British and Iran: Harmful Harvest of 1951 Oil Negotiations

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Abstract

When Dr. Mohammad Mosaddeq began nationalizing the oil industry in 1951, the British were taken aback by his recalcitrant position and did everything possible to maintain their absolute dominance of the industry. Three rounds of negotiations were held but all failed to reach a settlement. This study describes a series of oil agreements between Iran and Britain and further delineates Dr. Mosaddeq’s policies, strategies and counter-proposals with respect to bi-literal political-economic interests. A qualitative approach is employed to disclose the unscrupulous methods employed by the British to maintain their interests in Iran both before and after Iran's nationalization of the oil industry. We used documentation from the Public Records Office, Kew London (cited with ‘G’ or ‘EP’), which bear significant evidence that substantiates the purpose of this study which reveals that all oil agreements, as imposed by the British, were unilateral in nature. Dr. Mosaddeq made a very courageous move when he unilaterally broke from unreasonable contracts that were solely designed to protect the British 'status-quo'. Their actions resulted in negative impacts and responses on/to the ongoing negotiations: “Owing to Persian nationalist susceptibilities there is not the slightest hope of success in a direct negotiation Government vis-à-vis Government”—letter from George Binney to Lord Leathers; The Persian Situation, Argument for the Project. 9 Jan. 1952—whereby two months before the British embassy, in its report dated on 19 November 1951, insisted that “any government is better than Dr. Mosaddeq’s government” (British Embassy, Tehran, G10101/453/51, 19 Nov. 1951).

Keywords: Nationalization of oil, British, Dr. Mosaddeq, Iran

1. Introduction

The British managed to monopolize Iran's oil from the late 19th century and historically Iran's oil industry had been intimately linked to British interests from this time. After World War II, Iranian nationalism moved the nation to regain its rights from foreign powers and political leaders began restraining foreign manipulators with attempts to renegotiate issues regarding oil agreements. Among the many who promoted this campaign was Dr. Mohammad Mosaddeq who had graduated with a doctorate in law in Switzerland in 1913 and was extremely keen to nationalize the Iranian oil industry. In 1914, he served as Professor of Political Science at the Institute of Tehran and from 1917 to 1923 he was Deputy Minister of Finance, the Governor of Fars, as well as the Minister of Finance and Governor of Azerbaijan. He was eventually placed under house arrest after opposing the appointment of Reza Shah as the Shah of Iran but later became active in politics again and was elected as a member of the Majlis after Reza Shah was forced to abdicate. It was then that he initiated political activities to regain Iranian rights.

During his premiership (1951–53), Dr. Mosaddeq’s power as Prime Minister grew but he resigned after a quarrel with the Shah over the position of Defense Minister in mid-July of 1952 but was re-elected on 22 July 1952 after nationalist demonstrations. With his re-appointment he also gained control of the military as Minister of Defense. The British government clearly reacted negatively to Dr. Mosaddeq’s government after the nationalization of oil and put forth favorable negotiations. Even before discussions with Iranian counterparts, however, they had already rejected the Iranian proposal as ‘wholly unacceptable’ and due to Dr. Mosaddeq’s attitude, which they fully understood, they put severe pressure on his government to maintain their own interests as previously stipulated and hence, completely unchanged. At the end of the day, not only were negotiations unfruitful for both parties but they served as pretext for further British actions. Hence, oil became the principal focus of dispute that cultivated eventual changes in Iran's political system.
2. Oil Agreements between the British and Iran

In 1892, Jacques de Morgan wrote about Iranian oil in Les Annales de Mines. Kitabehi Khan met Sir H. Drummond Wolff in Paris to discuss the article and the latter returned to London and encouraged William Knox D’Arcy to invest in Iran's oil production. In 1901, Muzaffar al-Din Shah Qajar, of Persia, gave the oil concession for the entire country, excepting five provinces in the north, to D’Arcy for sixty years (Bamberg 1994, p. 27). This concession comprised eighteen articles including rights for exploration, exploitation, transport, and sales of oil products from an area of 1,242,000 square kilometers (1,242,000 km²). Its terms were to pay the Iranian government only sixteen percent of the Company’s profits (Bamberg 1994, p. 27). D’Arcy, however, was faced with financial problems and was referred to the Burmah Oil Company to “seek short term financial support” (Fisher et al., 1991, p. 641). On 26 May 1908, the British discovered more oil reserves in Masjid-i Suleiman, after which the Anglo-Persian Oil Company (APOC) was formed by the Burmah Oil Company (Fisher et al., 1991, p. 641) and registered in London. In fact, APOC was created by the British Admiralty although it involved private capital (Ahmad, 1974, pp. 283-284, 289). In 1912, the first crude oil was exported and the British government bought shares in APOC. On 20 May 1914, the British Treasury and Admiralty signed an agreement with APOC (Ahmad, 1974, p. 290) whereby the British Government (Armajani, 1972, p. 144) purchased two million normal shares and one thousand preferred shares of APOC.

Reza Shah insisted on revising the previous concession to obtain Iranian rights but his demand was rejected by the British. Nonetheless, after a few years later by the continuous negotiations and arguments with Reza Shah a new modified concession was signed on 28 May 1933 (Pazuhesh az Jami/Research from Jami 1377/1998, pp. 38-39) that extended the original concession for an additional sixty years until 1993 but limited the concession area to 100,000 square miles (260,000 km²). However, APOC lost exclusive rights to build an oil pipeline to the Persian Gulf while payments of 'four coins' per ton of oil as well as a twenty percent annual royalty to the Iranian government were negotiated at the time (Wilber, 1975, pp. 267-268). APOC then became the Anglo-Iranian Oil Company (AIOC) with approximately 65,000 workers of which only nine percent were skilled. Blatant discrimination also became apparent when no Iranian workers were hired for administrative positions (Amuzegar & Fekrat, 1971, p. 26). The 1933 oil agreement confirmed AIOC's right to control Iran’s oil industry (Kinzer, 2008, p. 60) which aided Britain's economic recovery from the woes of both World Wars. Oil production increased yearly from 2,500 barrel per day in 1912 to 121,600 barrel per day by 1931. It saw a further sharp increase with the AIOC-Iran crisis of 1951, showing a total production of 650,000 barrel per day (Fisher, 1968, p. 531). Meanwhile, net income for the British from 1945 to 1950 reached a staggering 215 million pounds (Kimche, 1953, p. 345).

3. Dr. Mosaddeq Continuous Effort to Nationalize Oil

As nationalism was gaining currency the sole institution supporting the movement was the Majlis whose deputies had scrutinized all previous oil agreements. The first critical discussion on oil agreements was officially conducted by Dr. Mosaddeq who delivered a detailed talk to the Majlis on 29 October 1944 (Pazuhesh az Jami/Research from Jami 1377/1998, pp. 41-45). On December 2 of the same year, he initiated a plan, approved by the Majlis, whereby the Iranian government insisted on modifying previous oil agreements. The sole action taken by force of law occurred three years later (19 Oct. 1947) for the purpose of achieving Iranian rights through modification of the 1933 agreement but a continuation of unbalanced sharing of oil revenues eventually led to a crisis (Amuzegar & Fekrat, 1971, p. 15) that was initially resolved on 18 July 1949 when Iran's Minister of Finance (Abbas Gholi Gulshayan) and the AIOC signed the Supplemental Oil Agreement/Gass-Gulshayan Agreement (Avery, 1965, p. 406). On 12 Oct. 1950, Dr. Mosaddeq and a few Majlis deputies impeached Razmara’s government while presenting stark opposition. They then re-established a Special Commission on Oil that had been set up earlier and on 25 November, representatives from the National Front proposed that the Commission should announce the Nationalization of the Iranian Oil Industry to the entire nation. The proposal was signed by Ha’irizadeh, Allahyar Saleh, Shaygan, Dr. Mosaddeq and Makki (Pazuhesh az Jami/Research from Jami 1377/1998, p. 509).

Subsequently, on 10 Dec. 1950, the Oil Commission reported to the Majlis that the Oil Contract Extension was not sufficient for achieving the full realization of Iran's rights, and stated its opposition. Their proof was that until 1950, the AIOC had made payments of $1,680 million to the British government including discounts to the British fleet totalling $500 million. Moreover, other shareholders received payments of $170 million whereas Iran only received $450 million (9% of total oil revenue) (Amuzegar & Fekrat, 1971, p. 17). The nationalist uprising, meanwhile, nurtured the defense of the National Front throughout the country (Pazuhesh az Jami/Research from Jami, 1377/1998 p. 510). Hence, during the Majlis session of 17 December 1950, the cited report was read and the rejection of the Supplementary Agreement was approved. Dr. Mosaddeq then delivered a
speech on the nationalization of Iran's oil. On 29 December, a large gathering formed in protest against both the government and the AIOC, demanding the immediate nationalization of Iran’s oil. On 11 Jan.1951, the Majlis approved a plan to determine the Oil Commission's stand against the Iranian government’s action within two months (Elm, 1994, p. 81).

Consequently, the Oil Commission held a series of twelve meetings, from 29 January to 8 March, to study judicial, political and economic aspects of the situation. The committee submitted its final decision, approved by the Senate Assembly, on 20 March (Nationalization of the Oil Industry of Iran, 1951). On 27 April 1951, the Oil Commission presented its report including a nine-point law on the implementation of Iran's nationalization of oil. On 1 May 1951, the Iranian government began to enforce the Nationalization Bill. Hence, Britain had been given five full months to fully release its documents on AIOC operations to the Iranian government (Kimche, 1953, p. 349). The changed nature of Iran's oil industry was unquestionably a nationalist movement in which Dr. Mosaddeq was in control of both policy and wisdom, and won a significant outcome by his efforts (Rose, 2004).

On 28 April 1951, the Majlis stated its inclination to appoint the premiership to Dr. Mosaddeq. He accepted on condition of the approval of the above-cited nine-article rule after which both the Majlis and Senate ratified it as law. Dr. Mosaddeq then announced the enforcement of the Oil Nationalization Law (ONL) throughout the country to raise the public's welfare and comfort. He also announced plans to reform the Majlis Elections Law and Municipalities. His main purpose was to achieve complete economic independence for the oil industry and eliminate British influence in Iran.

4. Negotiations and Counter-Proposal

After the approval of the ONL, notes were exchanged between Iranian and British governments by which the latter determined to obstruct Iran's purpose. The British had two important goals: huge financial benefit and complete hegemony and influence in Iran that would guarantee their mastery of the entire Middle East (EP1532/50). The British were inclined to continue negotiations although they knew Iran remained rigidly opposed to their desires. British rail makers had meanwhile agreed to supply 35,000 tons of rails, sleepers and accessories (letter from G. Binney to Furlonge). If negotiations failed to solve the ONL issue amicably, they feared Iran might cancel the order and jeopardize their interests. Furlonge appreciated this commitment and said there was no reason to cancel or suspend this contract (letter from Furlonge to G. Binney). Besides this, the British still maintained some hope that Dr. Mosaddeq would soften after sending different groups to negotiate directly or indirectly (EP1531/674). Another purpose to continue negotiations concerned British interests in Abadan oil, where most workers were British subjects. Hence, they wished to continue business (letter from the FO to Khorramshahr). However, the 'softening' never came and Britain consequently instigated several untoward actions against the Iranian government (Ebrahimi et al., 2012). Such objections were predictable as the most significant foreign asset of Britain was mainly its AIOC refinery in Abadan (EP1534/36A). During the eight months following ONL enactment, two rounds of direct talks between British and Iranian boards in Tehran and a round of indirect talks in the U.S. took place.

First off, the British Foreign Secretary, Herbert Morrison sent a message to Dr. Mosaddeq and requested a resumption of negotiations. On 8 May 1951, the AIOC representative remanded the dispute for arbitration (Jewkes 1953). The Ministry of Finance replied on 20 May by mentioning that the nationalization of industries fell under the respective nation's jurisdiction and that private sector contracts, though assumed valid, could not prevent the execution of this national right based on specified international law. Hence, nationalization of the oil industry could not be legally referred to arbitration (Fateh, 1384/2005, p. 524). Subsequently, on 3 June 1951, the AIOC announced its readiness to begin negotiations with the Iranian government. On 11 June, a 'Council' of AIOC representatives, with Basil R. Jackson, arrived in Tehran for negotiations (EP1534/39; Blake, 2009). They managed relentless encounters with their Iranian counterparts on at least three occasions (Foreign Office & Whitehall Distribution, From Tehran to Foreign Office. Nc. 650. 15 June 1951; Foreign Office and Whitehall Distribution, From Foreign Office to Tehran. No. 549. 16 June 1951; EP1531/663 19 June 1951). Simultaneously, there was a series of communiqués between Jackson and the FO on how to obtain optimal results. Jackson was given two options by the FO; either continue negotiations or cease (Foreign Office & Whitehall Distribution, From Tehran to Foreign Office. Nc. 650. 15 June 1951). In the end, Jackson chose to continue and brought major points as a counter-proposal. First was to make an early payment of ten million pounds to the Iranian government; second, to pay 3 million pounds monthly during negotiations; third, to establish a new company and transfer all assets of the AIOC to that company. This company would be a subsidiary of AIOC but Iranian controlled. Finally, all businesses from the AIOC were to be transferred to the National Iranian Oil Company (NIOC). However, and in fact: “the FO and the Company were in general agreement that Iranian demands were wholly unacceptable” (Ferrier & Bamberg, 1994, p. 427).
Among debatable issues the British allowed some Iranians as directors without shares who should otherwise be compensated (Telegram 556). In addition, the British did not agree to deposit, in a mutually agreeable bank, any Iranian oil sales' proceeds (Telegram 556). On 19 June (their final meeting), the Iranian government was quick to reject the proposal (EP1531/668; EP1534/39). Although the British government believed that the AIOC had offered a fair proposal (EP1531/676 18 June 1951), Iranian representatives announced the British proposal did not align with the ONL. The director of the British Council stated that even if the proposal did not totally conform to the ONL, it would have been applicable to the principle of nationalization, and, accordingly, it could be fairly adjusted to an interpretation of the law. Nevertheless, the Iranians decided to cease negotiations. These detailed 'proceedings' were sent to the FO and after an hour the meeting adjourned (EP1531/663 19 June 1951). Jackson left Tehran immediately (Ferrier & Bamberg, 1994, pp. 428-29; EP1531/664 21 June 1951) stating that 'as long as Dr. Mosaddeq remained in power, there was no hope for renewed talks'.

On 20 June 1951, Morrison presented the AIOC Iranian proposal to the House of Commons (EP1531/668), stating they had considered payments to the Iranian government in view of the government's essential financial need, as well as the AIOC's acceptance of the principle of nationalization of oil and fruitful cooperation; further stating that the British:

“... had always proposed new plans which would enable the Iranian people to get a larger share of the profits of this industry and it is still convinced that a solution could be reached by negotiations which will safeguard the interests of both countries” (EP1531/668).

Dr. Mosaddeq gave his own perspective on the matter of oil dispute in the Majlis by stating that negotiations must be based on the precise rules of the ONL. On 21 June 1951, Dr. Mosaddeq reported on the lengthy process of negotiations and reasons for their failure. He then called for a vote of confidence which was granted by ninety one votes in favour of the ninety two present representatives in the Majlis. The Iranian government decided to totally release the AIOC from the control of foreigners. Also, the AIOC’s name is changed into Nationalized Iranian Oil Company (NIOC). The Iranian government hired some officials for different sections of the NIOC in its centre and shops. Dr. Mosaddeq had announced in his statements and interviews that he could not neglect the law that was the symbol of wish, will, and determination of Iran’s nation. The Iranian government decided to execute the law as approval by the oil council and continue ONL executive operations. However, the British explicitly stated they would try to prevent such operations.

In addition to that, the temporary board of directors of the NIOC had announced that all of the workers from all nationalities were allowed to continue their work in the NIOC. Furthermore, the ships to which, oil had been delivered should have given a receipt to the NIOC, and the ones that did not follow this rule were not permitted to leave. In response to this decision, on 26 June 1951, Foreign Minister of Britain in House of Commons announced, based on which, all the British oil cargo ships were ordered to leave Abadan even if they were to offload their already loaded oil. The Iranian government was planning to export the oil independently. However, the British demonstrated explicitly, through their statements, that they would try to prevent it. Unfortunately, no agreement was to be had and on 30 June, Morrison sent a message to Dr. Mosaddeq stating that the Iranian government was responsible for closing the AIOC and would bear consequences such as the loss of benefits and jobs.

In spite of that, Dr. Mosaddeq was insisting on the full independency of the Iranian government from the intervention of foreign countries. He believed that the oil profit which belongs to the people of Iran is the unique resolution to improve the economic situation and poverty in Iran. Dr. Mosaddeq did not take seriously the British statements and oppositions. He was quite confident that Americans might support him. At that time the U.S. strongly conveyed its supports to the freedom and sovereignty of nations. On 12 July 1951, Dr. Mosaddeq invited formally Truman to be a mediator between Britain and Iran. As a result, the U.S. found the fertile ground for directly intervention of both Britain and Iran.

Another round of discussions began with Dr. Mosaddeq, the oil council and other officials after the arrival of Harriman, Rountree and Walter Levy in Tehran on 15 July. On 23 July, Dr. Mosaddeq announced that he would negotiate further but only if the British government accepted the nationalization of Iranian oil. Richard Stokes arrived in Tehran on 4 August 4 with the aim of clinching a temporary agreement that would continue oil exports to avoid losing AIOC customers. But government representatives refused to accept any temporary contracts. On 13 August, Stokes delivered a counter offer containing eight points. First, the AIOC will transfer all possessions to the NIOC on condition the latter paid compensation whereby both parties would form a new company to arrange Oil exports. The new company was to have a long term contract with the NIOC while the latter was free to sell oil to other parties (EP1531/673 18 June 1951), and their actions would not prejudice any interests of the
newly established company. At the same time, the new company would help the NIOC manage operations in Iran. Lastly, the NIOC would share profits evenly (50/50) with the new company. The Iranian government considered these proposals in clear contravention of Oil Nationalization as well as the previous agreement with Harriman and thus, rejected it. The government was, however, in agreement with three formulae: (i) oil purchases for British needs; (ii) satisfying all legitimate claims of the Iranian government and the previous oil company (AIOC); and (iii) the continued presence of British oil experts and engineers.

Discussions continued and Stokes agreed that the NIOC board of directors would take charge of managing the oil industry. But Dr. Mosaddeq proposed to hire additional first class expertise from neutral countries to which Stokes objected by claiming that British experts refused to work under people of non-British origin (Movahhed, 1384/2006, pp. 231-235), and that he would rather appoint a British chief executive officer (CEO) (Gasiorowski, & Byrne, 2004, p. 148). Dr. Mosaddeq decided to postpone the matter but Stokes emphasized that discussing other issues were useless until the issue of the CEO was resolved (Fateh, 1384/2005, p. 560). The British were clearly inflexible on this point. On 21 August, Stokes informed Dr. Mosaddeq, by letter, that if the Iranian government did not accept this condition negotiations would promptly cease. On 22 August, Dr. Mosaddeq reported this exchange to both Majlis and Senate and immediately received a majority vote of confidence. On 23 August, Stokes left Tehran for London and Harriman returned to the U.S., both stating regrets over the unfruitful negotiations on respective arrivals at home. The worst consequences came when the AIOC gradually withdrew their oil workers from Iran and further announced that all salaries, domestic and foreign, would cease. At the time, only 350 British workers remained in Abadan whose departures were delayed at the request of the British government (EP1531/666).

As the negotiations were bilaterally inconclusive, Iran's oil industry predictably came to a halt without benefit for either party. On 5 September, Dr. Mosaddeq announced to the Senate that he would propose yet another round of talks, asking the Senate to specify counter proposals and suggestions. He further asserted that should he not received satisfactory responses from the British within two weeks of a new proposal, that residency permits for British experts would be cancelled (Zahrani, 2002). Once more, Dr. Mosaddeq received the Senate's vote of confidence. But the British were unwilling to further negotiate with Dr. Mosaddeq as they believed it was impossible to find a solution with his government. Despite British objection, the expulsion of experts proceeded and the British reputation became tarnished in the Middle East. Eventually, all left Iran for Basra on 3 October 1951.

The negotiation's failure and cessation, and the discharge of British workers had negative impacts in Iran (Marsh 1998). People close to the Durbar and others dependent on Britain became activists and began working to overthrow Mosaddeq's government (Ebrahimi et al., 2011; FO248/1514 10 November 1951). On 19 Nov. 1951 (27 Aban 1330), the British embassy asserted in a report that 'any government was better than Dr. Mosaddeq’s government' (G10101/453/51 19 Nov. 1951). George Binney and William Gout were sent to spy on behalf of the British earlier and, at the time, Mr. Binney insisted: “Owing to Persian nationalist susceptibilities there is not the slightest hope of success in a direct negotiation – Government vis-à-vis Government” (Letter from George Binney to Lord Leathers. The Persian Situation, Argument for the Project. 9 Jan. 1952).

5. Conclusion

Britain, as one of the major world powers, had gained control of Iran’s oil industry through its ownership of shares in the AIOC. This domination brought bounteous returns to Britain’s economy. The rapid growth of nationalism within Iran's Majlis was accompanied by efforts to nationalize the oil industry which then led to strained relations with Britain. In principle, even Britain accepted nationalization while searching for a solution through negotiations without affecting oil operations. Britain launched political and diplomatic approaches but Dr. Mosaddeq remained a staunch nationalist and stolid prime minister with plenary power. Hence, the British challenge to Dr. Mosaddeq could not be equated with those presented to previous Iranian politicians. Dr. Mosaddeq also received continual approval from a majority in the Majlis as well as support from Iranian citizens—significant motivation for the continuation of his implacable rejection of British proposals. The British eventually came to regard negotiations with Dr. Mosaddeq as impossible. On the other hand, attracting the attention and trust of Iranians was part of Eden’s plan. Accordingly, the British government aimed to overthrow Dr. Mosaddeq which led to the emergence of subsequent related events.

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