CHAPTER TWO

NATIONALIZATION OF OIL
Introduction:

As in the earlier chapter mentioned there was dispute between the Iranian and the British governments concerning Anglo Persian Oil Company (APOC's) Operation in Iran. APOC, which began its work as a normal trading company in Southwest Iran, gradually spread its activities and its domination to the whole country. It became an instrument of the British government in trying to dominate the oil resources. Thus, it never recognised the interests of the host country viz, Iran and was attempting only to maximise the benefits that could accrue to Britain. Moreover, by so doing it interfered with Iranian internal affairs. This situation was not acceptable to Iranians, who showed their dissatisfaction both by demonstrating and through legal ways like parliamentary campaign. These led to the assassinating of Prime Minister and some other special persons, which was symbolic of the campaign against the Britain and APOC. During this period, a lot of social changes took place in the country. The impact of all these changes was symbolized in the nationalization of Iran's oil industry. This chapter looks at the main reasons of oil industry nationalization, important events that arose in the context of the nationalization and the nature of oil contracts after nationalization.
Reasons for Oil Nationalization:

**Foreign concessions and the extraterritoriality:**

Given the significance of foreign concessions on different aspects of Iranian society, it is useful to study them. It is however not possible to discuss concessions in all their different socio-economic dimensions. The scope and focus of our study is limited to providing a brief outline, surveying the oil concession from 1872 to 1939 in this section.

1. Reuter Concession (1872):

Baron Julius de Reuter*, a British subject, was granted by the Iranian government a concession of the exclusive right to exploit coal, iron, copper, lead, forest and petroleum except gold, silver and other precious metals from the country in 1872. In return, he had to pay 15 percent of the net profits. Its performance in Iran caused dispute between the Russian and the

* Founder of Reuter News Agency
British interests. However, under the pressure of Russia and internal authorities the agreement was cancelled.

2. **Hotz Concession (1884):**

Hotz obtained an oil concession for a limited area around Daleki and drilled only one shallow well. The drilled well did not yield any positive result. Soon after, the concession was cancelled.²

3. **Second Reuter Concession (1889):**

Reuter was not disappointed after the nullification of his first concession. He tried again and offered several proposals until he obtained another concession after establishing the Imperial Bank of Iran in 1889³. The concession had an exclusive right of exploiting the country's iron, copper, lead, coal, borax, manganese and petroleum mines which had not already been granted to others. The deal was for a period of 60 years. In return, he had to pay pound 40 thousand plus 16 percent of net profits. The Imperial Bank of Iran which was established

55
and engaged in commercial banking operations, paid pound 40 thousand in cash plus annually 16 percent of its net profits to the Iranian government.

Later, the mining rights were transferred to a new British company called "The Persian Mining Corporation" along side a payment of a fee of pound 150 thousand. This company also bought the right of "Hotz" concession for oil, thus, taking over both the Reuter and the "Hotz" concession in 1890. After ten years it drilled only two wells, one in Daleki with depth of 270 metre and another in Qeshm with depth of 250 metre. None of these had any positive results. The company also began to exploit a manganese mine in Kerman but because of high transportation costs, the activity was considered unviable as it could not compete in terms of price in the London market, in addition, due to a lack of extra capital, forced the company was faced to discontinue the mining exercise and this led to the nullification of the rights in 1901.

4. D'Arcy Concession: (1901):

William Knox D'Arcy an English subject was an investor who obtained from the Iranian government a
concession to explore oil over nearly the whole of the country in 1901. The concession was valid for 60 years. It covered an area of about 500 thousand square miles. All land taxes were waived during the term of the concession. All materials and apparatus necessary for the exploration, working and development of the pipelines were to enter Iran free of all taxes and custom duties.

In return, D'Arcy had to pay pounds 20 thousand in cash and pounds 20 thousand in stock of the companies plus 16 percent of its net profits. D'Arcy and his assistants could form one or several companies to operate. Hence immediately an operating company was established. When they found oil in commercial quantity in 1908, they formed the Anglo Persian Oil Company with the assistance of the British government. Subsequently the Britain purchased more than 51 percent of the APOC's share and hence obtained the right to manage the company.

After then the company started pipelines and establishment Abadan Refinery, which was one of the biggest refineries in the world. It operated for more than forty years. As the company expanded its operations in oil field it began meddling in Iranian internal affairs. Gradually, it spread its domination in all parts
of the country up to 1951 when its operations ended in Iran after the company was nationalised.

5. Khoshataria Concession (1916):

Akaky Mededivitch Khoshataria was a Russian subject. He obtained from Iranian government a concession to explore for and exploit oil in three northern provinces for 70 years in 1916. In return, he had to pay 100 thousand Roubles for each oil spring plus 16 percent of net profits.  

The concession agreement included a provision that it would be nullified if operations did not begin within 5 years from the date it was granted by the Iranian government. But it was terminated only after two years.

6. Standard Oil Concession (1920):

On the proposal of Iranian Prime Minister, Majlis (Parliament of Iran) passed a law granting a concession
over five northern province of the country to Standard Oil New Jersey in 1920. The Concession was based on the following conditions:

1. Duration of the concession will be 50 years.
2. The share of Iranian government will be 10 percent of crude oil.
3. Other necessary conditions will be prepared by the government.
4. The company would not transfer its rights to any other persons or companies.

The granting of this concession met with opposition from different sides including Britain and Russia. During this time, to curtail opposition from the British, the company agreed to enter into partnership with the British Petroleum Company. This was however against the conditions of the concession and therefore the Iranian government annulled it.  

7. Sinclair Concession (1922):

In August 1922, Representative of American Sinclair Oil Company arrived in Tehran and offered the Iranian
government a proposal for granting oil concession over Azarbajjan and Khorasan provinces for a period of 40 to 50 years. This brought about serious rivalry between Sinclair and Standard Oil Companies each of which had interest in the area. After a long struggle the Iranian government accepted its proposal but the company dispensed with the concession. 

8. Kavir Khurian Concession (1924):

Haji Akbar Amin an Iranian subject was granted the ownership of some mines in Semnan province which included the oil mines of Kavir Khurian south of Semnan whose oil seepage had been noticed in this area before. The concessionaire was exempted from paying taxes on these mines for a period of the first 10 years, but thereafter had to pay one tenth of his profits to the Iranian government.

After sometimes Haji died and his heirs did not do any work on the mines. The Russian government learnt of this and under its guidance assisted one of her subjects to rent the mines for a period of 70 years and then transferred the right to the Russian government.
In 1929 the company of Kavir Khurian was formed and started oil exploration but did not discover any. Subsequently "petrofina" and "Societe' Franco-Persane de Recherches" two French companies proposed to participate in the venture but all their efforts came to nought.9

9. Amiranian Concession (1937):

The Iranian government proposed a law granting a concession to the Amiranian Oil Company, which was a subsidiary of the American Seaboard Oil Company for a period of 60 years. The company was given exclusive right to search for, explore, prospect, and extract petroleum over the north and north-eastern part of the country (not more than 100 thousand square mile).

A separate concession granted the right to build a pipeline to the Iranian Pipeline Company, which was a subsidiary of the Seaboard Oil Company. This company was to lay a pipeline to the Persian Gulf. Although the company began operations, its concession was waived after only two years.10
10. Dutch Concession (1939):

On April 1939, the Iranian Majlis approved a law, which granted a concession to "Allgemeene Explorative Maatschappij" over two areas: one, in the north and the another in the south of Iran. In the north the company was allowed to exploit search, and prospect for all mines. But in the south only petroleum and ferrous oxide mines exploiting was allowed. In the agreement, there was another article, which stipulated that if the company discovered oil during its operation, it could enter into negotiation with the Iranian government about its development.

This concession was valid for 60 years and in return, the concessionaire had to pay 50 percent of its revenue.

During the period of executing this concession, the second world war broke-up and the company waived its operation, and after some time, the Iranian government nullified this concession because of non-performance.
Impact of the concessions

The ten concessions discussed which dates back to 1873 and continued till 1939, are those granted by the Iranian authorities to exploit oil field either directly or indirectly. These and some other concessions in mining, communication and other fields were all granted to foreigners. Considering these cases it can be seen that during that period (end of nineteenth and early of twentieth centuries) the Iranian economy was not effectively free so as to be run by its nationals. It was dominated by foreigners, who were granted special privileges in both the economic and social sphere. For example, they were exempted from local law and judgement, they enjoyed freedom of movement and also retained most of the profits. Most of them chose virgin profitable activities to invest in and as a result acquired greater socio-political influence. In fact, they constituted a special group, which was not only alien and independent but operated exclusively and separately from the rest of the people in the country in which they were resident.

Apart from these, some additional concessions were granted by the Royal Rescripts called Farmans. This type of concessions were unilateral and were mostly without or
with very minimal evaluation. Other type of concessions that were granted to foreigners was approved by the Majlis. These concessions were arranged under some definite stipulation and were referred to as treaties. This second type of concessions (treaties) were mainly between countries and thus more of the nature of bilateral agreements.

In its entirely, whether through concessions, treaties or bilateral agreements, the Iranian oil industry was in the hand of foreigners. The extent to which Iran's economy suffered under the control of foreign merchant capital as a result of these concessions is summarised by Morgan Shuster when he notes:

"Iran has suffered in many ways from the foreigners during the post thirty years. Her hands have been tied by treaties and stipulations, by loans, contracts, concession ... concession after concessions, has been exacted by foreign interests until the resources of the whole country are so tied up that the government itself can not develop them to any extent." 12

This led the Iranians to not only being disillusioned by their government but also brought about distrust among Iranians in their treatment with foreigners. This caused a lot of problems in the
concession process and most of the future negotiations did not produce any definite results and stopped after some stages. M. Mosaddegh, the leader of oil nationalization movement in Iranian parliament who became Prime Minister in 1951 commented on the position of the Anglo-Iranian Oil Company in October 1951, as follows:

"It goes without saying that as long as imperialistic companies such as the former Anglo-Iranian Oil Company has a monopoly of this great source of wealth, it will be impossible for the Iranian government and the people to enjoy political independence. Not withstanding the commercial grab won by the former company, it must be considered as a later-day parallel of the former East India Company, which brought the great sub-continent of India under its sway in a short time. The former Anglo Iranian Oil Company had annual budget larger than the budget of the Iranian government and possessed a much larger import-export turnover. It interfered in the internal policies of Iran. It had a hand in the Majlis elections and the formation of cabinets. All of these were done for the sake of securing for itself the highest possible income from the resources, which it controlled. By the expansion of its organization in the interior of the country, by the encouragement which it gave to administrative corruption in government departments and by the unlawful support
which it extended to certain journalists or political groups, it had, in reality, created an empire within the country which gradually undermined the economic and political independence of the Iranian nation. To safeguard economic well being and to secure their political integrity the people of Iran had no choice but to put an end to the usurpations of the former company. 13

Financial and Economic Factors behind Oil Nationalization

In general resources of a country can be divided into two categories: Renewable resources and non-renewable resources.

The most valuable of the mineral resources include the oil mines, which are non-renewable or exhaustible resources. Thus, oil resources are exhaustible after a period of time, no matter how long this will be. It is therefore imperative that such resources are used with utmost care and also sparingly. If proper and well
planned exploitation is not carried out the danger is that the main mineral resources will dry up, without contributing towards an increase in the supply of capital and investment needed to provide for a general rise in the standard of living. M Mosaddegh the Prime Minister of Iran in 1951 commented on this subject as follows:

"There is no need to mention the poverty which prevails in Iran and the limited wealth the country produces. The most important source of national wealth is oil resources, which might produce an income sufficient to support economic, social educational and public health projects of vital importance if there is to be rise in the standard of living of the people. The realization of all plans for development, whether agricultural, industrial or other, is in large measure to be built with the revenues derived from oil production".14

Given the strategic role of the oil sector in the Iranian economy, efforts had to be made to ensure its proper exploitation. Oil exploration and the expansion of the Iranian oil industry, in general, although were done through foreign technical assistance, relied on the support of the state, which proved very crucial. This is one of the reasons why, the government awarded oil concession to foreigners. However, it became clear that the control of oil by foreign companies would not enhance
the expected backward and forward linkages of the sector. However, according to Hirschman, the lack of interdependence and linkage is one of the most important typical characteristics of undeveloped countries. The development of the country was hardly achieved, and the oil sector was isolated from the other sectors of the economy. Hence, this sector had no any linkage with other economic sectors. For a long time after oil production, the North province's oil needs were imported from the Russia. Consumer goods and even fresh fruits were imported from abroad. This mainly occurred because although, on one hand, APOC employed some Iranians, it was under British management and the Iranian share was very insignificant. Most of them were unskilled tribal labourers. On the other hand, the sale of oil was transacted in pound sterling, due to British administration. Fluctuations in the value of pound sterling therefore affected the dollar revenue of the government. For example in 1949 following the devaluation of pound sterling against the US $ its exchange rate decreased from pound 1=$ 4.03 to pound 1=$ 2.8, a step which greatly reduced the country's dollar earnings from oil.

The depreciation of pound sterling against US dollar also led to a decline in Iranian imports in 1950
and thereafter because Iran had to cover its foreign payments by other currencies, specially US dollar, the prevalent international currency. After 9 September 1949, when pound sterling was devalued another source of capital transfer emerged in Iran's economy. Subsequently in 1949, the Iranian Prime Minister was forced to go to London to negotiate with the APOC's authorities. The main economic points of his dialogue included the following two points:

- Reduction of the heavy taxes which imposed on APOC's profits by Britain which, subsequently reduced the Iranian revenues, because the Iranian government's revenue was 16 percent of APOC's net profits. Thus any changes in APOC's profits could affect revenues of Iran and since the British had a high share of APOC's revenue, this reduced the revenue for Iran.

- The fall in the exchange rate of Pound sterling against US dollar in 1949 lessened Iranian revenue earnings from oil production since it was paid in pound sterling.

In regard of APOC operations and finance, it has to be mentioned that during 1905-1932 in spite of high taxes imposed on APOC's revenue by British government and also the high discount prices of oil supplied to British Navy, the net revenue of APOC had been pound 171 million, while
the royalty which was paid to Iran has been only pound 11 million. 16

Moreover, APOC's products were selling at higher prices within the country. Because on the basis of article 19 of 1933 agreement the company had undertaken to distribute oil production within the country at 10 percent less than the prices of the same products in Mexican Gulf. But these prices were very high as compared to the Persian Gulf prices, because the Mexican Gulf prices were inclusive of all costs plus profits. Considering the higher wage rates in Mexico and America as compared to Iran, it is obvious that the prices of oil which were selling in Iran had to be higher, and the company did not accept to supply oil for internal consumption at a lower price. At the same time, it was selling fuel oil to the Britain Admiralty at a very high discount. Indeed, APOC provided a high enough discount during the 40 years of its operation. It supplied fuel oil at a price of 30 to 40 cents per barrel. 17 Therefore, all of these made the Iranian people more conscious about their economic subjugation.
FOREIGN DEBT OF IRAN:

During the last few years of 19th century economics co-operation, especially in foreign trade between Iran and European countries was started. Britain and Russia were the main partners of Iran's foreign sector. This is because they had more interests in Iran. The Iranian economy was very weak as compared to the Russian and British economies with which it had more trade. This was reflected in her weak balance of payments position. (See. table (1-8))

In its foreign trade with Britain and Russia, Iran had a comparatively weak bargaining position because its main exports were primary commodities such as foodstuff and livestock and some handicraft mainly carpets. On the other hand, its imports from these countries included textiles, steel instruments and sugar, which, is generally manufactured products. Due to the nature of the commodities Iran traded with its partners, she was always having a trade deficit. This is because the manufactured items imported were at higher value than the agricultural products she was exporting. The rising foreign debt owed by Iran was a direct result of these circumstances.

Foreign debt of Iran surfaced during the last decades of the nineteenth and the early decades of
twentieth centuries, specially during the Qajar dynasty. Vincent Sheean observes that:

"Periods of Royal penury in Iranian history are less notable, but possible more frequent. International amenities, however, and internal finance, were not of such an order as to tempt an Iranian monarch beyond his means until near the end of nineteenth century. Naser-ed-Din Shah, the shah of Iran, had been induced to grant a few concessions, to enterprising foreigners, and the cancellation of one of them called for a heavy indemnity. He therefore raised a loan of 500 thousand pounds which was issued in London in 1982 to compensate the loss of British Regi Tobacco Company whose monopoly operation rights within the country was cancelled in 1981 by a decree of the then popular religious leader, Ayatollah Mirza Hasan Shirazi, who had the support of the masses.

Moreover, because of drought and shortage of foodstuff, Iran accepted another loan of 22.5 million roubles from Russia in 1901, out of which the pound sterling loan of 1982 was repaid. This was followed in 1903 by further loan of 10 million roubles. Both amounts were secured on the basis of exports from the northern ports of Iran. The country's financial difficulties worsened after the revolution of 1909, and foreign relief
was again invited. The following table shows Iran's foreign debt in details.

**Table (2-1): Iran's foreign debts 1982-1913**

*(in thousand pound)*

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Creditor</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901</td>
<td>2380</td>
<td>Russia</td>
<td>75 Years</td>
</tr>
<tr>
<td>1901</td>
<td>314</td>
<td>India</td>
<td>15 Years</td>
</tr>
<tr>
<td>1903</td>
<td>1058</td>
<td>Russia</td>
<td>75 years</td>
</tr>
<tr>
<td>1911</td>
<td>1111</td>
<td>Russia</td>
<td>15 years</td>
</tr>
<tr>
<td>1911</td>
<td>1250</td>
<td>England</td>
<td>50 years</td>
</tr>
<tr>
<td>1912</td>
<td>140</td>
<td>Indo-England</td>
<td>Without definite time</td>
</tr>
<tr>
<td>1913</td>
<td>200</td>
<td>Russia</td>
<td>3 years</td>
</tr>
<tr>
<td>1913</td>
<td>200</td>
<td>England</td>
<td>2.5 years</td>
</tr>
<tr>
<td>1913</td>
<td>100</td>
<td>England</td>
<td>Without definite time</td>
</tr>
</tbody>
</table>


Rate of exchange was pound 1 = rouble 9.45 during 1901-1903.
A loan of pound 314 thousand was received from the Indian government in 1901. This loan and the sterling loan of 1250 thousand which followed in 1911 were secured on the customs receipt of the southern ports. The entire amount of the Iranian debt to Russia was in the Russo-Persian treaty of February 26, 1921, and the British-Indian loan was redeemed in 1921. In addition, the government of Iran had other debts and financial responsibilities which are as follows:
<table>
<thead>
<tr>
<th>Creditor</th>
<th>Amount</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shinder (French)</td>
<td>200</td>
<td>on account of weapon buying.</td>
</tr>
<tr>
<td>Imperial Bank of Iran</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Loan Bank</td>
<td>18.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>33.3</td>
<td>on account of compensation of postal thefts</td>
</tr>
<tr>
<td>Toumanyance</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>Jamshidian</td>
<td>6.6</td>
<td>116.6 On account of compensation of damages to British during revolt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>300 On account of compensation of damages to Russians during the revolt</td>
</tr>
<tr>
<td>Total</td>
<td>738.5</td>
<td></td>
</tr>
</tbody>
</table>


Imperial Bank belonged to Britain, on the contrast Loan Bank belonged to Russia.
Toumanyance and Jamshidian were two Iranian subjects. Rate of exchange was pound 1 = rial 50 in 1901 and pound 1 = rial 60, in 1912

Iran had to pay high interest rates on her debt. In her trade, Iran had to accept the administration and control of customs persons of other nationalities as recommended by foreign powers. These persons were really bowing much to their own governments than to their Iranian masters, which made all Iranian patriots resentful. 20

Impact of Wars:

It is obvious that every war results in some social shocks and changes in the outlook of the people involved. During the Second World War in spite of Iranian reluctance, the APOC under British management supplied the fuel oil demanded by British Navy and the other allied governments, which were involved in war. Moreover, the British and American armies occupied the South of Iran and the Russian Army North of the country using the Iranian railway to ferry transport the American army
forces and war instruments in south to the Indian Ocean and Persian Gulf, and to the northern Russian fronts. Because of this role, Iran was called the Victory Bridge. It is notable that besides the two world wars there have been some local wars between the Iran and Russia that led to separation of some areas from Iran such as Afghanistan, Turkmenistan and Azarbajian. These wars and specially the Second World War made the Iranian masses more politically conscious. From the social and economic point of view, usually wars implied more spending, profiteering, and hoarding. These factors made some people very rich, which the other result of wars was, a high inflation rate that adversely affected the majority of the masses. The presence of allied armies in the country prolonged and fuelled the anti-foreign resentment that helped the nationalist movement.
Political Changes:

During the early decades of current century the relationship between Iranians and Europeans, which had experienced during Renaissance, and industrial revolution, had significant effects on Iranian society. Therefore, Iran experienced rapid transformation and changes in its social, economic and political events and activities. On the other hand, there were some political problems, which were faced by the Iranians. There were some rich unscrupulous politicians in Tehran who did not have any responsibility. The group included the Shah. These groups created serious obstacles to oil nationalization. The Iranian masses had no confidence in them and this culminated into events that had serious repercussions on the process of oil nationalization.

Some of the most important events that followed were:

- Falling of Iran's cabinet, one after another;
- Attempt on Shah's life on 4th February 1949;
- Assassination of Iranian Prime Ministers and minister of Court during a period of less than one year in 1949-1950, by a fundamentalist Islamic groups, the
Fadaian-e-Islam which, showed people the will to obtain their rights to take over their own affairs.

- Cancellation of elections in Tehran in 1949 and renewing the elections because of government's officials interference.
- Interpellate of Razm Ara cabinet about the treatment with oil and some other political factors that states the radical changes in Iranians reaction.\(^21\)

**The Law of Oil Nationalization**

In a single article which was approved on March 15 and 20, 1951 by the Iranian Majlis\(^*\) which was dominated by pro-nationalists, was announced that the principle of the nationalization of the oil industry is valid in Iran. Majlis also passed a bill to carry out oil nationalization that was prepared by oil committee on April 1951.\(^{22}\)

Some of main points in the law on nationalization were as follows:

\(^*\) Majlis is the Iranian parliament.
-To enforce that the oil industry nationalization law be temporarily administered by a mixed Board composed of 5 Senators and 5 Deputies elected by each of the two houses and the minister of Finance or his deputy (Art. 1).

-The government to be bound to dispossess at once the former Anglo-Iranian Oil Company under the supervision of the mixed Board. If the company refused to hand over immediately on grounds of its claims on the government, the government could then deposit up to 25 percent of current revenue from the oil to meet the probable claims of the company. (Art. 2).

-The mixed Board had to prepare the statutes of the National Oil Company (NIOC), setting up of an executive body and supervisory body of experts and to submit the same to the two houses for approval (Art. 5).

-A gradual replacement of foreign experts by Iranian experts and the mixed Board was to draw up regulations for sending, after holding competitive examinations, a number of students each year to foreign countries to undertake studies in the various branches of required knowledge which gains experience in oil industries. The regulations were to be carried out by the ministry of Education after the approval of the council
of ministers. The expenses connected with the training of such students were to be met out of oil revenues.

The nationalization movement succeeded and the National Iranian Oil Company was formed. It replaced the AIOC in the operation of oil field. The Nationalization move was however, an unexpected action to the British authorities. In the beginning they, therefore, resisted this action. But when they later realised that the Iranians are insisting, they had to give in.

The Main Events after Nationalization

After approval of the oil nationalization law, some serious events happened which are reviewed here very briefly.

On 28th April after passing the oil nationalization law, Iranian Majlis voted and appointed Dr. M. Mosaddegh as Prime Minister. It also voted for the seizure of the Anglo-Iranian Oil Company's properties in Iran.

The British warned Iran that without negotiation any attempt to take over British oil properties would
have the most serious consequences.\textsuperscript{23} Britain also asked the International Court of Justice to rule that Iran must arbitrate the dispute with the Anglo-Iranian Oil Company, or is found guilty of violating international law on May 26, 1951.\textsuperscript{24}

The temporary directors of the National Iranian Oil Company (NIOC) took over the offices of the Anglo-Iranian Oil Company at Abadan and the Iranian national flag was raised over the company's main building in June 11, 1951. Iran also challenged the jurisdiction of the International Court of Justice in the oil nationalization dispute. The Iranian government hoped that the NIOC would sell oil to Britain and other traditional buyers. NIOC was ready to re-employ the British technicians in the oil industry but not under British managers. The British representative in Iran insisted on formation of a new company, and as negotiation between Iran and Britain was going on. Britain took the matter to the United Nations Security Council.\textsuperscript{25} It also shut down the industrial plants when production stopped.

On July 15, 1951, the American President's representative arrived in Iran for continuing the negotiations but these tripartite negotiations were going on without any definite objective or anticipated results.
On the other hand the World Bank offered a suggestion on production and sale of Iranian oil at $1.75 per barrel for a period of two years, by paying 58 cents to Britain, 50 cents to Iran, 30 cents towards production costs and 37 cents for the final balance settlement of the dispute. This suggestion was rejected by Iranian government. Subsequently Britain withdrew all financial and trading facilities for Iran. Simultaneously during this period, the International Court ruled that it had no jurisdiction in the Anglo-Iranian Oil dispute. Hence, Britain started opposing with all her might.

Britain's main weapon was the boycott of Iranian oil and the Anglo Iranian Oil Company announced that it would sue any one who bought oil from the Iranian government. Later as a result of this move by Britain, Iran broke official relations with Britain on 23 October 1952. During these years, the international oil market was controlled by an international cartel refereed to as the seven sisters, most of which were American companies. All these joined the boycott and refused to buy Iranian oil.

British blocked the sale of Iranian Oil by various means. She prevented an Italian-owned tanker, which was carrying Iranian oil in Aden Port. But it was the
presence of Britain Navy in Persian Gulf that was a main obstacle against other Iranian Oil buyers. Also, under the influence of Britain and her followers, the World Bank rejected the Iranian government application for a loan, which under these circumstances was very necessary for the importation of essential commodities of the country. Thus, the oil revenue continued to fall until the fall of Mosaddegh's government in 1953.

**Non-Concessionary Oil Agreements:**

The Iranian oil nationalization was a turning point in the history of international oil contracts. As it has been mentioned in chapter one, the main reasons for oil contracts with foreigners, especially after nationalization of oil industry in the country, was the lack of know-how and investment. Like many other developing countries it is the lack of know-how and capital which forced Iran to continue with oil contracts even after nationalization.

From an economic point of view, the period of 1951-54 was an unstable period. During this time some crucial
events occurred. First, the formation of National Iranian Oil Company (NIOC), whose establishment was based on the Iranian Nationalization law. Second, the Iranian, American and British governments agreed to replace AIOC by an international consortium consisting of 9 main groups of companies to carry out Iranian oil exploitation in the country.
Table (2-3): The Name and the Share of each Group of companies in Iran's oil.

<table>
<thead>
<tr>
<th>Name of Company or Group</th>
<th>Percentage share</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>The British Petroleum Company</td>
<td>40</td>
<td>British</td>
</tr>
<tr>
<td>Royal Dutch/Shell Group</td>
<td>14</td>
<td>Anglo-Dutch</td>
</tr>
<tr>
<td>Standard Oil of New Jersey</td>
<td>7</td>
<td>United States</td>
</tr>
<tr>
<td>Standard Oil of California</td>
<td>7</td>
<td>United States</td>
</tr>
<tr>
<td>Texaco</td>
<td>7</td>
<td>-do-</td>
</tr>
<tr>
<td>Socony Mobil Oil Company</td>
<td>7</td>
<td>-do-</td>
</tr>
<tr>
<td>Gulf Oil Co-operation</td>
<td>7</td>
<td>-do-</td>
</tr>
<tr>
<td>Compagnic Franceaise Des</td>
<td>6</td>
<td>French</td>
</tr>
<tr>
<td>petrolles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irico Group</td>
<td>5</td>
<td>United State</td>
</tr>
</tbody>
</table>

The Irico group of companies which joined the consortium consists of the following companies.

1. American Independent Oil Company.
3. Continental Oil Company.
4. Richfield Oil Corporation.
5. Signal Oil and Gas Company.
7. Tide Water Oil Company.
More Details of 1954 Agreement

Within the Second World War American oil companies commenced propaganda about deduction of oil reserves in US. Hence, the government of United States demonstrated its interest in the subject by establishing the Petroleum Reserves Corporation to enter into oil business in June 1943. Although this establishment did not succeeded, the United State government engaged in oil field soon thereafter. After a long time of negotiation between British and US governments, they finally agreed to increase the share of US in the Middle East's oil.

On the other hand during that period Iran had good diplomatic relations with US and thus it provided a good opportunity for both of them. Britain, which was having some conflict with Iran, used US's popularity to solve its problems that rose after oil nationalization. The situation was capitalised by USA to acquire a notable share in Iran's oil through American major companies. Hence on October 29, 1954, an agreement was signed between the government of Iran, the National Iranian Oil Company (NIOC) and a consortium of oil companies. This agreement was based on a formal recognition of oil nationalization in the country. Indeed, it was accepted
that all assets and oil reserves would henceforth belong to Iran and the foreign companies can only obtain a right to operate the oil fields. Hence, the Iranian government and the (NIOC) referred to the consortium companies as an agent in terms of the contract.

The agreement was based on 50-50 profits sharing and the consortium had to form two operation companies; the Iranian Oil Exploration and Producing Company, and the Iranian Refining Company. These companies were established in Iran. Their function was to operate the Iranian Oil Industry on behalf of National Iranian Oil Company. Each company had seven directors; two of them being appointed by (NIOC) which also had a special right of inspection. 32

These two companies were not profit making, because they were not engaged in the selling or exporting of oil. On the contrary, two other trading companies were established by the consortium, which were engaged in selling and exporting oil. These trading companies were buying oil after exploitation from NIOC and were responsible for refining and exporting of oil.

Based on the new agreement the National Iranian Oil Company took over the "Non basic operation" which
included housing, health, and education. The duration of the agreement was 25 years, with the provision of three five-year renewable terms at the consortium's option.\textsuperscript{33} This agreement was continued until 1972.

A new agreement was signed in July 1973, under which the National Iranian Oil Company (NIOC) took over the entire operation of the Iranian oil industry. In fact, that this achieved the goals of oil nationalization act in 1951 at end of more than two decades.

Generally speaking, the main differences of new agreements after oil nationalization were as follows:

- The consortium members and subsequent partners accepted the ownership of oil companies by Iran; hence, the consortium agreement contained provisions recognizing that the entire assets belong to Iran.

- The Iranian government referred to the consortium agreement as an agency agreement. This was because it was accepted that the oil reserves and assets belong to Iran and the consortium is only operating these assets for Iran. In the former case the assets belonged to the concessionaire which would return them to the host country after the concession had ended. While in the later case the assets belonged to Iran and the
concessionaires were allowed to operate them until the end of the concession period.

- The later agreements were on the basis of the 50-50 profit sharing.

Economic Results of Oil Nationalization:

During the operation of APOC/AIOC the oil revenue was one of the most important sources of foreign exchange, contributing more than 60 percent of foreign revenue.

After oil nationalization, Britain began oil embargo with Iran and America also supported her. As a result, the oil nationalization brought about a reduction in oil revenue. Table (2.4) shows Iranian government revenue from oil during the years 1948-54.
<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>9200</td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>13500</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>16000</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>7000</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>-</td>
<td>Oil embargo by Britain</td>
</tr>
<tr>
<td>1953</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>20700</td>
<td></td>
</tr>
</tbody>
</table>


Facing serious balance of payments problems, Iranian government began to limit imports. At the same time, it tried to increase Non oil exports. As a result of this policy, it achieved a surplus in foreign trade balance. Table (2.5) shows Non oil foreign trade balance during the years (1948-53)
<table>
<thead>
<tr>
<th>Year</th>
<th>Non Oil Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>1867</td>
<td>5480</td>
<td>-3613</td>
</tr>
<tr>
<td>1949</td>
<td>1785</td>
<td>9320</td>
<td>-7535</td>
</tr>
<tr>
<td>1950</td>
<td>3563</td>
<td>7109</td>
<td>-3546</td>
</tr>
<tr>
<td>1951</td>
<td>4391</td>
<td>7405</td>
<td>-3014</td>
</tr>
<tr>
<td>1952</td>
<td>5832</td>
<td>5206</td>
<td>626</td>
</tr>
<tr>
<td>1953</td>
<td>8426</td>
<td>5756</td>
<td>2669</td>
</tr>
</tbody>
</table>

Source: Statistical Centre of Iran, "Foreign Trade Statistics of Iran", 1966.
The main articles of exports were, carpet, sheep and tobacco. This was strange in the economic history of Iran, because neither before nor after the early 1950s Iran had any surplus in its foreign trade.

However, it can be seen that Iranian industrialization of oil, did not only bring about the control of Iran oil industry but also nationalism and patriotism and diversification of the economy.


5. Ibid, p. 250.


10. Ibid, p. 343.


29. Shahbazzadeh, Mohsen, *Role of Multinational Companies in Nation's economy* (A case study of Iran), Delhi, B.R. publishing corporation, 1994; p. 17.


32. Ibid p 51.