INTRODUCTION

In the last third of the nineteenth century, before The British Petroleum Company was formed, a new type of capitalism began to take hold in the industrialised world. In a range of industries, giant corporations arose to establish powerful positions from which they could not easily be shaken. These corporations, prime movers in their respective industries, harnessed new technologies to the mass production and distribution of their products. They developed organisational capabilities to plan and co-ordinate their operations, to mobilise capital, technology and information and to expand into new markets and products. Managed by ranks of salaried executives rather than the owner–managers of earlier generations of firms, the largest of them deployed resources on a scale comparable to many a medium-sized country. Operating like planned economies, they performed many of the functions of resource allocation which would have been left to the market in a purely free market economic model. Of course, market forces did not disappear, and many small, owner-managed firms continued to spring up, survive and grow, but the new giant corporations were a class apart, representing the new form of capitalism, corporate capitalism, as distinct from the more personal capitalism of an earlier era. Standing out like mountains in the economic landscape, these giants were regarded with mixed feelings. Some saw them, then and later, as engines of economic growth, while to others they represented sinisterly powerful concentrations of monopolistic power. Few, though, could deny that they exercised great influence, for good or evil.[1]

No firms symbolised these trends more than the oil majors. Between 1870, when John D. Rockefeller formed the Standard Oil Company of Ohio, and the mid-twentieth century, seven majors – the 'Seven Sisters' – became the dominant players in the international oil industry.[2] By the mid-twentieth century they accounted for nearly 90 per cent of crude oil production, and

Table 0.1 *The oil majors' rankings among the world's largest industrial firms, 1956*

	Gross sales (including excise taxes) ($billions)	Ranking (by sales) among world's largest industrial firms
Standard Oil (NJ)	7·13	2
Royal Dutch-Shell	6·50	3
Socony Mobil	2·75	8
Gulf	2·34	14
Texas Company	2·05	16
British Petroleum	2·02	17
Socal	1·45	23

over 70 per cent of refining and marketing capacity in the international oil industry.[3] One of them, called Anglo-Persian when it was formed in 1909, was renamed Anglo-Iranian in 1935, and in 1954 took the name of its original UK marketing subsidiary as the name of the parent company: British Petroleum.[4]

BP and the six other majors all ranked at that time among the world's twenty-five largest industrial corporations, measured by gross sales (see table 0.1). They had climbed by different, but frequently intersecting, paths to the commanding heights of the international oil industry. Three of them originated in the Standard Oil group built up by Rockefeller, the original prime mover in large-scale organisation in the global oil industry. Broken up for violation of the US antitrust laws by order of the US Supreme Court in 1911, the Standard group had by then become so vast that the larger fragments were giant corporations in their own right.[5] The biggest, Standard Oil (New Jersey) (later Exxon), was one of the two largest oil companies in the world, with extensive international operations, to which it would later add.

The other two international majors that emerged from Rockefeller's Standard were the Standard Oil Company of New York (Socony) and the Standard Oil Company of California (Socal). Socony had large market outlets overseas, especially in the Far East, and would merge in 1931 with the Vacuum Oil Company, a leader in lubricants, to form Socony-Vacuum. Its name was changed to Socony Mobil in 1955 to identify it more closely with the brand name, Mobil, under which its products were marketed; and in 1966 this was taken further when the name Socony Mobil was changed to Mobil Oil. When Socal (later Chevron) emerged from Rockefeller's Standard, it operated primarily in California, but it would soon expand into other areas of the USA, and reach out abroad into international operations. So too would two other US oil companies – the Texas Company (later Texaco) and the Gulf Oil Corporation – which would spread overseas from their roots in the Texas oil boom of the 1900s.[6]

Royal Dutch-Shell, on the other hand, was international from its earliest days. Formed in 1907 as an Anglo-Dutch alliance between Shell Transport and Trading and the Royal Dutch Petroleum Company, the Royal Dutch-Shell group was, at that time, the only serious international rival to Rockefeller's Standard. Under Henri Deterding, a match even for Rockefeller, Royal Dutch-Shell quickly spread out from its start in the Far East to become, by World War I, a global company with operations in the USA, Russia, Latin America and Europe.[7]

By the time that Anglo-Persian was formed in 1909, Rockefeller's Standard and Royal Dutch-Shell had already established powerful positions in the international oil industry. But although Anglo-Persian was a late-comer, it had the unique and crucial competitive advantage that it was the first mover in developing the oil reserves of the Middle East, where its first oil field at Masjid-i-Suleiman in southern Persia (later Iran) was a giant, containing vast reserves of crude oil which could be produced in great quantities at low cost. Moreover, there was every prospect that other oil fields of similarly giant scale would be discovered in the vast territory, covering some 500,000 square miles of Persia, in which Anglo-Persian held an exclusive concession to explore for and produce petroleum. Although it felt vulnerable to takeover by Royal Dutch-Shell, Anglo-Persian was able to survive its difficult start-up years with financial support from the British government, which became Anglo-Persian's majority shareholder in 1914.[8]

From these different beginnings, the firms that would become international majors, acting at times as rivals, at others as allies, proceeded to establish their mastery of the international oil industry. Each of them set out to produce its own crude oil for processing at its own refineries, and to sell the resultant products to the final consumer through its own market outlets. Each also sought to achieve, as far as was possible, a balance between these successive stages in its operations. By this policy of operational vertical integration, each major was able to co-ordinate the flow of oil, under its own control, from its oil fields to its markets.

In practice, of course, no major was able to achieve a perfect balance between its upstream (producing) and downstream (marketing and refining) operations. Majors with more markets than production could not find new oil fields at will, while others with more production than markets risked fierce competitive battles with their established rivals if they tried to break into new markets. To rectify the imbalances, and to mitigate the rivalries, the majors adopted a combination of measures – they contracted to sell each other crude and products, sometimes in very large quantities; they joined in market-sharing agreements, most famously the 1928 Achnacarry Agreement to share out markets by a quota system; and they formed regional alliances in which majors with surplus upstream capacity joined forces with others with surplus downstream capacity, so that they could balance their joint operations without engaging in competition. By these arrangements, the international flow of oil came to be channelled, not through open, transparent markets for crude and products, but through the closed circuits of the majors' vertically integrated systems.

There were, both then and later, differences between those who argued that vertical integration was the economically most efficient means of organising the international flow of oil, and those who saw vertical integration not as an economic necessity, but as a way of suppressing competition and of enabling the majors to control the industry.[9] To a large degree, however, vertical integration was historically determined by Rockefeller's early dominance. Once he had established a high degree of monopolistic control, it became a competitive necessity for later entrants such as Royal Dutch-Shell, and later Anglo-Persian, to integrate vertically in order to avoid having to negotiate on uneven terms with established competitors for purchases and/or sales of oil.

The majors' alliances covered many areas of the world. In the Far East, for example, Standard Oil (NJ) discovered crude oil without having markets, whereas Socony-Vacuum possessed markets without having crude oil. The two of them therefore got together in 1933 to form a new joint company, Standard-Vacuum (Stanvac), into which they merged their Far Eastern producing, refining, pipeline and marketing operations.[10] In the same region, Shell, which had more markets than production, reached agreement in the 1940s with Anglo-Iranian, which was in the opposite position, for Anglo-Iranian to supply 50 per cent of Shell's sales outside Indonesia on the understanding that Anglo-Iranian would not set up its own market outlets in the Far East, except in Australia and New Zealand where it was already established. In the Indian sub-continent, a similar agreement involving not only Shell and Anglo-Persian, but also the smaller Burmah Oil Company, had already been reached in 1928.[11]

In Latin America, by World War II Mexico had nationalised the foreign oil companies operating there, and turned its back on the international oil industry. But in Venezuela, the region's largest oil exporter, the oil industry had come under the control of the majors, in particular Standard Oil (NJ) and Royal Dutch-Shell, who had established themselves as the dominant producers of Venezuelan crude. Anglo-Iranian was precluded from operating in Venezuela and in other Latin American countries where legislation banned companies owned by foreign governments from obtaining oil concessions.[12]

However, Anglo-Iranian suffered no such handicap in the Middle East. Here (but not only here) the international majors, often supported by their governments, engaged in imperialistic rivalry for concessions giving them rights to explore for and produce petroleum in areas so large that they sometimes covered whole countries. Benefiting from Britain's position as the paramount imperial power in the Middle East after the break-up of the Ottoman Empire at the end of World War I, Anglo-Iranian secured a larger share of Middle East oil concessions than any other major. Adding to its exclusive concession covering most of Iran, it obtained a 23¾ per cent share in the Iraq Petroleum Company, whose concessions covered virtually the whole of Iraq. (The other participants in the IPC were, by World War II, Royal Dutch-Shell with 23¾ per cent; Standard Oil (NJ) and Socony-Vacuum, with 23¾ per cent between them; the French state-owned company, Compagnie Française des Pétroles (CFP), with 23¾ per cent; and Calouste Gulbenkian with 5 per cent.) In addition to that, Anglo-Iranian joined forces with Gulf to obtain 50 per cent each of the Kuwait oil concession, which they held through the jointly owned Kuwait Oil Company (KOC).[13]

Elsewhere in the Middle East, Socal initially obtained sole concessionary rights in Bahrain and in the Saudi Arabian al-Hasa concession. But realising that it lacked sufficient markets in the Eastern Hemisphere to absorb the oil that would flow from its new concessions, Socal turned, as the majors so often did, to an alliance, in this case with the Texas Company, which had extensive market outlets in Asia. In 1936 these two majors agreed to pool their assets east of Suez in the new, jointly owned California-Texas company (Caltex). Socal threw in its Bahrain and Saudi Arabian concessions (the latter held through a subsidiary later called Aramco) as well as a concession in the Dutch East Indies. The Texas Company put in its market outlets, plus a cash payment. But these outlets alone would not be enough to provide assured markets for the Saudi crude oil owned by Socal and Texas through Aramco. In 1947, therefore, a further realignment was made, whereby Standard Oil (NJ) and Socony-Vacuum acquired shares of 30 and 10 per cent respectively in Aramco, leaving Socal and the Texas Company with 30 per cent each.[14]

The outcome of this complex pattern of rivalries and alliances was that by 1950 the concession in Iran was held in splendid isolation by Anglo-Iranian, while all the other main Middle East concessions were held by the majors in various alliances. The only non-major with a substantial stake was the CFP, with its 23¾ per cent share in the IPC (see figure 0.1).

The majors seemed, indeed, to have the international oil industry wrapped up. True, they were not in nearly such a dominant position in the USA, where there were many smaller independent oil companies, nor in the USSR, where foreign oil interests, most notably those of Royal Dutch-Shell, had been nationalised after the Bolshevik revolution. But although the USA and the USSR were major producers, they were also large consumers of oil. The USA, which had earlier been the world's largest oil exporter, became a net importer in the late 1940s. As for the USSR, it had been a large oil exporter in the 1920s and early 1930s, and would be again in the late 1950s and the 1960s, but it consumed most of the oil that it produced and lay, for the most part, outside the *international* oil industry.[15]

Outside North America and the Soviet bloc, very little petroleum was consumed in the main oil-producing countries, which lay in the less developed world. Most of their oil production was exported, primarily to industrialised countries in Western Europe, and to a lesser degree to Japan. As none of these developed countries had significant crude oil production of their own, they relied heavily on imports which flowed from the oil-producing countries mainly, as seen, under the control of the major oil companies.

By the middle of the twentieth century the international oil trade, already big business, was on the verge of making a quantum leap. Between 1950 and the 1970s the industrialised world would enjoy a period of vigorous, unchecked economic growth, which was particularly rapid in Western Europe and Japan.[16] The postwar reconstruction and subsequent expansion of these economies was highly energy-intensive. In Japan, per capita energy consumption rose more than fourfold between 1950 and 1970. In Germany and France, the leading economies in continental Europe, it more than doubled.[17]

At the same time, the energy market was transformed as oil, and to a lesser extent natural gas, replaced coal as the main source of energy in the industrialised world. In the USA, this switch had already largely taken place by 1950, but elsewhere coal was still in 1950 the dominant fuel. It would not long remain so. Between 1950 and 1970 the share of coal in Western Europe's energy consumption fell from 77 per cent to 27 per cent, while oil's share rose from 14 per cent to 56 per cent. In the same period in Japan, coal's share fell from 62 per cent to 22 per cent, while oil's share rose from 5 per cent to 70 per cent.[18]

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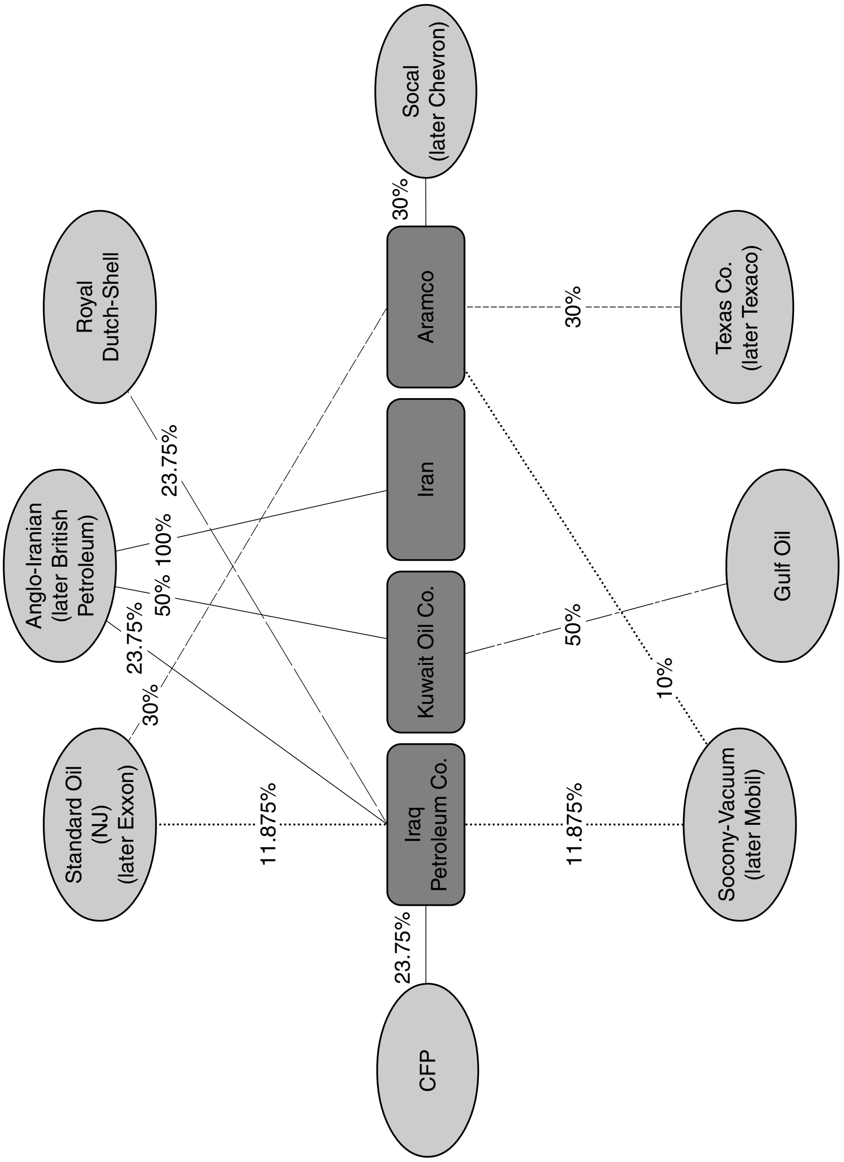

Figure 0.1 The oil majors' shares in the big four Middle East oil concessions, 1950

This revolution in the energy market had far-reaching international ramifications. Most of the world's coal was produced for local consumption, and only about 7 per cent of world coal production entered into international trade in 1950–65. Oil had a far greater international reach. By 1965, 60 per cent of the world's oil production was internationally traded, accounting for 89 per cent of total world energy exports.[19] Oil, in short, ruled international energy exchanges, with the oil majors at their epicentre.

Inevitably, as oil became vital to the economic and military security of oil-exporting and oil-importing countries alike, the majors came under growing pressure from governments pursuing nationalistic oil policies on all sides. In the USA, mounting oil imports in the 1950s, with consequent growing dependence on foreign supplies, raised fears that the nation's security was being undermined. This, plus pressure from domestic producers of oil and coal, led to the introduction of import controls on oil, at first voluntary, but mandatory from 1959.[20]

In other oil-importing countries there were similar concerns about security. Britain had long sought to guarantee its supplies through the ownership of crude oil by British companies, principally Anglo-Persian, in territories within Britain's sphere of influence. Indeed, that had been the British government's chief motive in financing, and taking a majority shareholding, in Anglo-Persian.[21] Later, the French, Italians, Germans and Japanese also set out to acquire crude oil supplies under their own national control. By World War II France had already established a highly *dirigiste* system of controls on oil companies operating in France, and had formed the state-owned CFP to hold France's 23¾ per cent share in the IPC. The French government later went further, sponsoring French companies to search for oil in the French colony of Algeria (before it attained independence in 1962). After large Algerian oil reserves were discovered in the 1950s, Algeria became a major exporter, especially to France, where under a growing panoply of state controls, oil companies were required to purchase specified quotas of the new 'franc' oil.[22]

In Italy, the state oil company, Ente Nationale Idrocarburi (ENI), enjoyed a privileged status and set out, under the vigorous leadership of Enrico Mattei, to challenge the dominance of the majors. One of ENI's chief aims was to find its own sources of crude oil, to which end it offered oil-producing countries more generous terms for new concessions than the majors were willing to do. In Germany and Japan, the story was different, but the theme was the same. Both countries encouraged and supported national, but privately owned, companies to search for their own supplies of crude oil.[23]

This growth in economic nationalism among the industrialised countries not only fettered the freedom of the majors, it also introduced unwelcome (for the majors) new competition into the international oil industry. This came not only from the state oil companies of France and Italy, and the private national companies of Japan and Germany, but also from US private independents. A number of these – firms such as Marathon, Amerada, Occidental and Continental – had ventured abroad to seek crude oil supplies for their downstream operations in the USA before the introduction of US mandatory import controls. Some of them were successful in finding large oil reserves, especially in Libya. Seeking markets for their new production, which was largely shut out from the USA, they became significant competitors to the majors, especially in Western European markets. Owing to a wealth of new oil discoveries by the majors and their competitors in the established oil-producing countries and in new ones – principally Abu Dhabi, Libya, Algeria and Nigeria – there was no shortage of supply. On the contrary, oil supply grew even faster than demand, with the result, under conditions of growing competition, that prices were cut. Thus the power of the majors was seriously undermined as their previous control over production and prices slipped.[24]

But a still greater threat to the dominance of the majors came from the rise of nationalism in the developing world. For centuries, the European imperial powers had extended their dominion over Asia and Africa. Convinced of their political, economic and cultural superiority, the European powers brought the Afro-Asian world under political tutelage and economic domination, while also proclaiming the civilising influence of European colonial expansion. The main threat to their hegemony lay less in the resistance of their subjects than in the risk that the imperialists might fall out between themselves. Indeed, they did, and after igniting two world wars in the first half of the twentieth century, they had all but destroyed one another.

World War II, in particular, brought seismic changes to the international order. Heralding the arrival of the USA and the USSR as the two new 'superpowers', the war precipitated the collapse of the old European spheres of influence, the largest of which was Britain's. Quite rapidly, after 1945, the British and other European empires were broken up, to be replaced, nominally at least, by a world of independent nations. Many of these were determined to assert their political, economic and cultural independence from the old imperial powers, and from the new superpowers which, locked in mutual antagonism, could be played off against each other.[25]

The arrival of political independence in much of the less developed world became the signal not only for economic nationalism, but also for the reduction of expatriate colonial communities. Even where substantial numbers of expatriates remained, their social and economic positions were sharply modified as their status declined from that of a privileged class to that of tolerated aliens. By the mid-1960s it was only in the last bastions of white rule in southern Africa that white settlers could hope for the permanency and elevated positions that had seemed a more universal birthright in the old colonial world.[26]

In this new international political economy, foreign enterprises associated with imperialism became much less secure than they had been in the bygone imperial era.[27] Anglo-Iranian, widely seen as an instrument of Britain's imperial power, was one of the most prominent, particularly in the Middle East where, as elsewhere, Britain's power would recede rapidly in the 1950s and 1960s.[28] The Middle East was, indeed, the crucial theatre for Anglo-Iranian. Its position in the international oil industry had been founded, as noted, on its being a first mover in that region. Whereas Standard Oil (NJ) and Royal Dutch-Shell had reached out internationally from their early starts in the USA and the Far East respectively, in 1950 Anglo-Iranian's oil production and refining remained concentrated almost entirely in the Middle East, especially in Iran. It was absolutely clear that if Anglo-Iranian were to lose its Middle East concessions, the bottom would fall out of the Company.

The fear of that happening would underlie the Company's actions in almost every sphere of its operations from 1950 to the 1970s. Of course, the Company had long been conscious of its susceptibility to upsets in the Middle East, especially Iran. But it had never before been shaken by tremors as violent as those which it would experience between 1950 and the mid-1970s. The first was not long coming. In 1951 the Iranian government, under its fiercely anti-British Prime Minister, Muhammad Musaddiq, nationalised the Company's operations in Iran and threw the Company into a crisis which would turn out to be a harbinger of things to come.