

Nationalisation: The Anglo-Iranian Oil Company, 1951

Britain vs. Iran

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Abstract: This paper looks at the history of the British firm, the Anglo-Iranian Oil Company (AIOC), and focuses on the events surrounding the Iranian nationalisation of the AIOC's assets in May 1951. During the period in question, the British were unable to come to terms with their imperial decline and could not appreciate the strength of popular opposition to their control of the oil industry in Iran. The AIOC was reluctant to meet Iranian demands for a fairer oil arrangement, giving the Iranians little option but nationalisation. This essay examines the reasons and motivations behind nationalisation and analyses whether the path chosen by the Iranian Government was ethical. The paper concludes that British behavior was intransigent, outdated, and insincere, which provoked Iranian demands and ultimately led to the nationalisation of the oil industry in Iran.

Introduction

British involvement in the oil industry of Iran began in 1901 when William Knox D'Arcy obtained a 60-year concession for the exclusive right to prospect for oil throughout the country. By 1908, oil was discovered, and a short time later, the Anglo-Iranian Oil Company (AIOC) was formed.¹ In 1933, the AIOC agreed terms with the Shah of Iran for a new 60-year concession, which continued the company's exclusive right to carry out oil operations within designated areas. In practise, this meant that the company controlled all the oil in Iran.

In the wake of the Second World War, the AIOC rapidly expanded production and investment to meet an increased global demand for oil. By

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¹ Originally, the firm was called the Anglo-Persian Oil Company, changing its name to the Anglo-Iranian Oil Company in 1935 at the request of the Shah. In 1954, it became the British Petroleum. Throughout this paper, the firm is referred to as the Anglo-Iranian Oil Company (AIOC).

1950, Iran, via the AIOC's activities, had become hugely important to the global oil industry. It was the second largest exporter of crude petroleum and contained the third largest oil reserves, and in Abadan, the AIOC had the world's largest refinery.² Between 1930 and 1950, the company's pre tax profits grew from approximately £6.5 million to nearly £85 million, bringing in large amounts of income, but disproportionately shared, to the British Treasury, company shareholders, and the Iranian Government. By the late 1940's, the AIOC was the largest foreign investor in Iran and its employees and contractors numbered some 80,000. The refinery at Abadan was also Britain's largest single overseas investment, and represented a source of enormous national pride.³

After the Second World War, nationalism and democracy became important features in Iranian politics. There were demands from nationalists to revise the concessionary agreement in order to increase royalty payments and improve conditions for Iranian workers. By the late 1940's, Iranians were no longer willing to tolerate low wages, poor housing, and the refusal of the company to train and advance locals for the more skilled jobs, which were generally monopolised by the British.⁴ The British employees enjoyed luxurious conditions, while the AIOC kept its Iranian workers segregated, often in slums. The British were very reluctant to have their monopolistic control of the oil industry diluted, and therefore did not want Iranians in higher positions within the company. It was also apparent that the AIOC was not fairly sharing its enormous profits with the Iranian Government. As a result of these injustices, the Iranians demanded better terms.

However, the AIOC and the British Government were determined to hold on to their advantageous position in Iran. The company provided enormous profits and protected wider British economic and strategic interests. His Majesty's Government (HMG) was also reluctant to appease the Iranians for fear that it might encourage nationalist aspirations in other regions where Britain had interests. The AIOC and HMG were thus desperate to maintain its control of the oil industry, and in the process failed to appreciate Iranian demands. According to Wm. Roger Louis, the company 'was proving itself to be an anachronism'.⁵ It was an outdated remnant of imperial power and needed reform in a rapidly changing political environment. However, the AIOC's offers at reform were too limited and too slow. The Iranians, after

² E. Abrahamian, 'The 1953 Coup in Iran', *Science & Society*, Vol. 65, No. 2 (Summer, 2001), p. 185

³ J. Bamberg, *The History of the British Petroleum Company Vol. 2 The Anglo Iranian Years 1938-1954* (Cambridge, 1994), p. 513

⁴ M. Elm, *Oil, Power, and Principle Iran's Oil Nationalisation and its Aftermath* (New York, 1992), p. 49

⁵ Wm. R. Louis, *The British Empire in the Middle East 1945-1951 Arab Nationalism, the United States, and Postwar Imperialism* (Oxford, 1984), p. 648

failed negotiations with the British, officially nationalised the oil and the AIOC's assets on 1 May 1951.

Although short lived, the Iranian nationalisation of the oil industry provides an interesting insight into the ethics nationalisation. On the one hand, the Iranians considered it a legitimate reaction to rapacious colonialism, and on the other, the British considered it as an affront to the rights of private property, an insult to the sanctity of contracts, and thought the Iranians ungrateful and greedy.

This paper focuses on the reasons that led to the nationalisation of the oil industry of Iran. It will look at the attitudes behind British and Iranian motivations, and will analyse the issue of compensation. This essay will seek to exonerate Iranian actions and condemn British behaviour as disingenuous, imperialistic, and antiquated.

An overview of the nationalisation crisis

The oil industry of Iran was hugely important to the AIOC, the British and Iranian economies, and to wider Western economic, strategic, and political interests. By 1949, the AIOC provided the British Treasury with £26 million in taxes and £92 million in foreign exchange, and supplied, at a discount, 85 percent of the fuel requirements of the British navy.⁶ Iranian oil directly gave the AIOC between 75 and 80 percent of its annual profits and the company was able to use, free of charge, vast quantities of oil in its operations. The profits from Iranian oil also played a key role in financing the company's operations outside of Iran.⁷

The AIOC was also important to Britain and Europe's economic independence. The AIOC's oil production rose from 16.8 million tons in 1945 to 31.75 million tons in 1950.⁸ In the event of the loss of this production, Europe was liable to incur an additional dollar oil charge of £700,000,000.⁹ This would harm European economic recovery after the devastation of the Second World War. Moreover, it would hit Britain disproportionately because of its dependence on global trade. This heavily relied on the dollar and soft currency earnings from Iranian oil that made a crucial contribution to the UK's balance of payments.¹⁰

⁶ E. Abrahamian, 'The 1953 Coup in Iran', *Science and Society*, p. 185

⁷ Ibid.; M. Elm, *Oil, Power, and Principle*, p. 53 & p. 107; N. Abdelrehim, J. Maltby, S. Toms, 'A pretty good deal just now.' The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951', *Dissertation* (University of York, 2010), p. 30

⁸ S. Marsh 'Anglo-American Crude Diplomacy: Multinational Oil and the Iranian Oil Crisis, 1951-53', *Contemporary British History*, 21:1 (Feb, 2007), p. 28

⁹ Ibid.

¹⁰ S. Onslow, 'Battlelines for Suez': The Abadan Crisis of 1951 and the Formation of

Furthermore, oil revenues were vital to the Iranian economy. It represented over 50 percent of Iran's foreign exchange income, a third of total income, and enabled the Iranian Government to obtain loan capital. However, as the impasse between the communist bloc and the allies came to dominate Western geo-political thinking, the British and Americans also began to regard the importance of Iranian oil in Cold War strategic terms. The British were convinced that oil was essential to bolstering Iran's defences against communism and were determined to prevent the invaluable resource from falling under Soviet influence. HMG saw the AIOC as vital to Iran's economic growth and thus important in allaying domestic discontent, especially from communist sympathisers.¹¹

However, with the waning of European colonialism after the Second World War, nationalism and democracy became important features of the Iranian political landscape. The major issue for nationalists was the foreign control of the oil industry, and within this, the Iranians had concerns about the role and connection of the AIOC to the British Government. According to the academic, Steve Marsh, because HMG had acquired a controlling stake in the AIOC before the First World War, and came to be much involved in the company's policy and decision-making, many saw the firm as an instrument of wider British policy and strategy.¹² The US State Department's Administrator of General Finance in Iran, Arthur Millspaugh, echoed this view when noting that the company was 'to all intents and purposes an arm of the British Admiralty and the British strategic policy'.¹³

Indeed, while the AIOC and its operations were important economically, they were vital to upholding Britain's prestige and influence in the Middle East and beyond. If the British were to succumb to nationalist demands and lose their control of Iranian oil, it would have an adverse impact on British positions further afield by giving encouragement to nationalists elsewhere. This was especially true of the Suez Canal, which was vital to British trade but where nationalists were also calling for an end to six decades of foreign presence. If the AIOC lost its control of the oil industry of Iran, it was also feared that the Soviet Union might fill the vacuum and challenge other British spheres of influence. It was no wonder that one British diplomat warned that should the oil cease to flow, 'the consequences upon the economy, the life and...the political and strategic future of wide areas of the world must be far reaching and may be calamitous'.¹⁴ In light of the strategic importance

the Suez Group', *Contemporary British History*, 17:2 (May, 2008), p. 4; S. Marsh 'Anglo-American Crude Diplomacy', *Contemporary British History*, p. 28

¹¹ S. Marsh 'Anglo-American Crude Diplomacy', *Contemporary British History*, p. 29

¹² S. Marsh 'HMG, AIOC and the Anglo-Iranian oil crisis: In defence of Anglo-Iranian, *Diplomacy and Statecraft*, 12:4 (Oct, 2007), p. 149

¹³ Ibid., p. 147

¹⁴ S. Onslow, 'Battlelines for Suez': The Abadan Crisis of 1951 and the Formation of the Suez Group', *Contemporary British History*, p. 5

of Iranian oil to the British, it was unsurprising that nationalists considered that the company represented not just commercial interests, but thought that Iran was also being exploited for the sake of outdated imperial power politics.

In October 1947, the Iranian Government sought to renegotiate the 1933 Concession Agreement and accused the British of complacency and colonial arrogance.¹⁵ The Iranians wanted an increase in royalty payments and demanded a faster progress of Iranianisation of the company's activities. Iranianisation was essentially the increased employment of Iranian workers, a reduction in foreign workers, and a programme that aimed at giving Iranians a greater status and better access to employment, housing, education, and healthcare.¹⁶ The Iranians were demanding a similar settlement to the one that existed between the Venezuelan Government and Standard Oil, where profits were shared on a fifty-fifty basis. To address these issues, in July 1949 the AIOC provisionally agreed a Supplemental Oil Agreement with the Iranian Government. This offered improved royalty payments, but did not give the Iranians any greater voice in the management nor access to company accounts. This was deemed inappropriate by Muhammad Mossadeq's national party and was opposed in the Majlis (Iranian Parliament). The Iranians later rejected a hastily prepared offer for a fifty-fifty division of the total profits on the basis that the AIOC insisted that the agreement took account of profits made only in Iran, and not from company subsidiaries. However, by this point the nationalisation of the AIOC's assets and Iranian oil was all but done.

On 1 May 1951, the Shah of Iran ratified Prime Minister Muhammad Mossadeq's bill to nationalise the AIOC's Iranian assets. The Iranians blamed British intransigence for nationalisation and highlighted that the AIOC had exploited Iran for profit. The British, on the other hand, charged the Iranian nationalists with greed and hyperbole, and stressed the AIOC's achievements in providing welfare and investments that were felt by ordinary Iranians. In the hope of protecting its valuable interests in Iran, HMG appealed to the International Court of Justice and the United Nations. The British Government was also considering a military response to the crisis, but for the time being HMG and the AIOC instigated economic pressure on the Iranians in the hope of demonstrating their dependency on the British. The AIOC withdrew all its tankers and most of its staff and threatened to sue any purchaser of Iranian oil, while the interdependence of the international oil companies enabled the British to maintain an effective oil blockade of Iran.¹⁷

¹⁵ N. Abdelrehim, J. Maltby, S. Toms, 'A pretty good deal just now.' The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951', *Dissertation*, pp. 3-4

¹⁶ N. Abdelrehim, J. Maltby, S. Toms, 'Accounting for power and control: The Anglo-Iranian oil nationalisation of 1951', *Critical Perspectives on Accounting*, 23 (2012), p. 596

¹⁷ S. Marsh 'HMG, AIOC and the Anglo-Iranian oil crisis', *Diplomacy and Statecraft*,

In the end, without the flow of oil the Iranian economy began to fail. The British appealed to the United States and depicted Iran as unstable and likely to fall victim to the forces of communism. In August 1953, the CIA, with the help of MI6, sponsored a coup to oust the Iranian Prime Minister, Mossadeq. The Shah installed a regime friendlier to Western strategic and economic needs. A consortium of Western firms now exercised managerial control over operations and oil production, thus ending the oil crisis. However, the legacy of British and American meddling in the internal politics of Iran contributed significantly to the 1979 Iranian Revolution.¹⁸ This saw the unpopular Western-backed monarchy replaced by an anti-Western Islamic Republic, and helped to sow the seeds for future generations of Iranian leaders to be deeply suspicious of foreign intentions.

The ethics of nationalisation

The disagreement between the British and the Iranian Government about who was responsible for the events that led to nationalisation are complex. In Britain, The Times newspaper aptly summed up many of the positions in British circles: ‘The inner tension of Persian society-caused by the stupidity, greed, and lack of judgement by the ruling class-has now become such that it can be met only by an acceleration of the drive against the external scapegoat - Britain’.¹⁹ According to this view, Iranian nationalists were using the oil issue to obtain popular support and to turn peoples’ minds away from a struggling economy.

The British also stressed the legal issues and the sanctity of contract. In their view, the Iranians were bound to the 1933 concession and could not appropriate private assets. Any settlement would have to guarantee fair compensation to the AIOC.²⁰ Indeed, the Iranians had stressed all along that they were prepared to pay this.²¹ The British also blamed the Iranians, especially Mossadeq, for the breakdown of talks.²² Yet, on the other hand, the Iranians, with Mossadeq being the most vocal, thought that the British had unfairly imposed the 1933 extension of the oil agreement and accused the British of corrupting the Iranian political system. In his speech at the United Nations in October 1951, Mossadeq attacked the British and demanded that

p. 163

¹⁸ M. Gasiorowski, ‘The 1953 Coup D’etat in Iran’, *International Journal of Middle East Studies*, Vol. 19, No. 3 (Aug., 1987), p. 261

¹⁹ E. Abrahamian, *Iran Between Two Revolutions* (Princeton, 1983), p. 267

²⁰ S. Marsh ‘Anglo-American Crude Diplomacy, 1951-53’, *Contemporary British History*, pp. 29-31

²¹ K. Pirouz, ‘Iran’s Oil Nationalization; Musaddiq at the United Nations and His Negotiations with George McGhee’, *Comparative Studies of South Asia and the Middle East*, XXI Nos. 1 & 2 (2001), p. 112

²² N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 36 & pp. 52-56

Iran ‘recover its economic independence, to achieve the social prosperity of its people, and thus to affirm its political independence’.²³ He also criticised the AIOC for being an exploitative enterprise that epitomised British imperialism. The company was attacked for having contributed little to the Iranian economy and its people, something the British delegation strongly contested. If the Iranian nationalisation of the AIOC’s assets is to be supported, then Iranian claims of unfair distribution of oil profits, discrimination against Iranian employees, and maladministration need to be upheld, while its offer of compensation must also be deemed appropriate.

The AIOC and profit distribution

For the period 1930-39, the AIOC’s royalty payments to the Iranians significantly exceeded the company’s payments to His Majesty’s (HM) Treasury. During this nine-year period, the AIOC paid over £22,000,000 in tax and royalties to Iran, compared with UK income tax of £8,749,000 and a net profit of £35,754,000.²⁴ However, the Iranian Government became concerned when these proportions were reversed as production and profits dramatically increased after the Second World War. In 1947, the company’s Iranian operations gave the British Government £14.8 million in tax revenues and the Iranian Government £7.1 million in royalty payments, while the company’s net profits were £18.56 million. By 1950, the difference between HMG and Iranian earnings had risen to almost £35 million, with HM’s Treasury receiving £50.71 million and the Iranians £16.03, while the net profit had grown to £33.10 million.²⁵

The decline in the Iranian share of profits is further illustrated when Iranian royalties as a percentage of pre tax profits are considered. In 1932, Iranian royalties represented around 37 percent of pre tax profits, whereas in 1950, only 19.18 percent of the profits from the AIOC’s operations in Iran went to the Iranians. The other 80.82 percent that went to British interests, in 1950, represented almost a 10 percent increase on the previous year. (British interests included HM’s Treasury, at 64.47 percent, and AIOC shareholders, at 16.35 percent.)²⁶ Sir Rodger Makins, deputy under secretary at the Foreign

²³ K. Pirouz, ‘Iran’s Oil Nationalization’, *Comparative Studies of South Asia and the Middle East*, p. 111

²⁴ N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 16

²⁵ M. Elm, *Oil, Power, and Principle*, p. 38. Net profits are calculated after the deduction of royalties and taxes. Some of the figures vary, slightly, from the sources listed below, but the general theme is the same. M. Elm, *Oil, Power, and Principle*, p. 38; J. Bamberg, *The History of the British Petroleum Company Vol. 2*, p. 348 & p. 325; N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 36 & pp. 16-23

²⁶ *Ibid.*, p. 26 & p. 28

Office, expected the 1950 company statement ‘to cause a furore’, as the gross profit and UK taxation deduction had more than doubled between 1949 and 1950, while Iranian royalties had risen by only 18.5 percent.²⁷ Indeed, Sir William Fraser, the AIOC’s chairman, highlighted the benefits of the concession and stressed his fears about its revision when commenting: ‘the very last thing the company desires as no new concession could ever be as favourable to the company as the one now in existence’.²⁸ The long-term trend was therefore a declining share for Iran and a rising share for British interests. The proceeds from an expansion in company production and refining in Iran, as Abdelrehim highlights, were increasingly benefiting the British over the Iranians, in both absolute and relative terms.²⁹ This served to encourage Iranian dissatisfaction and fuelled their desire for better terms.

The Iranians also accused the AIOC of using accounting tricks to cheat the Iranian Government out of income.³⁰ In 1948, during negotiations to change the 1933 agreement, Gilbert Gidel, a renowned French professor of international law, was commissioned by the Iranians to document the AIOC’s deceptions and the areas where the company had failed in its obligations. He noted that the company had used depreciation to artificially lower profits with the aim of reducing the amount that was to be paid to the Iranian Government. Gidel also pointed out that Iran’s royalties in relation to the price of oil exported had dropped from 33 per cent in 1933 to 9 per cent in 1947.³¹ The Iranians demanded that the company open its accounting books and split the profits of the company on a fifty-fifty basis, which would have increased royalty payments considerably, and were same terms that Standard Oil of New Jersey had negotiated with the Venezuelans.³² The demands to access AIOC accounts alarmed the British, as it would have enabled the Iranians to scrutinise the profit sharing arrangement and therefore bolster their claims of underpayment. The company thus feared that an examination of the accounts might challenge the British concessionary control of oil and reduce their profit share.³³

The Iranians were also unhappy with the huge amount of tax paid by the company to HM’s Treasury, and were irritated that the firm paid so little in

²⁷ Ibid.; M. Elm, *Oil, Power, and Principle*, pp. 108-109

²⁸ N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 17

²⁹ Ibid., p. 23

³⁰ S. Kinzer, *All the Shah’s Men* (New Jersey, 2003), p. 69

³¹ M. Elm, *Oil, Power, and Principle*, p. 53

³² K. Pirouz, ‘Iran’s Oil Nationalization’, *Comparative Studies of South Asia and the Middle East*, p. 113

³³ K. Shafiee, ‘A petro-formula and its world: calculating profits, labour and production in the assembling of Anglo-Iranian oil’, *Economy and Society*, Vol. 41, No. 4 (Nov. 2012), p. 591

taxes to the Iranian Government. Gidel also thought that Iran should not have been subject to British taxation on its share of the profits. In 1947 alone, this amounted to £2.5 million, whereas the AIOC, in the same year and under its tax immunities, paid Iran £308,000 in lieu of taxation.³⁴ The receipts in lieu of taxation frustrated the Iranians as this paled in comparison to the £14.8 million of taxes given by the company to the British Government. Iranian tax on the AIOC's profits was also fixed, while the British were able to, and did, vastly increase its taxes. This meant that Iran was at the mercy of HMG's tax policies, which by raising taxes and decreasing net profits could reduce the proportion paid out to the Iranian Government.³⁵ Furthermore, the Iranians were subject to added income reductions due HMG's legislation on dividend limitations. This resulted in a major portion of Iran's dividend share being held in the company's general reserves.³⁶ The AIOC also resisted repeated Iranian demands to retain gas, reduce wastage, and construct gas pipelines to cities. In short, the evidence suggests that the AIOC was deliberately short-changing the Iranians.

The AIOC repeatedly stressed the implausibility of meeting the Iranian demands. The Iranians rejected the AIOC Supplemental Oil Agreement, of July 1949, and demanded a fifty-fifty profit share. In January 1950, George McGhee, an American oil specialist and diplomat involved in AIOC's negotiations with the Iranians, stressed that he thought it time for the company to begin sharing its enormous profits.³⁷ The AIOC, however, repeatedly told the Iranians and the Americans that the Supplemental Agreement was both fair and generous. The company claimed that the Supplemental Agreement would provide Iran with higher gains than the concession in Venezuela. However, as Mostafa Elm highlights, this was not true.³⁸ The agreement would have awarded Iran between 32 percent and 37.5 percent of total net profits. Even Neville Gass, the managing director of the AIOC, in 1951 came clean to the British Ministry of Fuel about the company's deceptions. He admitted that Iran's net benefits under a fifty-fifty profit share would have been £40 million, instead of the £30 million awarded under the Supplemental Agreement.³⁹

The AIOC and representatives of HMG resisted American pressure to make further concessions and told McGhee that the company would not train more Iranians for graded positions, would not open their book to Iranian auditors, and would not offer Iran more money for its oil. They insisted that 'one more penny and the company goes broke' and that meeting Iranian demands would 'leave nothing in the till'.⁴⁰ These concerns are not borne out

³⁴ M. Elm, *Oil, Power, and Principle*, p. 37

³⁵ Ibid.

³⁶ Ibid., p. 53

³⁷ S. Kinzer, *All the Shah's Men*, p. 87

³⁸ M. Elm, *Oil, Power, and Principle*, p. 55

³⁹ Ibid.

⁴⁰ Ibid., p. 61; S. Kinzer, *All the Shah's Men*, pp. 87-88

by the facts, as according to a US State Department report, the AIOC was an ‘exceptionally profitable’ company that sold its oil for between ten and thirty times the cost of producing the product.⁴¹ The company also entered the crisis in an extremely strong financial position, with liquid assets of over £100 million and virtually no debt.⁴²

After oil companies had negotiated fifty-fifty profit share deals in Venezuela and Saudi Arabia, the Supplemental Agreement was never going to convince the Iranians. However, when the AIOC did finally offer to consider a fifty-fifty profit share in February 1951, albeit too late, the British refused to include any profits made from AIOC’s subsidiaries outside of Iran and stressed that they were not subsidised with Iranian income. However, as Elm highlights, Foreign Office and Treasury officials admitted that they could not refute that the company’s global business ‘had been built on Iranian oil’ since ‘the AIOC had raised no fresh money since 1923’.⁴³ The overall picture is of a firm with extremely healthy and profitable operation in Iran, which was willing to deceive both the Americans and the Iranians in trying to push through a favourable and unfair agreement. The company was desperate to maintain its control of the oil industry and preserve its opportunities for enormous profits, and very reluctant to accede to Iranian demands.

The AIOC and anti-Iranian discrimination

The Iranians repeatedly claimed that the AIOC violated its commitment under 1933 agreement to give labourers better pay and more opportunities for advancement, and stressed that the company had had not built the schools, hospitals, and roads it promised. However, in October 1951 the British representative at the UN claimed that the AIOC had made great contributions to the Iranian economy.⁴⁴ Indeed, there is evidence, as Bamberg highlights in his official history of the AIOC, that the company engaged with its social responsibilities under the 1933 Agreement.⁴⁵ According to comments made in 1949 by the AIOC chairman, Fraser, the AIOC had generously invested in education, supported technical institutes and schools, and provided educational and training schemes.⁴⁶ However, as Kinzer and Elm highlight,

⁴¹ Ibid., p. 87

⁴² J. Bamberg, *British Petroleum and Global Oil, 1950-1975: The Challenge of Nationalism* (Cambridge, 2000), p. 38

⁴³ N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 36 & p. 29; M. Elm, *Oil, Power, and Principle*, p. 107

⁴⁴ K. Pirouz, ‘Iran’s Oil Nationalization’, *Comparative Studies of South Asia and the Middle East*, p. 111

⁴⁵ J. Bamberg, *The History of the British Petroleum Company Vol. 2*, pp. 374-375 & pp. 361-363

⁴⁶ N. Abdelrehim, J. Maltby, S. Toms, ‘‘A pretty good deal just now.’ The Anglo-Iranian Oil Company, Oil Nationalisation and Managerial Response: 1951’, *Dissertation*, p. 42

there is much evidence to suggest that the AIOC was not fulfilling its duties, which in turn encouraged Iranian dissatisfaction.⁴⁷ For example, in November 1950 many in the British Government were shocked to learn from the British labour attaché in Tehran that most of the company's workers were housed in 'cottages made of mud bricks, with no electricity, without outside water supply and sanitary arrangements...in other words, in veritable slums'.⁴⁸ The British minister in Tel Aviv also addressed the issue of poor work conditions and called the 60,000 workers of the AIOC the 'poorest creatures on earth'.⁴⁹

Displeasure towards the AIOC was further encouraged because of the luxurious conditions that the British management and staff enjoyed. They lived in separate communities with all the typical upper class British amenities, such as tennis courts, swimming pools, and gardens.⁵⁰ The AIOC also segregated social facilities, as can be seen by the fact that there was a staff hospital for the Europeans and a native hospital, with poorer conditions, for the local employees. The result of segregation, as Bamberg highlights, was to create enclave communities in the areas where the AIOC was operating.⁵¹ It also reinforced the unequal distribution of power, encouraged hierarchies, and subordinated Iranian interests.⁵² The AIOC resembled a 'state within a state' that catered to meet the needs of foreigners while discriminating against locals.⁵³ As Abrahamian and Elm stress, this gave added weight to the thought that Britain was behaving as a typical and exploitative colonial power and further encouraged the political demands of the Iranians. In view of this, it was not surprising that the company's local labour force became so supportive of the nationalisation movement.⁵⁴

The other major point for the Iranians that they wanted addressed in negotiations between 1947 and 1950, was the issue of Iranianisation. The Iranians demanded better access for locals to graded jobs and for Iranians to replace foreign workers within the AIOC. Gidel's memorandum highlighted that the AIOC had failed in their promise to improve the conditions of Iranian workers and that consequently they were confined to unskilled jobs.⁵⁵ The

⁴⁷ S. Kinzer, *All the Shah's Men*, p. 67; M. Elm, *Oil, Power, and Principle*, pp. 103-104

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ N. Abdelrehim, J. Maltby & S. Toms, 'Corporate Social Responsibility and Corporate Control: The Anglo-Iranian Oil Company, 1933-1951', *Enterprise & Society*, Vol. 12, No. 4 (July, 2011), p. 848

⁵¹ J. Bamberg, *The History of the British Petroleum Company Vol. 2*, p. 519

⁵² N. Abdelrehim, 'Oil Nationalisation and Managerial Disclosure: The Case of the Anglo-Iranian Oil Company, 1933-1951', *PhD* (University of York, 2010), p. 100

⁵³ S. Marsh 'Anglo-American Crude Diplomacy: 1951-53', *Contemporary British History*, pp. 29-31

⁵⁴ E. Abrahamian, 'The 1953 Coup in Iran', *Science & Society*, p. 186; M. Elm, *Oil, Power, & Principle*, p. 104

⁵⁵ N. Abdelrehim, J. Maltby & S. Toms, 'Corporate Social Responsibility and

direct participation of educated Iranians in operation and management positions was controlled, and restricted by, the company. In 1934, the AIOC proposed that it would recruit artisans and its technical and commercial staff from Iranians 'to the extent that it shall find Persian subjects who possess the requisite competence and experience'. 'This will of course never happen'.⁵⁶ In June, 1950, Alan Leavett, of the Foreign Office, was still following this same course and was unwilling to heed American suggestions that a settlement might be facilitated if the AIOC were to offer an enhanced Iranianisation programme. He commented that it would be 'easier to satisfy the State Department that their proposal had been given serious consideration, if we could assure them that we discussed it with the company before rejecting it'.⁵⁷ The company also required that all training and instruction, except the lowest grades, be in English, further restricting Iranian involvement in the oil industry.⁵⁸

The failure of the AIOC to implement greater opportunities for locals is also evidenced by the fact that the ratio of non-Iranian staff to Iranian staff had increased from 7 percent in 1939 to 10 percent in 1945. In this period, non-Iranian salaried employees had also increased, whereas Iranian salaried employees had slightly fallen. After 1945, there were some small decreases in the number of foreign workers, but the AIOC was determined that this would be limited and that reductions would be for a short period.⁵⁹ Ernest Northcroft, the AIOC's Chief Representative in Tehran, in July 1950 was cautious about implementing the Iranian demands, arguing that if the company was to base their 'activities on Persian manpower to the degree which he (Razmara, the Iranian Prime Minister) envisaged, we (Britain) should be driven out of business'.⁶⁰ In short, the AIOC was very reluctant to increase Iranian representation or invest in Iranian training for fear that the Iranians might learn to manage the petroleum industry without British input.⁶¹ As Abdelrehim et al highlight, the AIOC and the British Government were determined to resist Iranianisation as it presented a threat to the company's control of the oil industry.⁶²

Corporate Control: The Anglo-Iranian Oil Company, 1933-1951', *Enterprise & Society*, p. 848

⁵⁶ K. Shafiee, 'A petro-formula and its world: calculating profits, labour and production in the assembling of Anglo-Iranian oil', *Economy and Society*, p. 596

⁵⁷ S. Marsh, 'HMG, AIOC and the Anglo-Iranian oil crisis', *Diplomacy and Statecraft*, p. 157

⁵⁸ Ibid.

⁵⁹ N. Abdelrehim, J. Maltby & S. Toms, 'Corporate Social Responsibility and Corporate Control: The Anglo-Iranian Oil Company, 1933-1951', *Enterprise & Society*, p. 840 & p. 845

⁶⁰ Ibid., p. 840

⁶¹ Ibid., p. 844

⁶² Ibid.

Permeating the AIOC's reluctance to engage the Iranians was a strong sense of their own superiority and the incapability of the Iranians. Fraser regarded the Iranians as inherently corrupt and British officials openly bemoaned the weakness of the Iranian character.⁶³ The company's British staff thought that if they allowed greater Iranian participation, then no one would be able to work the heating in the AIOC's offices, let alone operate the oil industry.⁶⁴ In fact, as Elm has shown, Fraser later acknowledged that the Iranians did have the requisite skills to run the oil industry, albeit at a reduced efficiency.⁶⁵ However, the general mindset of many British Government and company officials was symptomatic of the colonialist attitudes that viewed indigenous people as inferior and in need of enlightened imperialism. British officials were often contemptuous of the Iranian state and lamented at the lack of a colonial history in Iran. According to the British Ambassador in Tehran, Sir Francis Shepherd, Iran was incapable becoming self-sufficient without a guiding hand and had degenerated into 'decadence' as it had not been able to develop at the hands of a 'civilised nation'. Shepherd thought that 'the need for Persia is not to run the oil industry for herself (which she cannot) but to profit from the technical ability of the west'.⁶⁶ In failing to recognise that the sun was setting on the colonial era, the racist and antiquated attitudes of the British only served to fuel Iranian resentments and encourage the idea that the British were behaving as self-serving imperialists bent on subjugating Iranian aspirations.

Too little too late

On 23 February 1951, in response to Iranian attacks and American pressure, the British informed the Iranians that they were willing to consider a fifty-fifty profit share agreement, but not under the threat of nationalisation.⁶⁷ This was a last ditch attempt to salvage something from the crisis. Dean Acheson, the US Secretary of State, thought it beyond belief that the company had not immediately appeased the Iranians and yielded to minor points such as the appointment of Iranians to its board of directors, the opening of company accounts to Iranian auditors, and by increasing the number of Iranian personnel.⁶⁸ The need for the management of the AIOC to react faster during the crisis was all the more paramount given that news of the forthcoming Arabian American Oil Company (ARAMCO) and its fifty-fifty profit sharing agreement with the Saudi Government had reached Tehran in December 1950.⁶⁹ The Iranians were also fully aware of the concessionary agreement in

⁶³ S. Marsh 'HMG, AIOC and the Anglo-Iranian oil crisis', *Diplomacy and Statecraft*, p. 153

⁶⁴ M. Elm, *Oil, Power, and Principle*, p. 80

⁶⁵ *Ibid.*, p. 118

⁶⁶ Wm. R. Louis, *The British Empire in the Middle East 1945-1951*

⁶⁷ M. Elm *Oil, Power, and Principle*, p. 78

⁶⁸ Wm. R. Louis, *The British Empire in the Middle East 1945-1951*, p. 657

⁶⁹ S. Kinzer, *All the Shah's Men*, p. 76

Venezuela, where there was a fifty-fifty agreement as well as the oil company being obliged to present its accounts to the Venezuelan Government for examination. In Venezuela, Creole (a subsidiary of Standard Oil), like the AIOC in Iran, had interests elsewhere in the world but was still willing have its records audited by the host government.⁷⁰ The Iranians would never settle for less, which makes it all the more unbelievable that the British were so slow to improve on the terms it offered.

The inability of the AIOC to react quicker to the circumstances is even more inexcusable given that McGhee had warned the AIOC months earlier about the forthcoming ARAMCO deal.⁷¹ The company, he thought, had brought the troubles on itself by being ‘too rigid and too slow to recognise that a new situation had been created in Iran which required a new approach’.⁷² The British position, as Kinzer stresses, was ‘so far removed from reality’.⁷³ This was aptly summed up by the AIOC’s manager in Tehran, Ernest Northcroft, who in mid-January 1951 was dismissive and advised the Home Office to not ‘attach much importance’ to the nationalisation movement.⁷⁴ Even when the company’s highest-ranking Iranian employee warned the AIOC, in late January, that there was still enough support in the Majlis to ratify the Supplemental Agreement if the company would include a fifty-fifty profit share and shorten its terms, he was ignored as untrustworthy.⁷⁵ When the AIOC finally made the fifty-fifty offer, it came too late to halt Mossadeq’s populist march toward nationalisation.

The issue of compensation

When taking power in April 1951, Mossadeq promised fair compensation to the AIOC and invited British employees to work for the new authority, the National Iranian Oil Company (NIOC).⁷⁶ At discussions in New York with the Americans, Mossadeq stated that he was willing to offer compensation based on the aggregate market value of the company’s shares before nationalisation. Alternatively, he suggested that compensation be based on the most favourable nationalisation law in existence. Mossadeq also volunteered that former purchases of Iranian oil would be guaranteed, oil would be sold to the British at a discount to make up for any deficiencies in compensation, and that if purchasers chose, the AIOC could represent third parties and subsidiaries.⁷⁷ Mossadeq’s main stipulation, however, was that the

⁷⁰ M. Elm, *Oil, Power, and Principle*, p. 68

⁷¹ *Ibid.*, p. 85

⁷² S. Kinzer *All the Shah’s Men*, p. 89

⁷³ *Ibid.*, p. 77

⁷⁴ S. Kinzer, *All the Shah’s Men.*, pp. 77-79; M. Elm, *Oil, Power, and Principle*, p. 74

⁷⁵ *Ibid.*, p. 76; S. Kinzer, *All the Shah’s Men*, pp. 77-79

⁷⁶ E. Abrahamian, ‘The 1953 Coup in Iran’, *Science & Society*, p. 186; M. Elm, *Oil, Power, & Principle*, pp. 186-187

⁷⁷ K. Pirouz, ‘Iran’s Oil Nationalization’, *Comparative Studies of South Asia and the*

board of the AIOC must contain no British and that Iranians would be trained to fill the majority of positions in all levels of the oil industry. The Prime Minister's hand was reinforced, in June 1951, when the Iranian authorities searched the home of the head of the AIOC's office in Tehran, Richard Seddon, and found many incriminating files. Mossadeq now had proof that the AIOC had interfered in Iranian politics. It had influenced senators, Majlis deputies, and former cabinet ministers, while those that opposed the company were quietly forced out of office.⁷⁸ Mossadeq was not prepared to allow any part of the operations or management of the NIOC to be in British hands; the oil was to be Iranian.

The British, for their part, insisted they were willing to accept a compromise, especially since the socialist government in Britain had nationalised some of its own industries.⁷⁹ However, as Abrahamian highlights, confidential British memos disprove this. The British chief negotiator with the Iranians, Lord Stokes, told the cabinet that while the principle of nationalisation might be accepted, the AIOC must maintain control. He admitted that he would accept the 'facade of nationalisation while retaining the substance of control'.⁸⁰ The British were not willing, under any circumstances, to allow Iran to have the final say over how much oil to produce and where to sell it. Iran could have too much of an impact on world prices and harm a vital component of British economic recovery, while there was also the fear that compromises might encourage nationalist demands elsewhere, such as in Suez. At the UN, the British representative contested the Iranian right to nationalise and held that compensation could not be paid as Iran could not run the oil industry, even though the Iranians had made it clear that they would seek the services of qualified technical personnel from other countries.⁸¹ The British were in no mood to compromise and would not accept Mossadeq's compensation offer, nor were they willing to accept a compromise solution worked by the Americans as the basis for negotiations. Instead, the British stalled on talks in the hope that the collapse of the oil industry would bring a new, and more amenable, government to Iran.⁸²

Conclusion

Middle East, pp. 112-115

⁷⁸ M. Elm, *All the Shah's Men*, pp. 96-97

⁷⁹ Wm. R. Louis, 'Musaddiq and the dilemmas of British imperialism', in *Musaddiq, Iranian Nationalism, and Oil*, ed. J. Bill & W. R. Louis (London, 1988), p. 238

⁸⁰ E. Abrahamian, 'The 1953 Coup in Iran', *Science & Society*, p. 191; M. Elm, *Oil, Power, & Principle*, pp. 186-187

⁸¹ K. Pirouz, 'Iran's Oil Nationalization', *Comparative Studies of South Asia and the Middle*, p. 112

⁸² E. Abrahamian, 'The 1953 Coup in Iran', *Science & Society*, p. 186; M. Elm, *Oil, Power, & Principle*, p. 190

The British were blinded by their determination to uphold their control of the Iranian oil industry. The AIOC provided enormous returns, which the company was not prepared to see dramatically reduced, while the firm was also considered vital to both Britain's economic reconstruction and to HMG's strategic objectives. Yet, this determination meant that the British were not able to appreciate Iranian concerns and acknowledge their demands for revising the terms of the oil agreement.

The Iranian accusations against the AIOC stand up under scrutiny and justify their demands during negotiations. There is much evidence to suggest that the AIOC discriminated against Iranians. The work conditions for many Iranian workers were deplorable, and the company encouraged segregation and treated its local workers differently from its foreign employees. The image of wealthy secluded British villages in amongst Iranian poverty was always going to fuel nationalist demands. The connection of HMG to company policy, along with historic examples of British meddling in Iranian politics, further encouraged the belief that the British were an exploitative imperial power that must be evicted. The AIOC was also unwilling to encourage the appointment of locals to advanced positions within the company. The company repeatedly ignored Iranian demands for Iranianisation and failed in its promises to improve conditions for Iranian workers, giving ordinary Iranians little choice but to support the nationalisation movement.

The AIOC's profit sharing was also unfair and devious, while the company's adamant refusal to quickly improve on the Supplemental Agreement was both unreasonable and short sighted. The AIOC's refusal to change tack, and its support from HMG, is indicative of the fact that the company and the British Government were desperate to maintain the benefits of their exclusive control of the oil industry of Iran. Oil was vital to both company shareholders and to the policies of HMG. The company was even willing to lie about profit margins and ignore the precedents in other oil concessions. The British were desperate to find sympathy with the Americans and loyal Iranians in the hope that the company could maintain its favourable arrangement. When the British did finally realise that this was not going to happen, the company's offer to include a fifty-fifty profit share in the agreement came too late. The magnitude of the Iranian displeasure at the AIOC's presence in Iran had reached a point of no return, and nothing short of nationalisation would satisfy the Iranian people.

Under the circumstances, however short lived, the nationalisation of AIOC assets and the oil of Iran was, from an ethical point of view, justified. In failing to dramatically improve the work conditions for Iranians, the AIOC did not fulfil its obligations under the 1933 Agreement. The uncompromising nature of the AIOC, coupled with the company's insincerity and greed, meant that an alternative solution to nationalisation was not possible. The US expressed serious doubts about the legal opposition posed by the AIOC,

saying that ‘no government can deny itself sovereign rights to nationalise an industry within its territory’.⁸³ The British position to undermine negotiations and disrupt nationalisation is all the more unreasonable given that Clement Attlee, the British Labour Prime Minister, had pioneered a nationalisation phase in Britain. Iranian stipulations within any compensation agreement were also fair, given the nature of past British behaviour in Iran. Indeed, the US State Department’s international lawyers found it difficult to go beyond the view that ‘breach of contract involved payment of compensation’.⁸⁴ This was something the Iranians were always willing to agree, thus adding further weight to the rights of Mossadeq’s nationalisation.

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⁸³ M. Elm, *Oil, Power, and Principle*, p. 112

⁸⁴ *Ibid.*, p. 112

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