revolution and its call for Arab unity, all because of hyper-sensitivity."¹

The theory that the people will somehow take oil matters into their own hands was put forward in a book published in 1963. "There are high hopes," its preface states, "that the deliverance of Arab oil from the clutches of the foreign monopolies will be effected by the Arab people themselves without reference to the official attitudes of their governments, who are very often committed to policies which are inimical in varying degrees to the interests of their people."²

¹ Al-Ahram, Cairo daily, 19 May 1961.

² Ahmad al-Mu'tasim Billah: Arab Oil - Its Present and Future Implications for the Arab Nation (Monograph No. 232), Cairo, The National Printing and Publishing House, 1963.

Egypt's latent antagonism to OPEC, on the ground of principle, was reinforced by antagonisms of a general political nature. OPEC first came into being at a conference in Baghdad, and it was difficult for Egypt to give its blessing to any initiative which reflected credit on General Kassem's regime, Egypt's bitter rival. From the first, therefore, it criticised the Baghdad resolutions as "weak and conciliatory, lacking any indication that the producers will actually challenge the decision of the foreign states exploiting Arab oil to cut posted prices."¹ In fact, Egypt has never been able to take kindly to inter-Arab initiatives in which it has no part.

That OPEC's members were aware of the potential conflict between their Organization and the more emotional nationalist forces whose natural champion was Egypt became clear very soon after OPEC's creation. At the Second Arab Petroleum Congress--the natural forum of the regional point of view--OPEC was scarcely mentioned. As one observer² put it, "the Arab exporters are anxious to preserve the solidarity of the OPEC countries at almost any price, because they consider OPEC the one effective means of acquiring a measure of collective managerial control over an industry which has been particularly resistant to control from any quarter. The plan is to develop OPEC into an international organization with headquarters in Geneva."³ Arab oil policy will therefore

¹Al-Jumhuriyah, Cairo daily, 20 September 1960.

²Fuad Itayin, Middle East Economic Survey, Beirut weekly, 28 October 1960.

³Egypt professed on one occasion to find it objectionable that OPEC's headquarters should be located outside the Arab world.

develop on two fronts: the home front, within the framework of the Arab League agencies, and the international front, within OPEC." At the Third Arab Petroleum Congress, held in Cairo in October of the following year, Mr. Anwar Salamah, Secretary General of the Arab Federation of Petroleum Workers, specifically criticized the formation of OPEC as a somewhat negative step, and suggested that the Arab states should copy the UAR's example in nationalizing the oil industry in their respective territories. He said that the oil-producers need not fear the consequences of such a step--a somewhat disingenuous statement considering the large amount of crude for which they would have to find purchasers. Another Egyptian delegate complained of Egypt's exclusion from OPEC. Conscious of this increasingly delicate relationship, OPEC delegates were at pains to justify themselves. Though their arguments may seem a case of special pleading, in that they were designed to answer specific charges, they provide an interesting insight into what OPEC, in the face of rival claims, considered to be its own essential role. Mr. Acosta of Venezuela said that it was a far-fetched idea to believe that OPEC was deflecting interest from the Arab Congress. He pointed out that the two organizations were entirely different in scope and conception--though very much together at heart. In his opinion the Congress was important in that it (a) maintained the continuity of Arab relations and kept the spirit of Arab unity alive, (b) it presented an opportunity for the examination of technical and economic questions and pointed to problems which needed to

¹In a paper entitled "Government Participation in the Oil Industry and Its Effect on the Economics of the Arab States."

be resolved and (c) it served as a testing ground for attitudes of various countries and organizations, providing a forum for the discussion of views and not a battle-ground for antagonistic forces. For its part, OPEC, though strictly confined to economic matters, kept its ear tuned to the Arab Congress and its results.

'Abd Allah al-Tariki tried to establish that OPEC was conceived at the First Arab Petroleum Congress and owed its existence to that body. Some of the important questions tackled at past Congresses had been taken to OPEC for a scientific study, he said, since only OPEC had sufficient funds to finance such studies. The Congress was the rostrum of the people, while OPEC was the rostrum of the governments.

Iran's membership of OPEC has always been potentially awkward for the Arab producers, both for political reasons and because, in strictly oil matters, Iran has always been lukewarm on some of OPEC's policies and prone to attitudes of embarrassing moderation. The question of Iran's supplying oil to Israel causes periodic bouts of indignation in the Arab world--a situation which has never yet posed a serious threat to OPEC but certainly could do so. Iran's relations with the UAR have already been mentioned; it has been suggested that Iran's interest in OPEC, to begin with at least, was largely the negative one of keeping Egypt out of the Organisation and thereby preventing it establishing control over Middle East oil policies.¹ As far as oil policies are concerned, Iran has never made any secret of the fact that it would never abide by a collective OPEC policy which interfered

¹Wanda Jablonska, Petroleum Week, 16 December 1960.

with its own ambitious national oil plans. Thus, Iran has always been insistent on its right to undertake a rapid expansion in its oil production, with a view to regaining its position as the area's leading oil-producer. It has therefore been less than enthusiastic about proration schemes which, officially at least, are still on OPEC's agenda. Little is known of the give-and-take of argument among OPEC's members, but it is more or less certain that it is Iran's reluctance which is now holding back the Organization, dissatisfied with the outcome of its royalty negotiations, from asking its member governments to take legislative measures against the companies. Iran's restraining action, if it reduces OPEC to the winning of mere token successes, will become a target of Arab nationalist abuse.

An interesting but far less dangerous problem confronts OPEC from the opposite end of the political spectrum--from the right-wing pro-Western section of Arab opinion, of which the late Emile Bustani was the most dynamic and articulate representative. His view was that the Arab states should develop a close partnership with Europe, paying less attention to the unit value of oil and more to the overall volume exported. Such a policy would constitute a return to regionalism. The rationale behind is entirely different, however, from the regional policy advocated by the nationalists, but it would be equally damaging to the producers' solidarity, which is OPEC's great strength.

Perhaps the most important component of OPEC's public image, potentially at least, is its appeal to world opinion. (This aspect of OPEC's publicity has already been covered in Chapter II.) Well-documented literature has been produced by OPEC on such themes as:

the deterioration in the oil-producers' terms of trade with the industrialized countries and a formula for linking oil prices to those of manufactured goods; the high level of taxation on oil in consumer countries; the producers' need for large amounts of capital to finance development projects, etc. It is in the logic of these persuasions addressed to world opinion that OPEC should play down its potential as a pressure group presenting a direct challenge to other interests, and in particular the consumers.¹ Hence OPEC's constant desire to appear reasonable.² Reasonableness, in OPEC's thinking, does not entail a mere willingness to recognize commercial realities. In fact, the more conscious OPEC becomes of the need to appeal to world opinion, the more anxious it is to remove oil issues from the realm of blind economic forces to that of moral principles. It is reasonableness, OPEC believes, to do everything possible to persuade the companies and the consumer nations behind them that commercial realities are inherently at fault if they tend to aggravate the most unreasonable imbalance in the distribution of wealth which characterized the world today.

In appealing to world opinion, OPEC runs essentially the same risk as it does in appealing to a moderate body of opinion in the

¹"Since its inception OPEC has made it very clear that it always takes into account the interests of the consumer." (Perez Alfonzo, Venezuelan Minister of Mines and Hydrocarbons to Fuad Itayim, in the Middle East Economic Survey, Beirut weekly, 17 November 1961). Nevertheless, OPEC strongly believes that on balance the consumers derive more benefits from oil than the producers and that this situation should be corrected.

²See, for example, the address delivered by 'Abd al-Rahman al-Bazzaz, Secretary General of OPEC, in Geneva on 11 March 1964 at the opening of negotiations with IPC representatives of the OPEC resolutions.

Arab world itself. That is to say, it inevitably strikes ^{p.} note of patient exhortation, one might almost say entreaty, which tends to jar on those, more nationalist in outlook, who believe that the Arabs and all in their situation should adopt forceful methods as a matter of sovereign right.

After OPEC had been in existence for three years, and--apart from the very real but not very inspiring achievement of preventing a further decline in prices--had little concrete to show for it, it was natural that voices should begin to be heard questioning its methods and outlook. OPEC itself was very sensitive to the danger and used it as a bargaining counter vis-a-vis the companies. In late 1962, Francisco Parra delivered an address in which he said it was natural that certain interests in the consumer countries would like to see the end of OPEC, which they regarded as a threat to their security, and a return to the situation which existed before the Organization was founded. This was certainly a mistake, he said, for if OPEC were disbanded these interests might find their position not more, but less, secure, than it was before, because of the increased likelihood of abrupt action by the frustrated member-countries.¹ By the middle of 1963, most commentators, Arab and Western, were agreed that OPEC had indeed entered a critical stage of its career. The 'reasonable period' which OPEC had set itself for reaching a settlement on the lines of its resolutions of June 1962 was now drawing to a close. The crucial

¹Speech to the John Hopkins School for Advanced International Studies, New York (see Middle East Economic Survey, Beirut weekly, 9 November 1962).

question was, as one observer put it, whether OPEC was to become an active negotiating body or simply a research organization and clearing-house for ideas and information.¹ Another observer commented at this time: "Failure to secure any significant response from the international oil companies to its attempts to increase the government 'take' from oil in the Middle East is now steadily pushing OPEC towards an impasse where it will have to put up or shut up."²

Appropriately enough, OPEC's basic predicament first came dramatically into the open at the Fourth Arab Petroleum Congress. But it was not Egypt which led the assault. Ironically, it was OPEC's chief architect, Shaikh 'Abd Allah al-Tariki--who, in a theatrical outburst, called OPEC the "daughter of the Congress" and went on to invite his audience to commit infanticide. OPEC, he said, had been wasting too much time on studies and negotiations while the oil companies had been collecting profits to which the Arab people were entitled. He declared that he had always had a soft spot for OPEC. "OPEC was the hope of the Arab people and the Venezuelans...the idea of it came from this congress--- OPEC is the daughter of this Congress." But, he went on, "the OPEC governments have degraded themselves by sending their man, one man, chasing the oil companies from capital to capital to knock at the companies' doors and be told there's no-one in." The companies should be invited to come to Geneva, the OPEC headquarters, and have terms dictated to

¹Christopher Tugendhat, the Financial Times, 1 July, 1963.

²The Economist, 29 June 1963.

them. "The companies are part of us and we tell them what to do. OPEC has been put in the gutter." Tariki, the former advocate of moderate and scientific methods, now outdid Egypt in the popular vein: "Don't depend on the agreements," he warned the companies, "the governments are under pressure; if the people don't like the agreements they'll tear them apart with no compensation."

Oddly enough, while Tariki was rebuking OPEC, the Egyptian delegates were exhibiting an unaccustomed moderation. This was probably a direct result of the new direction which Egypt's own national oil policy was taking at this time. Egypt had recently concluded a number of joint-venture concession agreements. "Participation" was henceforth the Egyptian watchword in oil affairs; advocacy of nationalization and other extravagant measures would have come ill from a country which did not follow such a policy itself. Indeed, at one point, Mr. Kamil al-Badri, Chairman of the Egyptian General Petroleum Corporation, crossed swords with Tariki, who was invoking state sovereignty as the panacea of all ills. Mr. Badri said that state sovereignty was taken for granted. Partnership, he said, is a practical way of ensuring that all decisions of boards of directors are taken with the full knowledge and agreement of the governments. With 50/50 board representation, both sides can agree on costs, prices, profits etc."from within." Presumably, Egypt no longer harbors the same degree of suppressed resentment against OPEC as it did in the past.

Ever since the Fourth Arab Petroleum Congress, Tariki, self-appointed leader of the popular view of oil, has been turning out

articles in the Arab press, all of which dwell on the same basic theme--the need for legislation, rather than negotiation. It was generally expected that at the second session of its Fifth Conference held in Riyadh at the end of 1963, OPEC would decide to ask its member governments to take legislative action in order to implement its royalty resolution. It did not do so, thereby demonstrating a restraint which Tariki and the man-in-the-street to whom he was now making his appeal obviously did not appreciate. Just before the meeting took place Tariki had written: "The eyes of millions from the producing and consuming nations are on you. If you cannot make up your mind, find a pretext for postponing your meeting. For if you meet and fail to take just decisions which will restore your countries' dignity and authority, then the meeting will mark your Organization's demise. After this your Organization will flounder, for all those who have been following its activity will realize that it is no more than a means for officials of some countries to enjoy themselves in the beautiful city of Geneva at the expense of the poor and sick of the producing countries."

It is of course difficult to measure just how much effect Tariki's arguments have on Arab public opinion. It goes without saying that they have an immediate appeal on the more emotional popular level. Moreover, the fact that Tariki himself was the moving spirit behind the creation of OPEC, makes his present role of malcontent all the more impressive. Another important feature of the new-style Tariki, always latent but now used to the full, is the combination of frankly demagogic themes--

¹Al-Anwar, Beirut daily, 14 December 1963.

characterized by the excessive use of such words as 'imperialistic', 'bloodsucking', 'plunder', etc.--with a wealth of statistics introduced into the argument as matters of incontrovertible fact, unqualified by any of the reservations which are an intrinsic part of respectable economic theorizing. This specious expertise, interspersed with and corroborating over-simplified nationalist preconceptions, presumably does not make much of an impression on the more sophisticated, from whose ranks are drawn the technocrats now in charge of Arab oil policies. Nevertheless, the technocrats certainly do not command sufficient prestige openly to challenge Tariki's extreme views, even though they threaten to become more and more of an embarrassment to them. To do so would be to risk incurring the ultimate stigma of being subservient to Western interests. While Tariki's economic arguments may not impress the technocrats, his conclusions--that is, the inescapability of legislative action by the host countries--certainly do. OPEC officials have always balanced their moderation with assertions that if the oil companies persisted in their intransigence the OPEC member countries would be quite prepared to take unilateral legislative action. In fact, disillusionment with the whole conception of negotiation appears to be gaining momentum in the Arab world as a whole.¹

¹See, for example, articles al-Jumhuriyah, Baghdad daily, 17 April 1964, al-Tali'ah, Kuwait weekly, 4 April 1964, and al-Madinah, Jiddah daily, 31 March and 3 April 1964.

It is worth pointing out, too, that political tensions in the Middle East are liable to generate additional pressures for a tough line with the companies. Oil is an obvious political weapon to be used against the West, in any Arab showdown with Israel. Ever since

At the time of writing, therefore, OPEC's fundamental predicament has not been resolved. Within the next year OPEC must either persuade the companies to make much more substantial concessions than they have agreed to make so far, or, failing that, it must ask its member-governments to take legislative action on its behalf. No doubt it would prefer the first course, since the second inevitably would encroach on that independent, non-political status which is such an essential feature of OPEC's origins and subsequent development. In a sense, it would be an admission of impotence. But in either case, there is still the question of whether the producers' gains--resulting from OPEC's successful persuasions or the legislation of individual member-countries--will be sufficient to counter the influence of Tariki and the kind of opinion to which he makes his appeal. And that will depend on how successful OPEC has been in its educative, as opposed to its negotiating, role--how successful it has been, in other words, in winning acceptance for the standards of moderation and objectivity which are its raison d'etre.

the Cairo Summit Conference of Arab Kings and Presidents, there has been a great deal of debate in the Arab press about the use of Arab oil for the liberation of Palestine. As one paper put it, the Arabs are at last realizing that the "liberation of Palestine and 'Arab oil' are synonymous terms" (al-Sayyad, Beirut daily, 2 January 1964). Although the use of this political weapon implies that it should be held in reserve for the moment of crisis it is good tactics, by way of muscle-flexing and tough speeches, to foster the belief that it will in fact be used if the occasion demands. It is in this context, for example, that one should view Tariki's proposal for the nationalization of British Petroleum's interests in the Middle East. In the old days, during the seven years' colonial war in Algeria, it was Compagnie Francaise des Petroles which was the target of such threats. But Britain's posture in the Middle East is such that it is now the turn of a British company to suffer for the unpopularity of its home government.

CONCLUSION

Anyone who has attended an Arab Petroleum Congress, and observed the general affability which prevails at those gatherings, might find it hard to believe that relations between the oil companies and their host countries in the Middle East are as unsatisfactory as the preceding chapters suggest. It is no doubt true that on a personal level relations between the two parties are much better than on any other--not only at gatherings such as the Arab Petroleum Congresses, but in the everyday association between Arab and expatriate employees of the oil companies. The manifold shortcomings attributed to the oil companies by Arab press and officials are probably least applicable to the people, as individuals, who staff the companies. By the yardstick of personal good will and energy which they have brought to the task of improving their human and material environment, it is safe to say that many oilmen fail to deserve the strictures of their Arab critics. This is no doubt recognized by many of the Arabs most intimately connected with the oil industry.

Unfortunately, however, relations between the oil companies and their host countries, as between nations, are by and large not moulded by the mass of individuals of which they are composed. They are determined rather by overriding political and economic factors. These factors have all been touched upon the course of this thesis.

However diverse in themselves, we noted, taken together they are so many components in the great divide between the industrialized nations to which the oil companies belong and the underdeveloped nations whose resources they exploit.

Who is responsible for this inequality? From the broad historical point of view, it is only fair to attribute the relative wealth and prosperity of one section of the world's population to its long tradition of vigor and initiative in certain fields and to attribute the backwardness of another section to its lack of that tradition. However, it is clear that once this inequality has developed, no matter what its causes, it tends to become self-perpetuating. This is why the industrialized countries enjoy a built-in advantage in all their dealings with the underdeveloped countries.

The oil companies, which are essentially outgrowths of the economies of the industrialized countries, are perhaps the most obvious private beneficiaries of this situation. They are a classic illustration of what the producing countries sometimes refer to as the transfer of wealth, but which more fairly should be termed the transfer of the means of wealth, since the oil is useless until it undergoes the processes which only a highly industrialized economy is capable of sustaining. The oil companies are probably no more in love with their own self-interests than any other capitalist enterprises. However, if the congenital weakness of big business is excessive money-making, then it can be said that the oil companies have been exposed to greater than usual temptations. The history of the

oil industry's relations with its host countries has largely revolved round the efforts of the latter not so much to dissuade the companies from over-indulging this weakness as to persuade them to disgorge more of the proceeds.

The oil companies, like the all-powerful Western economy from which they derive, have a vested interest in preserving the status quo. It is only natural therefore, as we have seen in this thesis, that pressures for change should come exclusively from the producing countries. So long as they remain underdeveloped--so long, that is, as the dynamic of world trade continues to work in favor of the industrialized nations at their expense--the producers will maintain their pressure on the oil companies, which are the most immediate manifestation of this inequality and at the same time the readiest instrument of its correction.

Politics, too, will continue to exacerbate company-government relations. As was pointed out in this thesis, the fundamental economic reality is inextricably bound up with disagreeable political ones. Of course, economic relations between any two parties are bound to have their political parallel. However, economic relations between the West and the Arab world, as represented in the oil industry, have been paralleled by such a succession of gratuitous political animosities that we can probably say that the oil companies have suffered less from the consequences of their own actions than from those of national policies for which they are at most only remotely responsible. The existence of the State of Israel makes it very likely that this situation will continue indefinitely.

Politics apart, however, it is not unlikely that as time goes on the oil companies will become less and less a specific target of Arab criticism. We have noted in this thesis how criticism expressed in political terms tends to be more emotional and extreme than that expressed in economic terms. We have noted, too, that OPEC, through a thorough appreciation of economic realities, is tending more and more to view the oil companies in the overall context of economic relations between the industrialized and underdeveloped nations. It is far from certain that OPEC will impose its views on its member-governments and on Arab opinion in general. However, the growing awareness of the need to introduce some measure of central control over international economic relations--an awareness exemplified by the Geneva Conference of International Trade and Development--suggests that time is on OPEC's side.

With the growth of a body of Arab opinion which views the oil industry as an intrinsic part of the whole phenomenon of international economic relations, criticism of the companies may lose some of its harsh polemical character. But although there may be less resentment against the companies as such, and though there may even be a genuine appreciation of the benefits that the industry has brought to the Middle East, the producing governments will continue to press as hard as ever for further gains. Directly or indirectly, they can only do this at the expense of the companies. The companies may justly complain that they have done nothing to deserve these continuous inroads into their commercial integrity, just as they do not deserve the more extreme criticism which are still levelled against them. For the oil

companies, after all, are only highly successful exponents of private enterprise--a perfectly legitimate pursuit not only in their home countries but in most of the Middle East producing countries too. But even though Arab opinion may be better disposed to the oil companies as such, it certainly will not allow this novel sentiment to outweigh its dissatisfaction with, that overall economic domination of which the oil companies are such a vulnerable outgrowth.

The way in which Arab governments seek to challenge this domination will depend in some measure on future development of public opinion. Unilateral action against the oil companies is one method, which might have to be resorted to as a means of gratifying nationalist impatience, but is likely to ^{incite} ~~raise~~ damaging reprisals from the industrialized countries, a high-level dialogue with the industrialized countries, arranging for a gradual shift in the centre of gravity of the oil industry towards the producing countries, is another method, which would commend itself to the more moderate body of opinion, and is likely to prove more beneficial in the long run. The struggle between the two opposing tendencies of impatience and moderation is likely to continue indefinitely. The oil companies certainly have it in their power to influence the course it takes.