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Bruno Pierri

This article is dedicated to the memory of my uncle Alfredo

Introduction

In November 1965, a Defence Review Report to the Cabinet illustrated Britain's long term strategy in the Middle East. As regarded the potentially unstable area of the Persian Gulf, with numerous small States and great wealth deriving from oil, for budget reasons Britain was obliged to withdraw, but at the same time it was necessary to try to keep the Shah aligned with the West and minimise the repercussions of a likely withdrawal. This policy was not possible to carry out without the support of the United States. In fact, the Americans attached great importance to the defence review and had the intention to discuss at least its conclusions before reaching any official decision. But it is important to highlight that the British were considering priorities only on the basis of their own interests[1]. It was only a question of time, for the decision to withdraw had been reached[2]. Nevertheless, there was a high risk to leave a strategic

[1] Report to Ministers, 8 November 1965, CAB 130/213, MISC 17/4, in Stephen R. ASHTON (gen. ed.), *British Documents on the End of Empire* (thereafter BDEE), Series A, Vol. 5; Stephen R. ASHTON, - William R. LOUIS (eds), *East of Suez and the Commonwealth 1964-1971*, Part I, *East of Suez*, London, The Stationary Office, 2004, pp. 12-33.

[2] The British special position in the Gulf dated back to the seventeenth century trading activities of the East India Company, which established its first trading agency in the port of Basra. Military activities were limited to the safeguarding of commercial routes. Only in the nineteenth century Britain began to pursue a truly imperial policy through the making of "Exclusive Treaties" with local Sheikhdoms. According to these agreements, local rulers accepted to be deprived of their sovereign power to conduct relations of any sort with foreign powers without the assent of London, which in return committed itself to protect them from all aggressions. Uzi RABI, "Britain's 'Special Position' in the Gulf: Its Origins, Dynamics and Legacy", in *Middle Eastern Studies*, XLII, 3, May 2006, pp. 352-354.

vacuum in too unstable an area and the dependence of the United Kingdom and of Western Europe on the Middle East in general was due to energy reasons. British officials said that should London leave the area without any prior arrangements to ensure oil supply stability, the resulting confusion might jeopardise vital economic interests. Besides, the military presence could provoke dangerous waves of Arab and Muslim nationalism, thus putting in jeopardy British and European oil interests and this was another justification for defence cuts[3].

For a few years the Labour Government cohabited with the need to safeguard military and above all energy interests and the necessity to save at least £200-300 hundred million. Concerning this, larger reductions in the defence budget had to be considered by 1970-1971[4]. In the meantime, by reading US files we can realise how much the Americans relied on the British presence in the Gulf. As regarded oil flow, the CIA itself thought that producing countries would press companies for a greater share of profits, but this should not undermine international energy relations. Washington could not ignore that Britain had a very important stake in the Persian Gulf also in terms of financial relations. As an evidence of this, suffice it to say that British firms produced around one-third of the black gold lifted from the territories at issue. Apart from this, 60 per cent of British oil imports came from the Persian Gulf area. Moreover, the UK exported goods towards the area for about $ 400 million each year, and finally the Persian Gulf States had large financial investments and deposits in the United Kingdom whose importance for the sterling stability was growing more and more. Since the end of World War Two, the British military presence down there had been regarded as the necessary condition to protect a favourable access to oil, but now that opinion was giving way to the point of view that for a long time to come oil producing countries would need Western markets and distribution facilities for their own development. Hence, a military presence in the area was becoming counter-productive[5]. The fact that the Americans had practically no military units in the area did not mean that they were not monitoring it. Washington's concern was due to a recent Soviet-Iranian agreement involving Persian natural

[3] Record of a Meeting at 10 Downing Street of Ministers, Service Chiefs, and Senior Officials, 13 November 1965, CAB 130/213, MISC 17/8, in BDEE, Series A, Vol. 5, Part 1, pp. 34-48.
[4] Minutes of Cabinet Defence and Oversea Policy and Defence Committee Meeting on Need for further Cuts in Defence Expenditure, 9 December 1966, CAB 148/25, OPD48(66)1, in *ibi*, pp. 102-104.
[5] *The Persian Gulf States*, 18 May 1967, NIE 30-1-67, in <www.foia.cia.gov>.

gas, in accordance with which Moscow had committed itself to buy unused Iranian gas and supply a steel mill and other industrial projects in exchange. In January 1967 the two neighbouring States reached another agreement for the Iranian purchase of military goods from the USSR[6].

In the meantime, the Six-Day War had caused a certain concern in London for oil supplies, so much so that the Foreign Secretary, George Brown, said the British main interests laid in re-establishing relations with the Arabs on as friendly a basis as possible[7]. When a number of Arab countries put a stop on oil supplies towards the UK and the USA for a few weeks, Richard Marsh, Minister of Power, said that if a situation like that continued, this would have serious effects on the economy[8]. The Foreign Secretary was obliged to admit there was not such a great freedom of action for the UK in the Middle East, and this was exactly due to the British large oil interests in the area. Additionally, Britain had important export markets towards countries holding large sterling balances. The ideal policy was a reduction of the dependence on Middle East oil, but such a kind of re-examination had to face the great advantage of the cheapness of that energy source[9]. In a few words, Britain's energy and financial stake limited its room for manoeuvre. The Middle Eastern war had showed the inability of Britain's military presence to play any significant role in a critical situation. Concerning this, the Defence Expenditure Studies approved on 3 July accepted that by the mid 1970s London should cease to play a worldwide military role and become essentially a European power[10].

Analyses like these, however, could not ignore the fact that the Persian Gulf was the largest oil production area in the world, with the largest and above all cheapest reserves. Long-term British interests were involved in the area and British oil companies worked everywhere except in Saudi Arabia. In order to safeguard this stake, Lon-

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[6] *Economic Implications of Soviet-Iranian Agreements Involving Oil and Gas*, 1 June, 1967, RR IM 67-29, in <www.foia.cia.gov>.

[7] *Conclusions of a Meeting of the Cabinet Held at 10 Downing Street*, 8 June 1967, in The National Archives (thereafter TNA), London, Kew, CAB 128/42, CC(67), 37th Conclusions.

[8] *Conclusions of a Meeting of the Cabinet*, 13 June 1967, in TNA, CAB 128/42, CC(67), 38th Conclusions.

[9] *Conclusions of a Meeting of the Cabinet*, 11 July 1967, in TNA, CAB 128/42, CC(67), 46th Conclusions.

[10] Saki DOCKRILL, *Britain's Retreat from East of Suez: The Choice between Europe and the World?*, Basingstoke - New York (NY), Palgrave Macmillan, 2002, pp. 196, 198.

don needed stability in the area, but this was no longer guaranteed by military presence, rather than by good trade and political relationships with local regimes. For this purpose, a certain cooperation and a minimum of understanding between Iran and Saudi Arabia was necessary. Hence, it became important to prepare the ground with the Americans and encourage King Faisal and the Shah to arrange such a collaboration[11]. However, relations with the West were getting more and more difficult, for Tehran argued that Whitehall should press the oil Consortium operating in the Persian Gulf to increase offtake there[12]. In a few words, the most important allies of the West in the area were showing nervousness towards the powerlessness to control their own raw materials. Finally, the stroke that broke the camel's back was the fall of the sterling exchange rate in November 1967. According to Prime Minister Wilson and Chancellor Callaghan, the cause of the crisis was the foreign trade consequences of the closure of the Suez Canal following the Arab-Israeli war and the consequent strikes in the UK. Downing Street accepted an IMF loan, but this implied two conditions: a devaluation of the national currency to stimulate markets and a strong cut in public spending to limit inflation[13]. Moreover, the interruption of oil supplies through the Suez Canal was compounded by the outbreak of civil war in Nigeria, another important energy source area for Britain[14].

The Decision to Withdraw and the Revolution in Libya

On 4 January 1968 a historic Cabinet meeting took place, whose aim was the discussion on a 1,000 million pounds budget through tax increase and spending reduction. Three main reasons were highlighted. First of all, 1967 was the fifth year in a row that external payments had been negative. Second, it was clearly impossible to achieve such a target by means of taxation only. Finally, confidence in sterling abroad was likely to become of the utmost importance[15]. The decision to withdraw did not make President Johnson happy. Ac-

[11] Report by the Defence Review Working Party, 28 September 1967, FCO 49/10, in BDEE, Series A, Vol. 5, Part 1, pp. 403-419.
[12] Report by Mr Roberts to Mr Brown on His Visit to the Persian Gulf and Iran, 17 November 1967, FCO 8/30, in *ibi*, pp. 118-120.
[13] Faisal. bin S. Iran AL-SAUD, *Saudi Arabia and the Gulf: Power Politics in Transition 1968-1971*, London - New York (NY), I. B. Tauris, 2003, p. 20.
[14] Saki DOCKRILL, "*Britain's Retreat from East of Suez*", p. 199.
[15] Cabinet Conclusions [Extract], 4 January 1968, CAB 128/43, CC 1(68)3, in BDEE, Series A, Vol. 5, Part 1, pp. 120-127.

cording to him, American capability and political will themselves would be gravely weakened[16]. The point for Britain was that it was no longer possible to afford large political and military commitments without credible economic strength[17], but the British Embassy in Washington stated that the private as well as the public response to the British decision was one of sadness rather than of indignation. That said, in order to keep an important role in the international political arena Whitehall was first of all obliged to restore economic health and do anything possible to become the leading European military power[18].

Concerning the overall oil situation, during the 1960s a few major changes had occurred. First of all, there was production from new areas, such as North and West Africa and the smaller Persian Gulf States. Then, much of the oil drilled in these new areas was in the hands of new companies. In addition, host governments were gaining influence on the policies and operations of their concessionaires. Finally, governments had managed to raise revenues by requiring the payments of royalties separate from taxes[19]. In light of all this, British interests in the Gulf were: a) to guarantee oil flows on reasonable terms; b) to let British companies benefit from their large investments; c) to avoid any change in the sterling balances held by States in the area; d) to prevent any foreign hostile power from establishing enough influence in the region to threaten British interests; e) not to damage relations with Iran and Saudi Arabia and keep their alignment with the West; f) to retain use of some staging facilities[20]. In a context like this, CIA experts were worried for the Shah to insist to augment Iran's production, thus directly challenging Western companies, which instead preferred to expand crude oil exports at cheaper prices from other countries[21]. Hence, though overall speaking the USA believed the Arabs needed Western markets too much to

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[16] President Johnson to Mr Wilson, 11 January 1968, PREM 13/1999, in *ibi*, pp. 127-128.

[17] FO Telegram No 554 to Washington, 15 January 1968, PREM 13/1999, in *ibi*, pp. 138-140.

[18] United States Reactions to Our Withdrawal East of Suez, 4 March 1968, FCO 24/102, in *ibi*, pp. 146-150.

[19] Edith PENROSE, "OPEC's Importance in the World Oil Industry", *International Affairs*, LV, 1, January 1979, pp. 18-19.

[20] Withdrawal from the Persian Gulf, 29 April 1968, FCO 49/53, in BDEE, Series A, Vol. 5, Part I, pp. 423-427.

[21] Iran, 10 January 1969, NIE 34-69, in Edward C. KEEFER (gen. ed.) - Monica BELMONTE (ed.), *Foreign Relations of the United States* (thereafter FRUS) *1969-1976*, Vol. E-4, *Documents on Iran and Iraq, 1969-1972*, in <www.state.gov>.

interrupt oil flow for political reasons, it was necessary to avoid the risk for such a raw material to fall under Soviet influence[22]. Since it was not possible to assign US forces to the Persian Gulf and the Indian Ocean in the middle of the Vietnam War, to provide some balance within the region the Americans identified Saudi Arabia as a second and coequal regional power, in a policy known as "Twin Pillars Policy". Almost as an official confirmation, in November 1968 the Shah and King Faisal issued a joint communiqué about Saudi-Iranian friendship and cooperation[23]. Of course, such a decision had to rely on well equipped and sufficiently strong armed forces and Washington committed itself to the economic and military development of its own allies. The Iranian sovereign necessitated a large amount of capital and in order to accumulate it there were two possible ways: "squeezing" oil companies dry and put pressure on the American Administration. Thus, Kissinger advised Nixon that it was necessary to satisfy the monarch in order for the transition process after the British withdrawal to go along a path chosen by Washington[24].

A real watershed was represented by the coup in Libya, on 1 September 1969. British interests in Libya were considerable, and exports of oil from there almost equalised the annual production from Iran. BP and Shell had investments there totalling about £100 million and in 1968 the UK took 26 per cent of its total imports of crude oil from that country. In a few words, Libyan crude was important owing to its low percentage of sulphur and the fact that it was located West of Suez[25]. The fact that Europe was relying on the sources of a single country forced the Atlantic superpower to pursue the task to make Libya remain within the Western orbit[26]. Almost all drillings in the Northern African State were operated by American companies, thus it was appropriate to establish at least acceptable relations with

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[22] *Basic US Interests in the Middle East*, 30 January 1969, NSCIG/NEA 69-1B (Revised), in National Archives and Records Administration (thereafter NARA), College Park, MD, Nixon Presidential Materials (thereafter NPM), National Security Council (thereafter NSC) Files, NSC Institutional Files (H-Files), Box H-020, NCS Meetings, SOIP, 2/4/69.

[23] Michael A. Palmer, "Guardians of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992", in *The Free Press*, New York (NY), 1992, pp. 87-88.

[24] Tore T. PETERSEN, *Richard Nixon, Great Britain and the Anglo-American Alignment in the Persian Gulf and Arabian Peninsula: Making Allies out of Clients*, Eastbourne - Portland (OR), Sussex Academic Press, 2009, pp. 80-81.

[25] *Minute by Sir B. Trend*, 3 September 1969, PREM 13/2758, in BDEE, Series A, Vol. 5, Part I, pp. 439-440.

[26] Jack ANDERSON, *Fiasco: The Real Story behind the Disastrous Worldwide Energy Crisis – Richard Nixon's "Oilgate"*, New York (NY), Times Books, 1983, p. 201.

the revolutionary regime, but at the same time it was also essential to protect European dependence from Libyan crude, whose chemical and geographical features made it literally irreplaceable, for it was particularly fit for expensive products of refining, such as petrol and naphtha [27]. In short, the massive profits coming from the oil industry, together with the nationalistic wave which had turned a good part of North Africa into a single socialist oriented bloc, made that of Qaddafi a kind of regime potentially dangerous for the West, but at the moment American analyses did not imply any outlook for nationalisation of the oil industry[28].

The Anglo-American Oil Talks of 1970

Britain had been historically involved with a certain number of Arab regimes. All this was changing, as by 1971 the UK was supposed to be free of any treaty obligation. Besides, Iran was not a Soviet puppet and its oil policy was mainly led by national considerations. Concerning oil affairs, Britain had major interests in several Arab producing countries, which were thus able to blackmail London. Arab-Iranian relations had to be improved, but more important was the stability of the Persian regime. Therefore, the UK had to be ready to back the Shah even if his foreign policy was not always totally acceptable. In spite of this, Iran could offer some protection against Arab turbulence and a better field for financial investments[29].

At the beginning of 1970 overall oil talks took place in London between the two Atlantic allies. The Anglo-Saxon powers agreed that the most important issue was security of supply, for in the future the US market would meet 10 per cent of its demand from the Eastern hemisphere, while the UK would not be able to count on the Western hemisphere in any emergency. In addition, as the Soviet Union was by then reaching agreements with oil producers, it had become pivotal to check whether this growing interest would lead to greater stability or subversion[30]. The point of weakness for the United King-

[27] *Paper on Possible Alternative Pressures on the Present Libyan Regime*, 20 November 1969, in NARA, NPM, NSC Files, NSC Institutional Files (H-Files), Box H-71, WSAG Meeting.
[28] Short-Term Prospects for Libya, 30 December 1969, in FRUS 1969-1976; Edward C. KEEFER (gen. ed.) - Monica BELMONTE (ed.), Vol. E-5, Part 2, *Documents on North Africa, 1969-1972*, in <www.state.gov>.
[29] Five Principles for British Middle East Policy, 16 December 1969, FCO 49/260, in BDEE, Series A, Vol. 5, Part II, pp. 110-116.
[30] *Anglo-American Oil Talks*, 16 January 1970, in TNA, FCO 67/444, C399891.

dom was spare capacity and the fact that exporting countries knew that the deterrent against unilateral action would not be great. As regarded American production, which was going to peak soon, there were difficulties concerning Alaskan output, in terms of high costs and feasibility of transporting crude oil from the North Slope for disposal elsewhere. The best course of action seemed to be an investment in safe reserve capacity in the North American territory[31]. Particularly important was the task assigned to Philip Tresize, Deputy Assistant Secretary for Economic Affairs in the State Department, who was at Downing Street on 26 May. The conversation rotated around alternative energy sources such as natural gas and security of supplies. In case of crisis, Mr. Tresize said the Western hemisphere could not be of much immediate help. In a serious situation the USA would release some of its Venezuelan imports for Western Europe, but much depended on Alaskan output[32]. By virtue of this, the Americans had begun to wonder about Libya's real intentions. Certainly, the military junta had no friendly attitude towards the majors and was trying to reduce Libya's dependence on them[33]. Radical measures such as nationalisation were still excluded, but some oil companies were more vulnerable than others[34]. All this inevitably led to a greater Soviet role in the Middle East. According to CIA analyses, Moscow could also try to displace Western companies operating in the area, but there were practical considerations to evaluate, too. First of all, the producing countries' nationalistic attitude prevented the Kremlin from comparing that area with Eastern European satellites. Moreover, the relatively small number of tankers and drilling specialists the communist camp could offer was an important brake to Soviet expansion. The Americans expected Russian oil purchases from that part of the world to grow in the following years, but this was always due to remain of marginal importance for total Soviet requirements. Something else the CIA excluded was a Soviet attempt

[31] *Emergency Production Capacity in the Western Hemisphere*, 6 May 1970, in TNA, FCO 67/444, C399891.

[32] *Record of a Meeting on 26 May, 1970*, 4 June 1970, in TNA, FCO 67/444, C399891.

[33] The government was perfectly able to deal separately with companies. Occidental was the perfect company for Qaddafi's policies, for all of its interests were located in Libya. Daniel YERGIN, *The Prize: The Epic Quest for Oil, Money and Power*, London, Simon & Schuster, 1991, p. 578.

[34] *Libya – Will the Government Move against the Oil Companies?*, 27 May 1970, in NARA, Record Group (thereafter RG) 59, Central Files 1970-73, PET 6 LIBYA.

to deny the West Middle Eastern sources, for this risked to be considered as an act of economic warfare[35].

While the Americans were focusing their attention on Soviet activities and expectations, on 2 September in Tripoli a pivotal agreement was signed. Until then, industrial democracies, oil companies and producers themselves had been made blind by a real kaleidoscope of illusions with regard to: a) an American energy surplus able to decrease prices; b) the producers' apparent will to augment output; c) the estimation for any single producer to be always ready to put prices down in order to make profit at expense of other exporters[36]. The agreement established an increase from 2.23 to 2.53 dollars a barrel for the posted price of the Libyan oil crude at 40 API degrees, beside a further two-cent-growth for the following five years. Finally, the income tax was increased from 50 to 58 per cent[37]. From a global outlook, it was not profitable to ignore that the new situation implied an easier access for the Soviets to Middle Eastern markets. Moscow had two important reasons to enhance trade with the area: a political one, to corroborate its own position and influence, and a more properly economic one, necessary to reduce costs of production, improve efficiency of resource localization and increase the welfare of consumers[38]. Middle Eastern crude, however, was not such an important factor for the USSR to sacrifice long term interests. According to the CIA, the Soviets had only the intention to exploit for propaganda purposes possible policies of nationalisation[39]. On the other hand, the Americans were still persuaded that producers were led only by economic principles. Consequently, it was unlikely for oil to be used as a political weapon and US analysts rejected the hypothesis that Moscow could ever do anything to obstruct the oil flow towards the West and Japan[40].

In light of all this, London and Washington arranged another first class overall meeting in December 1970. In November, in Tehran the

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[35] *Soviet Influence in the Middle East and Its Impact on Middle East Oil*, 21 August 1970, in <www.foia.cia.gov>.

[36] Henry A. KISSINGER, *Years of Upheaval*, Boston (MA) - Toronto, Little - Brown and Company, 1982, p. 858.

[37] Ian SEYMOUR, *OPEC: Instrument of Change*, New York (NY) St. Martin's Press, 1981, p. 70.

[38] *The USSR as a Market for Third World Exports*, October 1970, in <www.foia.cia.gov>.

[39] *The Growth of the Soviet Commitment in the Middle East*, January 1971, in <www.foia.cia.gov>.

[40] *Security of Oil Supply to NATO and Japan*, 14 November 1970, NIE 20/30-70, in <www.foia.cia.gov>.

posted price had been increased by nine cents a barrel and the tax ratio shifted from 45 to 55 per cent. Another reason why Iran was so important was petrodollars recycling. The Nixon Administration pursued a policy of arms transfer led by a series of principles and goals, such as pre-empting or providing alternatives to Soviet arms supplies, gaining access to recipient States, improving the military capacity of recipients, obtaining favourable trade conditions, ensuring access to petroleum and critical resources[41]. Western powers had to take note that times had changed and that sometimes oil producers opted for power instead of economic benefits. Within this frame, it was not to forget that a few years earlier vast fields of oil and gas had been discovered in the North Sea and this was a way to decrease energy foreign dependence. Although at the moment the exploitation of those sources had not started yet, geological information for the future was encouraging. What worried the Americans, however, was the inevitability to become a major oil importer in the long term[42]. Once in office, the Tory government could do nothing but realise that the clock of time could not be brought back. It was difficult by then to see how Britain could re-arrange its role towards new realities without increasing costs and risks[43].

The Tehran Agreements and their Repercussions

In January 1971, American policymakers did not exclude that producers could adopt radical measures, but seemed convinced that the dispute would remain within an economic frame. Moreover, as there were certain interests in common among producers, consumers and companies, Washington's experts were persuaded that even a substantial increase of prices would be accepted in exchange of stability of supplies and costs. The optimism was based on the estimation that such an extreme measure like oil flow interruption implied an economic strength that at the moment only Libya and Kuwait enjoyed. In a few words, the Administration had to avoid oil interruptions or limitations towards non communist countries by mediating among disputes. All this had to be compatible with the balance of

[41] Lewis SORLEY, *Arms Transfers under Nixon: A Policy Analysis*, Lexington (KY), The University Press of Kentucky, 1983, p. 34.
[42] *Record of a Meeting*, 3 December 1970, in TNA, FCO 67/445, C399891.
[43] Christopher HILL - Christopher LORD, "The Foreign Policy of the Heath Government", in Stuart BALL - Anthony SELDON (eds), *The Heath Government 1970-74: A Reappraisal*, London - New York (NY), Longman, 1996, pp. 290.

payments and for this purpose it was necessary to limit Soviet influence in the Middle East and keep stable and friendly relations with producing countries. Finally, oil questions had to be discussed from a strictly economic point of view. However, on a long term outlook producers were expected to seek political advantages as well. As a consequence of this, consuming governments were obliged to work at the development of an alternative energy industry[44].

On 14 February, a five-year-agreement was reached in Tehran between Persian Gulf producers and oil companies. For the first time the producers managed to impose an increase of the posted price and thus of the taxes owed by the companies. The producers enjoyed an immediate increase of oil revenues, whose taxation was brought to 55 per cent. In exchange of that, producing countries committed themselves not to claim any other increase for the following five years[45]. Moreover, the energy agreements benefited the balance of payments of the whole West and Japan, for everything they had paid was supposed to come back, thanks to exports and financial investments. In fact, soon after the agreements the Shah proposed a spending programme for the financial year 1971-72, able not only to consume all oil revenues, but also to make more deficit necessary[46]. In virtue of all this, the important thing was that such a measure was no longer limited to economic reasons, for it was also interpreted as a demonstration to oil producers that they were in danger of killing or weakening the "goose that laid the golden eggs"[47]. Even more important was the necessity to avoid damage to negotiations for entry into the European Community. Now that the Tehran agreements had implied higher costs there was the danger of worsening relations between European governments and companies. Therefore, London had to avoid political clashes within the European Community on energy issues[48]. While the British were discussing the

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[44] *Memorandum for Mr. Henry A. Kissinger: World Oil Situation*, January 25, 1971, in NARA, Nixon Presidential Materials Project (thereafter NPMP), NSC Institutional Files, Box H-180, Folder NSSM 114.

[45] *OPEC Oil: Persian Gulf Anchored, Mediterranean Next*, 18 February 1971, RECN-3, in NARA, RG 59, Central Files 1970-73, PET 3 OPEC.

[46] Some Revenue Implications of the 14 February Oil Settlement with the Persian Gulf States, March 1971, ER IM 71-43, in Edward C. KEEFER (ed.), FRUS 1969-1976, Vol. XXIV, *Middle East Region and Arabian Peninsula, 1969-1972; Jordan, September 1970*, Washington (D.C.), United States Government Printing Office, 2006, pp. 298-304.

[47] *Letter to Prime Minister: Energy Policy*, 25 February 1971, in TNA, PREM 15/1144, C395830.

[48] *Oil Policy after Tehran*: 9 March 1971, in TNA, POWE 63/709, C399891.

proper energy policy to follow, on 20 March another agreement was reached in Tripoli, whose signature was put on 2 April, through which companies accepted a barrel price increase from $2.55 to $3.32, beside a tax increase from 50 to 55 per cent[49]. According to the Saudi Oil Minister, Zaki Yamani, in order to avoid nationalisation and strengthen the relations between companies and producers, a compromise was necessary, that is a State participation in all activities linked to oil industry. Such a proposal, he said, was the only credible solution to moderate the radical regimes' claims, for the producers' interests would be linked to those of the companies[50].

The relations between producers and consumers had radically changed, for the former could by then maintain a common front and be able to increase prices and the level of taxation, while the latter had practically no countervailing powers. However, British experts still relied on the assumption that major producers had no real alternative market to Western Europe and Japan[51]. In any case, a review of Britain's international oil relations was unavoidable, especially when reports from Jidda confirmed that the worst aspect of the new era was that the Arabs had realised that extremism paid[52]. At the moment the real example for OPEC members was Algeria, whose government had already partially nationalised French oil companies. In virtue of this, the only brake to a sensitive increase of prices was the consideration that the West could soon turn to alternative energy sources or markets[53]. According to the Americans, the Algerian unilateral action was only due to the will to make more profits, while the relations with Washington could be cemented by gas agreements. Therefore, it was difficult for Algeria to impose a long term embargo against the United States[54]. Nevertheless, although regarding itself as a leader in organising defence against threats to Western supplies, the USA expected the Europeans to play their part, too[55]. In a context like this, it is strange to notice the Americans' indifference to-

[49] Massimiliano CRICCO, *Il petrolio dei Senussi: Stati Uniti e Gran Bretagna in Libia dall'indipendenza a Gheddafi (1949-1973)*, Firenze, Edizioni Polistampa, 2002, p. 215.
[50] *Memorandum of Conversation*, 31 March, 1971, in NARA, RG 59, SNF 1970-73, PET 15-2 LIBYA.
[51] *A Reply to the Questions in the Note Attached to Mr. R.H.W. Bullock's Letter of 6th April, 1971*, 26 April 1971, in TNA, POWE 63/709, C399891.
[52] *Oil Review*, 11 May 1971, in TNA, POWE 63/709, C399891.
[53] *Oil Review*, 13 May 1971, in TNA, POWE 63/709, C399891.
[54] Algeria's International Relations, 31 July, 1971, NIE 62.-71, in FRUS 1969-1976, Vol. E-5, Part 2, in <www.state.gov>.
[55] *Oil Review*, 18 May 1971, in TNA, POWE 63/709, C399891.

wards the producers' ongoing warnings on nationalisation. It seems that Washington's experts considered as extremely unlikely for Middle Eastern governments to opt for unilateral legislation. Instead, the Department of State declared that the afore mentioned compromise forecast a relatively stable period in trading relations[56].

Concerning inter-European relations, Britain's oil interests differed quite a lot from those of the European Community. This was mainly due to the fact that the UK was also a parent country of a few international majors. Moreover, Britain had always supported the fullest freedom of action for the majors, while the six EC members tended to control oil companies. Therefore, in case of an enlarged community it was important for Britain to seek more individual responsibility on energy issues, and concerning this London was not so disappointed that France, the main advocate of dirigiste policies, had lost part of its power after the Algerian events. The most worrying thing regarding European oil relations was that the old continent not only had no alternative energy sources, but was also looking forward to continued and probably increasing dependence on the Middle East. Hence Europe, including Britain, could not afford to face Arab hostility in case of oil warfare[57]. It is interesting to observe that British policy makers tacitly accepted that producers would soon be more involved in oil operations, but Britain's position was so different from the rest of Europe that the working group recommended that London work on an energy policy as close as possible to British interests[58].

In view of another round of Anglo-American oil talks in October 1971, Britain did not have to exclude bilateral links with OPEC and Downing Street continued to attach great importance to Iran for political, strategic, and commercial reasons, beside as a relatively safe source of raw material[59]. But another reason of concern was the depreciation of the dollar, for international monetary developments undermined the purchasing power of OPEC members, thus making another price increase rather likely. To confirm this, on 22 September OPEC had passed a resolution establishing that member countries set up negotiations with oil companies in order to adopt ways to offset

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[56] *Status Report on* [omitted] *Libya*, 17 May, 1971, in FRUS 1969-1976, Vol. E-5, Part 2, in <www.state.gov>.
[57] *First Thoughts on Energy Policy in an Enlarged European Community,* June 1971, in TNA, POWE 63/709, C399891.
[58] *Report of the Interdepartmental Working Group on International Oil Questions*, undated, in TNA, PREM15/1144, C395830.
[59] *Outline Brief for the Anglo-US Talks 28 and 29 October 1971. Item 1 (c) (i): Developments in Iran*, October 1971, in TNA, FCO 67/570, C395833.

any adverse effect on real oil income. In practice, consumer countries were expected to pay more for their imports[60]. Apart from that, it was well known by then that future exploitation of oil would take either the form of: a) partnership between national and foreign companies, as a partial nationalisation, or as a joint venture; b) service contracts, under which companies would work on behalf of producer governments; c) production solely by national oil companies, with crude oil marketed through supply contracts with foreign companies and/or by means of downstream facilities. Whitehall believed that a growing degree of participation had become inevitable, but wanted to see the adjustment made as smoothly as possible[61]. Regarding this, the Nixon Administration agreed that participation was unavoidable, but added that OPEC countries had for the time being abandoned their interest in downstream involvement, thus leaving companies free to keep some kind of production role[62].

The Challenge of Participation

While US oil companies had large interests in a relatively friendly country with quite a stable regime like Saudi Arabia, the British were still involved in the oil industry of a potential enemy country like Iraq, with rather strong commercial links with the Soviet Union. Moreover, the British withdrawal from the Gulf, Iraq's increasing dependence on oil exports, and the Shah's emergence as the policeman of the region, turned the Baath regime's attention towards the Persian Gulf area[63]. The British withdrawal had by then triggered regional rivalries. After accepting independence of Bahrain, the Shah did not want to relinquish the control of Abu Musa and the Tunbs Islands, pivotal for the security of oil trade through the Strait of Hormuz. From a formal point of view the United Kingdom, as a responsible of the security of the smaller States of the area, was supposed to intervene, but Lon-

[60] *Anglo-US Talks: Item 1 (b) – The Oil Agreements and Dollar Depreciation*, October 1971, in TNA, FCO 67/570, C395833.
[61] *Anglo-US Talks: Item 1 (a) – Participation and the Future of the Concessionary System*, October 1971, in TNA, FCO 67/570, C395833.
[62] *Record of a Meeting on 28 and 29 October 1971*, in TNA, FCO 67/570, C395833.
[63] Phebe MARR, "Iraq: Balancing Foreign and Domestic Realities", in Carl L. BROWN, (ed.), *Diplomacy in the Middle East: The International Relations of Regional and Outside Powers*, London - New York (NY), I. B. Tauris, 2006, p. 194.

don could do nothing but accept the *fait accompli*[64]. Using the Iranian occupation of the islands as a pretext, on 7 December Qaddafi nationalised all properties and interests of British Petroleum Exploration Company, though at the moment reports from Tripoli said there was no reason to think that the Libyans had any intention to nationalise other companies[65]. After all, the Department of State believed that the North African States' nationalist policies were even useful to safeguard US strategic interests in the area from Soviet attempts to build up a military presence or expand political influence[66].

At this point, there were no more obstacles to a price increase race. Producers were no longer satisfied with mere profit increase. Rather, they pursued ownership of raw material industries, if necessary through unilateral legislation. Moreover, once gained a participation share, they were also acquiring a common interest to augment prices and consequently profits. This ended up with overturning the previous system, based on a large volume of low cost sales producing taxation for the government. On the contrary, participation made taxes on outcome secondary compared with prices, and this paved the way to oil flow restrictions in order to keep costs high[67]. Negotiations on participation began in March 1972, but first the Saudis affirmed that any agreement would only be a preliminary compromise aiming at a 51 per cent ownership[68]. In the meantime, on 1 June Baghdad had nationalised Iraq Petroleum Company, but CIA reports outlined that the most urgent problem did not deal with production levels, but with the ability to find new buyers[69]. In any case, in the long term the Iraqi and Libyan examples could persuade other Arab regimes to follow the same line, thus undermining the US balance of payments. Hence, the time had come to circumscribe the threat of

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[64] Glen BALFOUR-PAUL, *The End of Empire in the Middle East: Britain's Relinquishment of Power in Her Last Three Arab Dependencies*, Cambridge, Cambridge University Press, 1991, pp. 132-133.
[65] *Nationalization of British Petroleum in Libya*, 7 December 1971, in NARA, RG 59, SNF 1970-73, PET 15-2 LIBYA.
[66] *PARA Review – North Africa*, 9 December 1971, in NARA, RG 59, Central Files 1970-73, POL 1 AFR-US.
[67] Richard C. THORNTON, *The Nixon Kissinger Years: The Reshaping of American Foreign Policy*, New York (NY), Paragon House, 1989, p. 144.
[68] Morris A. ADELMAN, "Is the Oil Shortage Real? Oil Companies as OPEC Tax-Collectors", in *Foreign Policy*, IX, Winter 1972-1973, p. 88.
[69] Some Implications of Iraq's Oil Nationalization, June 1972, ER-IM 72-92, in FRUS 1969-1976, Vol. E-4, in <www.state.gov>.

nationalisation[70]. In a context like this, US interests went beyond mere energy issues. In fact, the Gulf States were living a spectacular economic growth, which at the same time guaranteed very good markets for American goods and services[71]. From the producers' point of view, instead, participations were useful to launch marketing operations, which turned them into first class actors of international markets. Otherwise, said Yamani, it would no longer be profitable to increase exports and collect cash surplus, thus devaluing the national currency. Yamani themselves added that an agreement like that would further safeguard stability of supplies, for consuming nations would thus acquire a certain amount of crude oil in stock, useful in case of oil shortage[72]. In light of all this, on 5 October an overall agreement was reached, according to which producers gained a 25 per cent participation quota valid until 1977. This percentage was to be augmented by 5 per cent annually, in order to *de facto* nationalise the oil industry of the Middle East within 1982[73].

By negotiating agreements, the companies had avoided dangerous confrontations and preferred to pay higher prices rather than face an interruption in supplies. However, all negotiations and compromises had not avoided any leapfrogging effect[74]. Higher costs of production and taxation could be spread among consumers, thus keeping the companies' profits safe. As concerned the United States, the intense trade network set up with the Middle East was supposed to compensate higher energy costs. However, nobody could ignore that the United States was growing its dependence on Arab oil, thus turning the Middle East into an area of vital interest[75].

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[70] *Memorandum to Mr. Sisco: Essential Elements of IPC Nationalization Action*, 13 June 1972, in NARA, RG 59, NEA/ARN, Lot File 75D44, Box 13, IRAQ PET 6, Petroleum Companies, 1972.

[71] United States Policy toward the Persian Gulf Region, *The Department of State Bulletin*, LXVII, 1732, 4 September 1972, pp. 242-244.

[72] *Memorandum of Conversation*, 29 September 1972, in NARA, RG 59, Central Files 1970-73, PET SAUD.

[73] Vo Xuan HÂN, *Oil, the Persian Gulf States, and the United States*, Westport (CT) - London, Praeger, 1994, pp. 100-101.

[74] *The Tehran Oil Agreement*, 13 November 1972, RR 6/6, D.S. No. 45/72, in TNA, POWE 63/709, C399891.

[75] US Foreign Policy, 15 November 1972, Diplomatic Report No. 480/72, AMU 2/3, in Keith HAMILTON - Patrick SALMON (eds), *Documents on British Policy Overseas* (thereafter DBPO), Series III, Vol. IV, *The Year of Europe: America, Europe and the Energy Crisis 1972-1974*, London - New York, Routledge, 2006.

Conclusions

The outcome of the participation agreement was that oil companies no longer had any leverage whatsoever with producers and the cost of this was passing to consumers. However, the Americans seemed worried about this, as the cost was going beyond what was tolerable. Regarding this, the second Nixon Administration was no longer optimistic about oil issues. The United States on its own could not face the threat to the economy of the West and it was of paramount importance for consumer governments to act in complete unison. What was at stake was so vital by then that in certain circumstances the use of force was not to be dismissed[76]. What was not arguable was the need for some form of organisation to protect Western countries from the risk and effects of blackmail by producers. Among the several hypotheses, the maximum political leverage, according to British consultants, was the threat to withdraw diplomatic and military support from producing countries and thus leave them to the mercy of the Russians. Besides, it was even possible to buy from the Eastern Europeans rather than from Middle Eastern countries[77]. By pressing for participation, Yamani had achieved the moderate aim to divert Gulf producers from immediately bridging the gap opened up with Mediterranean prices. At the same time, by promising Arab States a certain stake in their production assets, he in a way had managed to neutralise the rivalry with Iran whose production made it a regional power. Unlike the Iranian situation, the participation formula was not an empty basket, for countries entering the agreement were supposed to gain a share of the still substantial profits companies were making from upstream operations. Moreover, producers were destined to have crude supplies to develop their own marketing networks[78].

In light of all this, the British Prime Minister met President Nixon in Washington D.C. on 1 February 1973. In that circumstance, the discussion was oriented towards energy independence, for in those times the UK oil industry was working at the North Sea oil and gas fields. This was exactly what Richard Nixon asked Edward Heath, for the President was interested in a substantial domestic contribution to

[76] *D. Greenhill to A. Acland: Oil Supplies*, 18 January 1973, in DBPO, Series III, Vol. IV, SMG 2/1.
[77] *Minutes of a Meeting: Oil Policy*, NB 12/1, 24 January 1973, in DBPO, Series III, Vol. IV.
[78] Charles MORE, *Black Gold: Britain and Oil in the Twentieth Century*, London - New York (NY), Continuum, 2009, p. 144.

Britain's energy requirements. The point, however, was that before the mid 1980s the European power would be in a weaker and weaker position in relation to great oil producers, and that was why London had revaluated coal as a source of energy and was also investing in the nuclear energy programme as fast as possible[79]. As concerned US policies, Nixon said that he had put up a small group of consultants to review energy programmes. In particular, the Administration was considering other possible sources of energy, such as shales, coal, the Alaskan pipeline and above all new and more modern nuclear reactors. In order to implement such a bold programme, however, the Americans wanted to keep in close touch with the United Kingdom Government. Apart from this, we can realise how Washington was getting tired of the increasing dependence on Middle East oil by reading Dr. Kissinger's proposal to collaborate with the Soviets to develop a few oilfields[80]. In front of an outlook like this, the British response was rather contradictory, for on one hand the economic objective was not to share domestic resources with European partners in order to compensate possible overseas supply interruption, while on the other hand government experts knew that in that way London would be accused to breach the Treaty of Rome on a vital issue. However it was, from then on the consumer countries' governments were supposed to play a more active role in the negotiations with producers[81].

This international economic and energy revolution was also due to the Nixon Administrations' policies, whose collateral effects produced a rivalry between the major Gulf oil producers. Each time an agreement was reached with one government, the companies had to start new negotiations with another country. Even a reliable ally like Saudi Arabia pursued an aggressive policy towards ARAMCO in view of the nationalisation of the oil industry, but handled the matter with considerable skill. The target was always the complete ownership of domestic raw materials and of the relative exploitation industry, but the Saudi Kingdom's handling of the subject was pursued in a soft way, which enhanced the international image of that country[82]. At

[79] *Record of a Discussion on 1 February 1973*, 5 February 1973, AMU 3/548/8, in DBPO, Series III, Vol. IV.
[80] *Record of a Discussion on 2 February 1973*, 5 February 1973, in TNA, PREM 15/1846, SMG 25/304/1.
[81] *Memorandum by the Secretary of State for Trade and Industry: Oil Policy*, 8 February 1973, in TNA, Cab 134/3606, ES(73)7.
[82] Hermann F. EILTS, "Saudi Arabia's Foreign Policy", in Carl L. BROWN (ed.), *Diplomacy in the Middle East*, pp. 234-235.

the same time, the fact that the Americans had opted to place a local policeman to monitor regional conduct, thus arming the Shah with any kind of weapon short of atom bombs, showed the erosion in American eyes of the military value of Saudi Arabia. Ironically, the strengthening of the Iranian army required an expansion of the American presence in terms of military advisors and technicians, with heavy consequences for the stability of the throne[83]. Despite White House efforts to keep the strategic sphere separated from the economic one, it seemed that American policymakers did not realise that the increasing militancy of oil exporters and the growing demand for their oil sooner or later would oblige consuming governments to intervene in efforts to assure security of supplies without excessive price rises[84]. On the question of prices, even the special adviser to the President, Peter Peterson, said that there would likely be a rapid increase of oil prices, due to the steady blackmail the companies were subjected from Middle Eastern countries, adding that current US domestic energy policies were anachronistic, for the poor prices paid for domestic products discouraged investment and expansion[85].

In this context, the Nixon Administration attached great importance to the excellent relations with the Shah, whose need for oil revenue prevented him from placing Iranian achievements at risk for the sake of Arab policies towards Israel[86]. From this point of view, Foreign Office experts feared that even if oil continued to flow freely, the financial repercussions of the enormous wealth that producers were accumulating could be disturbing, for this vast wealth could make them able to restrict or interrupt production without harming their economies[87]. After all, Britain remained an Atlantic power and showed no enthusiasm for Community pooling of energy sources. Contacts with the Americans took place regularly, even if there were different needs and the two allies did not manage to find a real common policy. In the long term, they agreed it was necessary to develop new sources of energy, but as concerned consumer-

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[83] Joseph A. KÉCHICHIAN, *Faysal: Saudi Arabia's King for All Seasons*, Gainesville (FL), University Press of Florida, 2008, p. 156.

[84] *Memorandum by the Secretary of State for Trade and Industry: Oil Policy – Consumer Government Co-Operation*, 21 February 1973, in TNA, CAB 134/3607, ES(73)8.

[85] *Record of Conversation*, 22 February 1973, MWE 3/304/1, in DBPO, Series III, Vol. IV.

[86] *Washington Despatch 2/15/1: US Policy in the Middle East*, 17 April 1973, NFW 3/304/1, in DBPO, Series III, Vol. IV.

[87] *D. Greenhill to A. Acland: Energy Policy*, 26 April 1973, SMG 12/598/4, in DBPO, Series III, Vol. IV.

producer relations the Americans did not support any cartel of consumers. Instead, the British regarded consumer cooperation, not organisation of the market, as an important priority to tackle[88]. Of course, stability of supplies at reasonable prices was an important goal for the Americans as well, but still on the eve of the October oil embargo energy committees were debating on the best way to deal with producing countries. Considering that most major oil companies were American, a combination of multilateral and bilateral approach seemed the wisest choice, for cooperation with OECD countries was important to observe, but at the same time Washington wanted to keep relations with key producers, especially the Saudis, on a bilateral basis[89]. Finally, America's commercial interests in the Gulf were not enough to justify an active and prominent role in the region. Not until the Iranian revolution of 1979, followed by the Soviet invasion of Afghanistan, did the United States get seriously involved in that part of the world. Like Tore Petersen says, through the Carter Doctrine, stating that any attempt by an outside force to gain control of the area would be regarded as a direct assault to the interests of the United States to repel by any necessary means including military force, Washington reluctantly began to assume the burden of directly safeguarding Western interests in the Persian Gulf region, thus taking note of the failure of the Twin Pillars Policy and replacing Great Britain's historical role[90].

[88] *Record of a Meeting Held at the Foreign and Commonwealth Office*, 11 June 1973, NB 2/2, in DBPO, Series III, Vol. IV.
[89] *Meeting on Energy – Dr. Kissinger's Talking Points*, 8 September 1973, GDS, in <http://galenet.galegroup.com>.
[90] Tore T. PETERSEN, *Challenging Retrenchment: The United States, Great Britain and the Middle East, 1950-1980*, Trondheim, Tapir Academic Press, 2010, p. 39.

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