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978-0-521-24647-7 - The History of the British Petroleum Company: Volume 1: The Developing
Years 1901-1932

R.W. Ferrier

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THE HISTORY OF
THE BRITISH PETROLEUM
COMPANY

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William Knox D'Arcy c.1901

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THE BRITISH PETROLEUM
COMPANY

R. W. FERRIER

VOLUME 1
THE DEVELOPING YEARS 1901-1932



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Acknowledgements are made to the Chairman and Board of the British Petroleum Company for their authorisation to quote and make reference to the archives of the Company and for the use of diagrams and figures from 'Our Industry' (1977); The Keeper, Public Record Office; The Librarian, India Office Library; The Archivist, Department of Archives, French Foreign Ministry for permission to quote from government sources; Appleton-Century-Crofts Inc. for the use of a diagram from Kendall Beaton, *Enterprise in Oil, A History of Shell in the United States*; the Business History Foundation for George Sweet-Gibb and Evelyn Knowlton, *The Resurgent Years, 1911-1927*, Harper and Row (New York, 1971), for financial statistics of oil company total assets; Julian Barrier and the Oxford University Press for tables of annual average exchange rates and parity and value of total Persian visible exports and oil exports from *Economic Development in Iran 1900-1970*, (Oxford, 1971); J.G. McLean and R.W. Haigh and Harvard University Press for a diagram of US average crude oil and gasoline prices 1918-32 from *The Growth of Integrated Oil Companies* (Boston, 1954); Joel Darmstadter and Johns Hopkins Press for energy consumption statistics from *Energy in the World Economy, A Statistical Review of Trends in Output, Trade and Consumption since 1925* (Baltimore, 1971); Editor, *Petroleum Almanac* for crude oil production figures; Editor, Journal of the Royal Statistical Society for data on UK consumption of petroleum products 1900-32; Editor, Colliery Year Book and Coal Trades Directory for coal prices 1918-32; Editor, *Petroleum Times* for tanker tonnage statistics 1921-32; Editor, Oil and Petroleum Yearbook for data on dividends and shares 1913-32; Department of Energy for sources of UK petroleum imports 1918-32 from *Statistical Digest* (London, 1950); Institute of Petroleum for London petrol prices 1918-32; Lloyds Register of Shipping for statistics of world shipping tonnage and the proportion of coal and oil-fired vessels 1914-32, and those of steam turbine and motor driven ships and steam reciprocating vessels, 1931.

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In the twentieth century the role of energy has been important in a previously unprecedented manner. Human intellect and ingenuity have produced and controlled the energies required for, and resulting from, the splitting, fusion and fissuring of the elemental structure of atoms. Improving the mobility of mankind by the utilisation of oil has revolutionised the modes of travel on land, sea and in the sky. Journeys which formerly took days of difficulty are now easily accomplished in minutes. Oil, once a substance of mystical medicinal properties and practical application in brick bonding and ship caulking, has become not only an essential fuel in the provision of energy, but has also through its chemical constituents contributed decisively to broadening the scope of the chemical industry. Synthesising processes applied to oil derivatives have resulted in changes of living styles through the use of plastics.

No less important than the technical and social aspects of the oil age has been the economic and political fallout. The possession of oil, or the lack of it, has had a significant impact upon national economies and international relations. Neglected areas that were arid deserts, have been transformed by the discovery of oil. The natural accumulation of oil, often remote from the centres of consumption, has inevitably lead to transportation movements on a vast global scale of matching products to requirements. Moreover because local sources of finance were frequently inadequate, industrial facilities unprovided and manpower unavailable, the exploitation of such oil resources was undertaken on a concessional basis. Capital demands were high, technology expensive, equipment specialised and skilled engineers and chemists in short supply, so industrial strength has tended to be concentrated in relatively few enterprises possessing the necessary funds, expertise and management. It is perhaps ironical that many of the areas in which oil has been found already felt themselves 'deprived' or 'exploited'. Thus in many cases existing national stresses and strains were exacerbated by the intrusion of foreign interests upon terms that were regarded as intrinsically unfair.

The diversity of oil discoveries, national differences and varying com-

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mercial responses has resulted in distinctive patterns of corporate growth within the oil industry. If business history means more than the examination of a sequence of robots along a conveyor belt, that numbing experience of mass production so movingly portrayed in Chaplin's *Modern Times*, then it is necessary to appreciate the individual characteristics of firms as they have emerged from the interaction of events, the environment in which they have operated and the cross play of personalities which have influenced them. Only in this way is it possible to plot the trends and spot the idiosyncracies which make up the historical pattern. It is, therefore, in this spirit that the history of British Petroleum has been undertaken.

Much of the history of the oil industry has been taken with a wide angle lens. There are, indeed, many vantage points from which to survey the oil scene from the beginning of the century, ranging from technical, concessionary, geographical, social, commercial, labour relations, economic, cultural, strategic and political aspects, amongst the most prominent. There seems, however, space for the study of a particular participant in the oil industry, a close-up view of a single company whose own development may not only be interesting in itself, but may be illuminating in comparison with other companies, so contributing to an understanding of the process, pace and complexities of economic change in the twentieth century within one important industry.

Moreover, whilst recognising the growth and prominence of the Company since its formation and the significant impact upon it of the principal personalities associated with it in senior management or government circles, from foreign representatives to competing businessmen, it must be realised that from the subtle alchemy of thousands of individual relationships, a distinctive corporate identity has evolved. It is easy with hindsight to touch up an historical portrait, but this must be resisted in favour of a series of 'snaps' which more convincingly convey contemporary authenticity. The interaction of the skills, experience and temperaments of engineers and secretaries, chemists and mariners, accountants and labourers, drillers and drivers from different countries employed by the same company becomes an expression of its character. Intellectual curiosity, technical challenge, personal ambition or indifference, good luck or misfortune stimulated some and restrained others. Many were anxious for promotion, others spurned responsibility. The majority of the members of the Company were ordinary people shunning the limelight of the more obviously successful, anonymous but indispensable with a place in the corporate role of honour. Their services must not be ignored in the historical balance sheet nor neglected in favour of the more readily available quantifiable sets of accounts.

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Such, therefore, is the justification for this history of British Petroleum which will comprise three volumes. The present volume generally covers the period, 1901-32, dealing with the initial concessionary situation of the Anglo-Persian Oil Company (the Company as it is consistently called in the text), from its formation in 1909 to work the concession granted by the Persian Government to W.K. D'Arcy in 1901 till the cancellation of that concession in 1932. The second volume will be concerned with the revised concessionary position, 1933-54, of the Anglo-Iranian Oil Company, the same company, having changed its name in accordance with the decrees of the Persian Government in March 1935, and to the British Petroleum Company Limited in the aftermath of the nationalisation of the oil industry by the Persian Government in 1951. The third volume will cover more recent times, 1954-73, after the Company lost its privileged concessionary position in Persia and, as British Petroleum, in an age of changing traditional oil concessionary arrangements became committed to an increasing diversification of interests.

The intention is not so much to illustrate any particular theory of economic growth or political relationships, but to place in historical context the corporate biography of one large oil company. This may perhaps disappoint particular specialists, since it is impossible to be completely comprehensive and yet detailed enough to satisfy all who might be interested. Yet, even if all the aspects that might be expected to be treated in sufficient depth were included to meet with the approval of some readers, it might disappoint others. There are, for example, those principally interested in the changing relations between the industrialised and the developing countries and for whom technical or commercial considerations are so much dross compared to refinements of political and economic affairs. They would expect the fullest possible treatment of the concessionary situation between the Company and the Persian Government.

Others more concerned with the factors stimulating or impeding economic growth as it expresses itself in the development of multinational enterprises are more interested in identifying managerial concepts, administrative practices and market forces. Others again, fascinated by the impact of technology on commercial success or failure may expect a more formal analysis of the Company's technical attainments. In volume 2, however, there will be a more detailed account of the financial affairs of the Company in relation to its revenue and expenditure, both on a functional basis and in respect of its overall trading results. Industrial relations, too, in Persia and elsewhere throughout the duration of the concessionary period to 1951 will be studied in more depth there in a separate chapter. Similarly, because of the economic situation of the period, a more comprehensive treatment of the aspects of the supply and distribution in the international

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markets is also reserved for the second volume in order to relate the trading arrangements between some of the major oil companies envisaged in the Achnacarry Agreement of 1928 to counter surplus production and declining prices, the effects of the Depression Years and the revival of demand in the 1930s.

The aim has been to maintain a balance which reflects the relative importance of the main elements of the Company's development as perceived in contemporary terms by those principally involved. The historian should explain what happened in so far as the evidence permits. In this respect there has been a definite attempt to utilise as much as possible of the Company's documentation which has survived the misfortunes of time, accident or destruction. Insistence on this, however, has not been to the detriment of other original historical material, such as state papers or the press. Secondary sources, where relevant, have been consulted, but greatest emphasis has been placed on the overall importance of contemporary references. Business history has suffered from the failure to preserve internally generated archival sources, without which an incomplete picture of industry appears. It is to little purpose that businessmen complain of misrepresentation when they pay so little attention to preserving the records of their own achievements. Unfortunately the archives of the Company are by no means as complete as their importance would merit. With a due sense of responsibility the Board of BP has decided to make them available for bona fide historical research on the completion of this history.

The decision of the Chairman and Board to authorise the writing of a history of the group was taken without any strings attached. In order to safeguard the independence of the history and guarantee the integrity of the historian, no less than that of the Company, the then Chairman, Sir David Steel, appointed an Editorial Advisory Committee to help him in the choice of the historian and assist in consultation during the compilation of the history. The original Committee consisted of:

Chairman Sir David Steel, Chairman BP

The late Sir Maurice Bridgeman, formerly Chairman BP 1962-9

Professor Alfred D. Chandler, Jr, Straus Professor of Business History, Harvard University

Professor D.C. Coleman, formerly Professor of Economic History, Cambridge University

Professor P. Mathias, Chichele Professor of Economic History, Oxford University

Lord Robbins, past President British Academy

and successive Company Secretaries, D.A.G. Sarre and J.E. Wedgbury.

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It would be difficult to express with sufficient gratitude my appreciation of the interest, support, and critical advice of the members of the Editorial Advisory Committee. The scope and scale of the undertaking is vast and it would have been easy to have lost oneself, mistaking the outlines of the wood for the detail of the trees. Conflicts of interest might have occurred over the requests of the historian and the claims of confidentiality. This situation has never arisen. There have been no restrictions at all on access to papers or people, no suggestions implied or direct about the treatment of any issue in a particular manner. There has been an absolute freedom to deal with the subject matter as the historian has thought right. Whilst sincerely grateful for advice and information generously and impartially given by many, the ultimate responsibility for what has been included and the manner in which it has been expressed is that of the historian alone.

This does not imply any exclusive rights to any credits. The writing of history should bear no copyright and confer no unique distinction. In the search for understanding, historians are sustained by the faith and practices of their own profession whilst recognising the heresies of some of their companions along the way. Acknowledging influences and assistance does not imply either lack of confidence or excess of pride, but recognition of mutual interests and sympathy. Amongst those to whom I am indebted are Professor Vivian Galbraith, who once decisively entered the historical lists on my behalf, Professor Charles Wilson, who supervised an incipient interest in economic history and introduced me to BP, Dr Laurence Lockhart with whom I shared an interest in Persian history long before I knew of his connection with the Company, Professor Rose Greaves, an early guide, who stimulated a fascination for the Company's history and contributed much to it which I gratefully acknowledge and Sir Maurice Bridgeman, whose apparently imperturbable manner concealed warmth, humour and much information, which he freely communicated to me when I knew little about the oil industry.

Many members of the Company have spoken to me about the period covered in this volume of the Company's history: Lister-James conveyed to me impressions of the earlier geologists and the visit of the Admiralty Commission to Persia. M.C. Seamark, the first English driller in Persia who arrived in 1913 shared his memories; Peter Cox, geologist and later managing director of the D'Arcy Exploration Company, with friendship and understanding put the exploratory activities of the Company into perspective; J.M. Pattinson, whose experience of the Company's affairs spanned his time as engineer in Persia to being Deputy Chairman in London, has shown, with his wife Peggy, the closest interest and encouragement; Sir Harold Snow, whose personal kindness made me feel at home in a large company: Julius Edwardes was always most considerate.

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Many others in the various ways, like Sir Eric Berthoud, G.W. Colvill, J.W. Dix, S.E. Evans, N.L. Falcon, Robert Gillespie, J.H. Jackson, Alec Joseph, E.R.G. Northcroft, L.A. Pym, A.W.M. Robertson, P. Saunders, S. Taylor, A.T. Wright, Hans Zollinger have helped with reminiscences, and many others whom I have met and talked with about the early history of the Company on numberless occasions. Denys Cadman spoke affectionately and objectively about his father. Lady Teresa Briscoe recalled with pleasure family reminiscences of her grandfather, W.K. D'Arcy. T.A.B. Corley at Reading University was very helpful over earlier documentation from the Burmah Oil Company archives which Sir Alastair Down, Chairman of the Burmah Oil Company, gave me permission to consult. In deference to Mr Corley, who is writing the history of Burmah, I have included only the minimal information on Burmah which is relevant.

Relations with the Persian Government are of exceptional importance in the affairs of the Company but it would be presumptuous to claim to have unravelled them completely. I hope that as a result of living three years in Persia before I became at all concerned with oil matters, I have acquired a more appreciative understanding of the Persian character than I might otherwise have possessed. Not only amongst Persian friends over many years but subsequently in conversations with scholars from different countries, the history of Persia has been a constant interest to which I have previously made a contribution in respect of its relations with European countries in the seventeenth and eighteenth centuries. It is impossible to refer to all those with whom I have discussed the Company's involvement with Persia, but I cannot omit Professor A.K.S. Lambton, who over a number of years has kindly and patiently commented on drafts of articles and shared her knowledge of Persian history, and Dr R.M. Burrell, for his unstinting and always friendly and unassuming help on many historical matters. The late Sir Roger Stevens and Sir Denis Wright, both ambassadors to Persia, brought a diplomatic dimension to my interest in Persian affairs. The late Mustafa Fateh provided a well informed Persian view of the Company and his country.

Such a historical exercise requires much supporting assistance. The Company's archivists, firstly under Anne Harper and more recently under Carl Newton and Daphne Knott, have supplied an enviable service of retrieval and referencing and brought sense into archival disorder. Andrew Harper, who acquired a wide knowledge of the early commercial and management archives, Ann Challinor, who was pertinacious in searching the Public Record Office and India Office for relevant Government papers, have since moved to other posts in the Company. Julian Bowden has become an authority on the documentation of Mesopotamia

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and has displayed a skill in statistical presentation. John Hooper has shown not only the value of having a chemist as technical adviser, but as a scientist has a real flair for historical research and respect for sources. Robert Brown, for a short time has been researching into marketing activities. Ann Ewing who has just recently been researching into the British Government's interest in the oil industry has also saved me from certain stylistic pitfalls. To Dick Roberts, my first research assistant and now lecturer at Sussex University, I am indebted for much original research into the financial affairs of the Company, his painstaking investigation into depreciation, sources and application of funds, interpretation of financial schedules and his consolidation of group accounts in a manner never previously attempted, for which he is responsible. His collaboration and friendship have meant more than just his exceptional ability. His brother, David, out of fraternal solicitude and professional interest generously made more than his expertise available. Cyril Shaw has kindly made sure that financial terminology and approach have been compatible with modern Company accounting procedures and Graham Boutle and his colleagues have also helped. Edward Platt, mariner turned historian, has made an invaluable contribution to the history of the tanker company. He has been ably assisted by Keith Taggart on the economics and administration of ship operations and much encouraged by G.A.B. King, until recently managing director of the British Shipping Company (formerly British Petroleum Tanker Company Limited). Fren Förster over the years has shared my interest in the Company's history, as his own account of BP and its antecedents in Germany well shows. My wife has been very helpful in translating Persian sources.

The handling of correspondence, scheduling of meetings, filing, typing, correction of drafts, keeping track of tapes and the many other enhanced secretarial responsibilities in looking after the requirements of myself and research assistants have been admirably managed by two successive secretaries. Christine Hill, who most capably started the ball rolling, left in March 1980 for personal reasons. Since then Kay Underdown has not only mastered the intricacies of word processing, in which she is ably assisted by Jenny Tyler, but coped magnificently with schedules and deadlines. Sue Pedlar has admirably dealt with the preparation of chapters for the Cambridge University Press, attended to the checking of drafts, footnotes, tables, maps, diagrams, appendices and so forth, no less than tracking down lost references and correcting spellings that have gone astray. Audrey King was ever helpful over photographs. Michael Willis, John Daffey and Richard Clisby gave helpful advice over the technical aspects of word processing and coding. Michael Stephens and John Stillwell have seen to the maps and diagrams with care and Carol McGrail has

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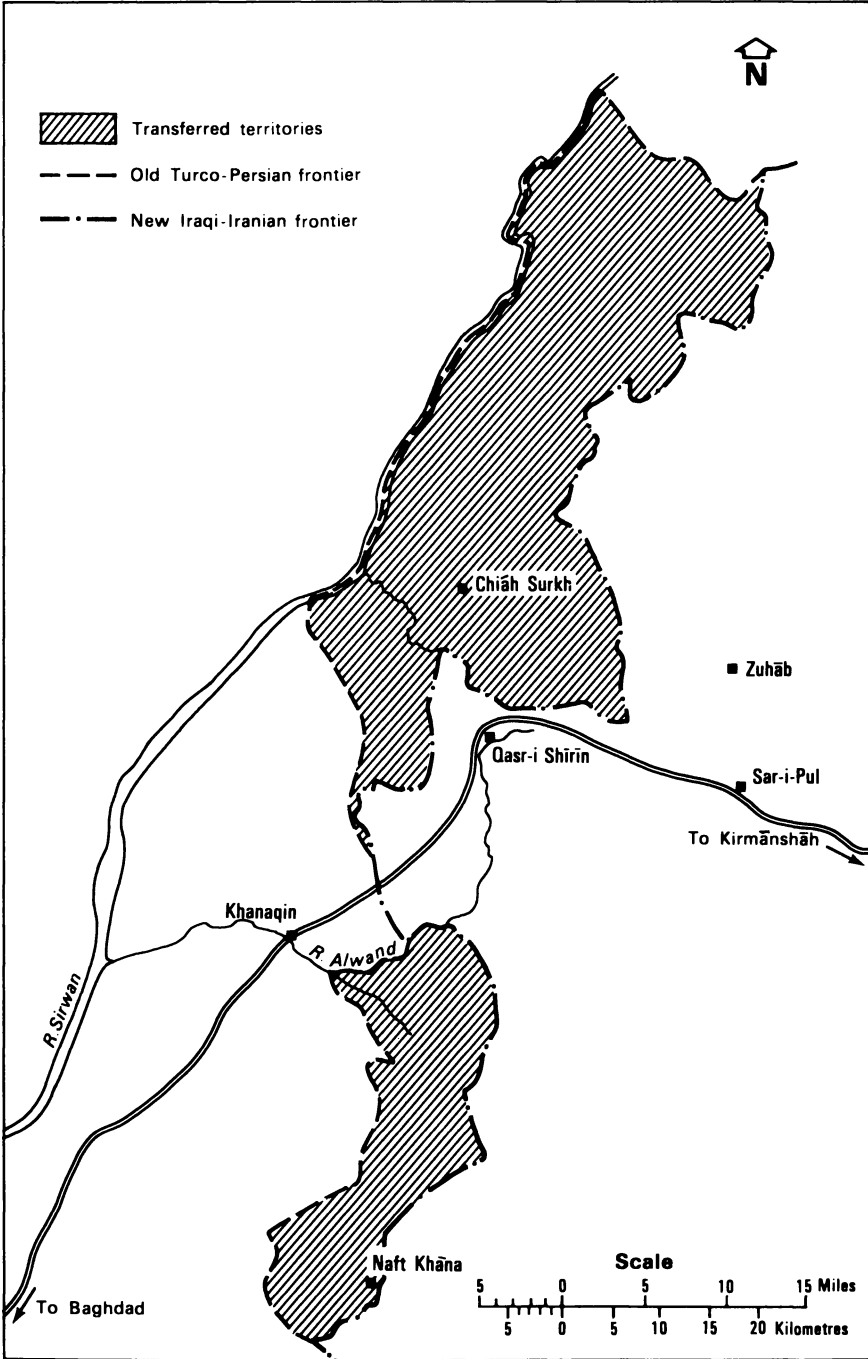
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helped with histograms and organigrams. John Unwin of Overs Ltd. has ably seen the typescript into print. Others, including those from associated companies acknowledged but not mentioned, will, I hope obtain a personal satisfaction from recognising their varied assistance.

Dr Colin Day at the Cambridge University Press was more than helpful and considerate in the preliminary discussions over publishing. The Syndics agreed to accept the history at their own risk without any prior conditions and I have been grateful for that early mark of confidence. William Davies has more recently taken charge as editor and his cooperation has been appreciated. On the design side John Trevitt has been unsparing in his attention and I could not have wished for better professional judgement. Francis Brooke has been patient over a deadline that slipped and sub-edited with care, Lyn Chatterton has ably handled a difficult production schedule. It is a privilege to record appreciatively the informative archival assistance of the staff of the Public Records Office, the India Office Library, the National Maritime Museum, L'Archive de Ministère des Affaires Etrangères and the National Archives of the United States and to acknowledge permission to quote. I am grateful to the librarians of the Petroleum Institute, the Cambridge University Library, London University Library, the Guildhall Library, the London Library, the Institute of Historical Research, Lloyds and the many who so helpfully replied to enquiries for information.

There are two final acknowledgements. Without the personal commitment and interest of Sir David Steel, this history might never have been started or the conditions existed in which it could be successfully completed. I am sincerely grateful for his encouragement and his trust. Lastly there is a tendency for those absorbed in a challenge to lose some sense of proportion in a busy life. If I have offended in this respect, I ask the forgiveness of my family. They have certainly shared in the writing of this volume not only in my presence but perhaps more in my absence from them.



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NOTE ON BIBLIOGRAPHY

It has been decided to include a full bibliography in the last volume to avoid considerable duplication of references. Much emphasis has been placed upon the primary archival material. Indeed the Chairman in October 1915 had already remarked on the history of the Concession, 'which is buried in masses of correspondence'. These sources have been exhaustively used and the references are accordingly mentioned in the appropriate parts of the text. Moreover much attention has been given to the relevant documentation from government archives. The secondary literature on the oil industry is extensive. Those citations most immediately useful will be found in the notes which are correspondingly fuller than they might otherwise have been.

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ABBREVIATIONS

AE	Affaires Etrangères	E&GS	Eastern and General Syndicate
AIOC	Anglo-Iranian Oil Company	EPU	Europäische Petroleum Union
APC	Asiatic Petroleum Company	FO	Foreign Office
APOC	Anglo-Persian Oil Company	IO	India Office
BOC	Burmah Oil Company	IPC	Iraq Petroleum Company
BP	British Petroleum	KOC	Khanaqin Oil Company
COR	Commonwealth Oil Refineries	PRO	Public Record Office
CSL	Concessions Syndicate Ltd	TPC	Turkish Petroleum Company
DEC	D'Arcy Exploration Company		