

*Petroleum and the interest of Great Powers in Iraq**

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Iraq and Petroleum

In the year 1958 the total income of the Iraqi state was between  100 and  105 million¹. The four petroleum concession companies² had an important share. They paid the Treasury  90 million on the basis of their petroleum exploitation. This payment was required by the modification of the concession agreements in 1952. According to the modification, the companies had to pay royalty to Iraq. Royalty was 50% of the profit calculated on the posted price of petroleum. This posted price was not necessarily the same as the price the companies could expect on the world oil market, called discount price in this manner. Originally, the posted price depended on the cost of oil exploitation in the United States, but there was no formulated way to change it. The sources of the other  10-15 million income was the export of wool, date and leather.³

The oil income of the budget was scarcely drafted. It did not originate from the normal economic life of the state. However, the four concession companies were registered as Iraqi firms, in real life they were dependant on outside forces like the interests of the shareholder companies⁴ or in a worse case on the interests of the powers standing behind the shareholders' oil companies.

In theory the price of petroleum and the growth of oil exploitation per year were established in the concession agreements, but IPC and its subsidiaries were owned by the big oil companies. So IPC was selling its petroleum to its owners. The entire sector of the

* This work is a part of longer paper. The original one was written in Hungarian. The subject of it was the internal influence forming the Iraqi attitude towards the representatives of oil industry between 14th July 1958 and the end of 1960 when the OPEC was founded in Baghdad and the Iraqians were suffered a serious faillure by the IPC.

1 Iraq was one of the members of the sterling zone until 1959. 1 Iraqi Dinar (ID) — 5 rial — 20 dirham — 1000 filset; source: Statistical Pocket Book 1960-1970 Baghdad, 1970

2 Namely: Iraq Petroleum Company hereafter abbreviated as IPC, Basrah Petroleum Company (BPC), Mosul Petroleum Company (MPC) and Khanaqan Petroleum Company

3 Report of Hungarian Embassy in Baghdad which is stored in  j Magyar K zponti Lev lt r (New Hungarian Central Archive) under registration code XIX-J-19(henceforth referred to HEB) number 004921/1/sz.t.; 006391/sz.t.; 2/1/sz.t./1958

4 The shareholders of the IPC: Anglo-Saxon Company (Royal Dutch/ Shell) 23.5%, BP Exploration Company (British Petrol) 23.5%, Compagnie Francaise des Petroles (CFP) 23.5%, Near East Development Company (Standard Oil Company of New Jersey 50%, Socony Mobil Oil Inc. 50%) 23.5%, Gulbenkian Foundation 5%; HEB 132/1/sz.t./1959.

oil industry was under their control: not only the exploitation but transport, refining, wholesale trade and retail trade. They could acquire profit at any stage of this system, while the Iraqi government was only interested in profit acquired on the exploiting. The revenue of the state depended on the posted price. At the same time, the determination of the value of this price depended on the decision of the companies. There was no generally accepted way how and when the posted price could be changed. Beyond this, the government was had to accept the information about the quantity of exploitation from the companies because it was only the companies that had maps and prospect results. It was them and not the state who had exclusive rights to prospect according to the modified concession agreement. The scope of this agreement was more than 90% of the territory of Iraq⁵.

The government seemed to have the right to delegate one member into the general council of the IPC to control accounting on the basis of the above mentioned modification of the agreement⁶. But the negotiations in April 1959 and in September 1960 show that it was not put into practice. The iraqisation seems to be a more effective method than the rather formal supervision of accounting. The term "Iraqisation" means employing more and more Iraqians. The basis of iraqisation was once again the modification made in 1952. The Iraqi government reached success in this case. While in 1953 less than 5% of the employees were Iraqi, in 1958 more than 33%.⁷ However, this data was favourable to the government. It concealed two important problems. First of all the majority of the engineers were foreigners, especially American and English, but there was a significant number of French and Dutch.⁸ There was no exploitation without these engineers. Secondly, the majority of the Iraqi workers were more faithful to their companies than to their central government. Compared to an average citizen, the companies did not only guarantee a higher standard of living, but also promised education and sometimes progress, too. According to the Hungarian Ambassador's report, in the Iraqi workers' circle the central government was not really popular.⁹ Both of these facts made the government's dependence on IPC stronger. They tried to loosen it by asking engineers from their new allies, especially from the USSR, but the real solution could have been the foundation of an own oil industry engineering college.¹⁰

The petroleum income was not the part of the normal budget. It was directly handled by the government.¹¹ In practice the government had free hands to use it. Formally all the

5 HEB 116/sz.t./1960., The Economist 08.06. 1960

6 Harley C. Stevens: Some Reflection..., in: The Middle East Journal 1959. Summer, Vol. 13. No.3. Washington DC.

7 Magyar Szó 31.08. 1958

Harley C. Stevens: quoted work

8 HEB 2/7/sz.t./1958., 20/sz.t./1958., 132/1/sz.t./1959.

9 HEB 58/sz.t./1958.

10 HEB 2/3/sz.t./1958., 2/7/sz.t.1958., 20/sz.t./1958.

11 Budget of 1959: HEB 140/sz.t./ 1959.

Budget of 1960: HEB 102/sz.t./ 1960.

decisions were made by the so-called Development Board, but all the members were delegated by the government.¹² There were some soft limits of this decision. Some items of the budget and the deficit growing year by year were financed from it.¹³ Both the Six Year Development Plan launched in 1954 by the royalist government and the Four Year Development Plan in 1960 aimed at using oil revenue as a financial source.¹⁴

The Iraqi economic system as a whole was dependant upon the royalty. It does not mean that there were no other financial sources of the state, but these normal incomes were not enough to finance the monumental projects planned by both the royal and the revolutionary governments. By the help of these plans Iraqians hoped to occupy the position of the political leader among Arabian countries. However, this situation was carrying a serious paradox. It was serious because this paradox seems to determine the future of Iraq's people. This nation, especially the people living in Baghdad have had the claim to become the leader among Arabs. Their mentality roots in the deep history but at least the time of the Baghdad Caliphate. For a long time it was no more than a naked claim without any economic and commencing political possibility and importance. But the vast oil reserve, the flow of oil royalty had given them this missing economic power. However, it was not an economic evolution, it was just fortune. There was a society with its undeveloped economy and dangerous desires and the vast income on other side. No wonder that all projects show the central elite's preferences about how they thought to develop their country. This could mean serious problems in itself, but they wanted to found their power on the source that was not under their control, but under the rule of the companies and Great-Britain present in the background. While the Iraqi government tried to increase its power on the basis of petroleum economy, in the reality their dependence was growing. They were unable to find equilibrium.

The aspiration to a higher power status which is identical with the claim to increase the value of the royalty explains the careful steps of the revolutionary government in petroleum cases and the building of the parallel relationships with Great Britain and the USSR.

Theoretically, Qassem's revolutionary government had three different possibilities to formulate its foreign policy. Firstly they could continue the policy of their predecessor government: keeping close connection to the British foreign policy, participation in the British-American security system. This could have guaranteed the growth of oil income, but interfered with the imagined leading position among the Arabs. The opposite possibility was the complete breach of the orientation towards Great Britain, like Egypt did, and turning to the USSR for help. This step could have resulted economic disaster in the first stage because Iraq did not have an independent industry helping to avoid the influence of a western embargo, in the same manner as Egypt had, and a new and very dan-

12 Until May 1958 the Board had a British member: I.G. Ionides; *The Financial Times* 07.17. 1958.

13 HEB 102/sz.L/1960.

14 HEB 40/sz.t/1960.

gerous dependence in long run. For the Iraqis the one and only way to satisfy both the claim of increasing royalty and leadership among the Arabs was a multilateral "swing" policy. It means keeping up the good relationship with Great Britain, while building new and strong liaison to the Soviet Union, balancing and playing each one against the other. The question was the depth of interest in Iraq because of its strategic position or oil wealth of the great powers could be enough to play the role imagined for them by the Iraqi government.

Iraq and Great Britain

From 1948 Great Britain's Near and Middle East policy is nothing more than a series of withdrawals. After the lost of India, the former great power did not find its role and aim in this region. This disorientation was as important an element of their continuous withdrawal as the economic weakening. The time had come to define the real priority of Great Britain in the region and on the basis of this show up an efficient policy. The series of failures, especially the Suez case made this claim urgent and helped to find new ways approaching the problems rising in the Near and Middle East.¹⁵

During the events in Iraq, the government of Great Britain showed thought-provoking coolness. They stabilised the countries near Iraq using fast and determined methods like paratroops in Jordan, reinforcement of Kuwait and redeployment to Bahrain. Simultaneously they beware of alarming or reinforcing the troops standing in Iraq. The manifested and the real aim was the isolation of Iraq and not an attack against it. Also all the reports of the British Prime Minister and the Foreign Secretary helped the settled management of the events. This method was very well indicated by the fact that just two weeks after the burning of the British Embassy in Baghdad Her Majesty's Government declared the recognition of the Republic of Iraq.

All of these show that the Foreign Office had a ready-to-use strategy: they were prepared for cases like this. During the Iraqi events they followed the scenario, they just harmonised the actual circumstances with it.

In diplomatic circles it was rumoured that English diplomacy was not really disappointed because of Núri al-Said's fall and they might have had an active part in the arrangement.¹⁶ In our case this is not a question. Both cases show the new attitude of British diplomacy. Sir Humphrey Trevelyan, the newly appointed ambassador, summarised the new approach in his speech when visiting the Hungarian Embassy in Baghdad. According to his speech, Great Britain had one and only strategic interest in Iraq: it is the IPC and its subsidiaries. All the other interests like Baghdad Pact or the Habaniya Royal

15 Elisabeth Monroe: *Britain's Moment in the Middle East 1914-1956*, London, 1963

Nigel John Ashton: *Microcosm of decline*. In: *Historical Journal* 1997. December, Vol. 40.

16 HEB 116/sz.t./1960.

The Financial Times 18.07., 19.07.

Air Force Base might have been sacrificed for the security of oil interest. In his opinion, the Soviet Union and the US had to recognise this lawful claim of Great Britain.¹⁷ Half a year later — in April 1959 — at the conference of the Near and Middle East Ambassadors, where Sir Humphrey, who was the chairman as the doyen of the corps present, were on the same opinion regarding the handle of Iraqi situation, as until Qassem's government crosses fundamental British interests, they would support all of his steps.¹⁸ In long epoch, the Foreign Office had hoped to make the gap between the Arab states deeper making a better manoeuvring position for itself.¹⁹

The first sign of this new approach was the British reaction during the Iraqi events in the summer of 1958. Great Britain had gained postponement to the new Iraqi government on the crucial Baghdad Pact conference in London against the US. They had done this in spite of the fact that Iraq was reported to leave the Pact.²⁰

The next case has no direct connection to the official British foreign policy but gives a well-detailed picture about the management of any case belonging to Iraq. On 30th of November 1958 the last founded petroleum concession company, the Khanaqan Petroleum Company, was nationalised by the Iraqi government.²¹ There was no news about it in the British press. A quarter year later — in April 1959 — there were some references to it on the pages of *The Economist* and *The Financial Times*.²² Some very interesting problems are rising by this nationalisation, later it will be discussed in a detailed form. Here it is significant because the British press was in silence. The question is why. Normally, the nationalisation was the devil itself to the Anglo-Saxon press, and then a real one hurt real British interests, there was silence.

On the 9th of March 1959, in the name of the British government, John Profumo, Secretary of the Foreign Office, provided support and confidence for Qassem's government to help their steps against the North-Iraqian (Curds) rebels.²³ This support was kept on despite Qassem's declaration about Iraq's leaving the Baghdad Pact on 24th of March.²⁴ Great-Britain had no protest against the Iraqi step. On 31st May 1959 the last soldier embarked from Habbaniya Air Force Base finishing the withdrawal of the British troops.²⁵ As a strange contrast, on 11th May John Profumo made a proposal about carrying

17 HEB 10/sz.t./1959.

18 HEB 221/sz.t./1959.

19 "history had shown that Damascus, Baghdad and Cairo provided different focal points for the growth of national feeling. In the long term it might be possible to exploit the natural differences of outlook between the Iraqis and Egyptians" PRO CAB 130/ 153 Gen 658, first meeting 22nd July 1958.

20 *The Financial Times* 24.07., 25.07. 1958.

21 See the details of case on page

22 *The Economist* 11.04. 1959

The Financial Times 28.04. 1959.

23 *The Financial Times* 10.03. 1959.

24 *The Financial Times* 25.03. 1959.

25 HEB 19/5/sz.t./ 1959.

The Economist 04.04. 1959.

The Financial Times 07.04. 1959.

heavy weapons, mainly fighters, to Iraq to the House of Commons. During the debate, the Secretary explained that he could not agree that the Iraqi government would be under total communist control.²⁶

Also in May Mohammed Hadid, Minister of Finance, visited London. A cultural agreement was signed by him. He had a successful debate about the foundation of a new technical college in Baghdad with English support.²⁷

All of this shows a picture of a friendly, well-balanced interstate connection. But we have to keep in mind that the way chosen by the Iraqi government increased the tension. The government was under pressure because of its "opportunist" oil policy. It is necessary to follow the talks between IPC and government because the one real common interest of the British and Iraqi governments, the petroleum, was formed there. The task of the official diplomacy was to make clear way for the real trial.

On 12th July 1958, just two days before the coup d'état in Baghdad a group of IPC leaders left Iraq finishing the talks about the new investment and plans of the company. The main aim could be the fast development of the BPC. This idea was supported by the published projects like the construction of a new deep water terminal in Fao or the building of a new Bashrah-Kirkuk pipeline.²⁸ The image of Dr. Kuba, the minister of oil affairs, about growing up the quantity of petroleum production to the double until 1962 seems to be a real possibility with these projects.²⁹ There were some unpublished points of the agenda of the talks. The question of returning the unexploited concession sectors to governmental handle was reported to be one of these secret points. This possibility is supported by all the later discussions between IPC and Iraqians. It was one of the constantly returning questions indicating that there was either no agreement at all or just partial agreement was born. The IPC renounced the exploitation right of coastal area and the ownership of Khanaqan Petroleum Company in order to gain time. The general success of the talks are provided that there was no sign of worrying in the leadership of IPC during the events in Iraq in summer of 1958. Moreover, the shareholders asked the Directorate to greet the new government to guarantee the necessary conditions of oil exploiting.³⁰

During the autumn of 1958 Iraq froze all the French interests in the country: among other things 23.5% of the CFP in the IPC. Iraq asked Great Britain to handle the frozen French interests.³¹

26 HEB 19/5/sz.t./1959.
The Economist 20.12. 1958., 07.02.
The Financial Times 12.05. 1959.

27 HEB 132/1/sz.t./1959.

28 The Financial Times 16.07. 1958.

29 The Economist 11.04. 1959.

The Financial Times 07.02. 1959.

30 Magyar Szó 31.08. 1958.

31 Insert of HEB 99/sz.t./1959 under number 00485., 116/sz.t./ 1960.

According to the order introduced by Dr Kuba on 18th November 1958, the government took over the Khanaqan Petroleum Company, the subsidiary of IPC. The basis for this step was the 12§. of the Foundation Agreement. According to the 12§, the state has the right to take back the concession if the company was unable to fulfil the 2 million ton per year result until the year 1959. The order recorded that on the basis of the result of the company there was no chance to get the limit value so the step is lawful. Furthermore, the order stated that the government wanted to exploit the sector in itself with Soviet technical aid.³² No one among the interested parties commented on the case. As noted above, the British press was in silence. Could it be possible that it was no surprise but an action organised during the talks in July. The same behaviour was observed after the governmental order about taking back the coastal area in January 1959 together with it the Iraqians who started to exert some control over the exploiting and export.³³

On 9th January 1959 the local representative of IPC was negotiated with the Iraqi government but there was no published matter about the discussed questions.³⁴ It is most likely that the technical details of the returning of the coastal area was the main subject. It is also most likely that there were some other questions on the agenda: some new allowance. The subject of this could have been the transfer of the frozen French share in the IPC. During March there were some very strong signs of this possibility.³⁵ It made the market nervous, so on 24th March a press congress was organised in Baghdad to deny this gossip. In spite of this between 6th and 11th of April the shares of CFP were falling down on the Paris Bourse. Two reports of *The Financial Times* intensified the panic. According to the first one, R.G. Seawright, the general director of IPC in Iraq started a direct debate with the representatives of the government about some non-identified subjects. Secondly Lord Monockton, the newly appointed Chairman of the IPC, was officially reported to visit Iraq on his Near- and Middle-East tour.³⁶ There was no official report about Seawright's talks. The non-official news talked about the possible topics: the increase of royalty from 50% to 65%, increase of the efficiency of control over exploiting and export, and once again the question of non-explored and non-exploited areas. The talks had to be successful: after the press congress in 24th of March Dr. Kuba organised another one on 7th April. He said that the nationalisation was not scheduled, but the company took a promise to a 3 million pound loan to compensate the missing income made by the Suez crises and try to accelerate the building of Bashrah-Kirkuk pipeline. Moreover, he declared the decision of the Revolutionary Council of Iraq. According to that, Iraq does not take part in the 1st Arab Oil Congress in Cairo.³⁷ Mr Seawright might have been very

32 HEB 30/sz.t./1958.

33 HEB 99/sz.t./1959., 132/sz.t./1959.

34 *The Financial Times* 10.01. 1959.

35 HEB 99/sz.t./ 1959 and its insert, the report of the Hungarian Embassy in Paris, under number 00485

36 *The Financial Times* 08.04., 11.04. 1959

37 HEB 40/sz.t./1959

The Financial Times 11.04., 18.04. 1959

satisfied, no less Lord Monockton. His talks were reported friendly and cordial.³⁸ No wonder. The building of the pipeline was crossing an Arab League project, while the declaration about the oil congress weakened the prestige of it.³⁹ The nationalisation of French interest was cancelled. This idea was returned once again as a gossip during Mohammed Hadid's visit in London, but without any important feedback.

The other sign that the result satisfied both sides was the break in the series of talks. Until May 1960 neither official talks nor important problems were reported. But under the quiet surface the tension was growing. It was indicated by the news about secret talks on the return of non-exploiting areas.⁴⁰ It was not commented. The date of news about the secret talks shows an interesting comparison with the declaration of the new Four Year Development Project planning an investment more than what could be gained from the oil revenue.⁴¹ At the same time, the deficit of the budget started to grow rapidly because the forced development of army and governmental bureaucracy.⁴² Concluding later events, during these secret talks the representatives agreed to organise a wide-ranging conference to modify the concession agreement in that year's August or September.

At the given moment this agreement was advantageous to the IPC. They had won time once again to keep Iraq far away from the movement that was born in the oil exporting countries because of the posted price cut in February 1959 and since the 1st Arab Oil Congress. The government of Iraq was absolutely neutral about any initiative aimed at closer co-operation among the oil exporting countries but without Iraq all the initiative would have been sentenced to death.

The other side was optimistic about its own business. The report of the Hungarian Embassy indicates this. According the report, the French shareholders of CFP were optimistic and thought their investment safe.

Until May 1959 the British achieved their goal: they successfully stabilised the position of the IPC. This, because of its very special situation inside the Iraqi economy, secured a non-negligible influence to the Iraqi internal affairs in spite of the destroyed special connection before the coup d'état. But it was a limited link and strongly depended on the situation of Qassem and his political branches. The British hoped to keep Qassem in position by avoiding open political pressure and with strong economic, military and financial support via IPC. Because of these, the British were satisfied with the balanced situation, not without reason. IPC was a strong weapon, but an ultimate one, because the awareness of influence was more important than the effective use of it. They did not want to take a risk for some not really important question.

38 The Financial Times 14.04. 1959

39 The Economist 18.04., 02.05. 1959

40 HEB 40/sz.t./1959.

41 HEB 40/sz.t./1959.

42 HEB 140/sz.t./1959., 102/sz.t./1960.
The Financial Times 22.02.1960

The Iraqi government recognised the importance of continuous development of oil industry. It was the one and only protection against the break of posted price. At the given moment they had realised that they had reached the maximum and they did not want to risk their results. It means that in April 1959 both sides were in a balanced position.

But the growing deficit made by the unsuccessful investments, the development projects, the awareness of Soviet support completed with the new tendency among the oil exporting countries and the internal pressure to take hard steps against the "imperialism" presented by IPC made on long term the government to turn over the formed balanced situation.

The leaders of IPC had no doubt about this, but they had limited possibilities to form the internal situation in Iraq. They needed time to form the external conditions to help their aim. They had one more difficulty: to calculate their own interest as a company and at the same time act as a tool of British foreign policy. Because this temporisation seemed to be the best strategy.

We have to throw a glance at the policy of the Soviet Union towards Iraq because the key of temporisation strategy was the hope in a changing Soviet attitude.

Iraq and the Soviet Union

Based on the reason of the preface, it could be stated that the Soviet Union gave extraordinary support to the new Iraqi government. Both the Soviet diplomatic and military steps were aimed to help the formation and stabilisation of the new power in Iraq. On 4th August 1958, just two weeks after the very rapid recognition, the Soviet ambassador G.T. Zaitsev arrived at his new post. His career suggests that he was the ideal man at the ideal post.⁴³ He seems to be present at every significant event and decision making of the government after he presented his credentials. This very close connection makes us think about the role of British Representatives before the coup d'état.

As it was normal, after the Soviet recognition of Iraq the so-called socialist countries — here meaning the People's Republic of China and Yugoslavia, too — recognised the new power and in the shadow of the Soviet Embassy they opened theirs. The Hungarian Embassy had a strange feature: Ambassador Zaitsev personally informed his Hungarian colleague, Vencel Házi, about most of the cases that involved oil. On the basis of these talks, it is known that before the Khanaqan case Qassem consulted Zaitsev and offered the concession to the Soviet Union. But the ambassador refused it and suggested the nationalisation offering Soviet technical aid.⁴⁴ Also the Soviets suggested the forming of a committee working on new ways to increase the oil revenue.⁴⁵

43 The Soviet Diplomatic Corps 1917-1967., Edited by Edward E. Crowley, The Scarecrow Inc. New Jersey, 1970

44 HEB 30/sz.t./1958.

45 HEB 2/1/sz.t./1958.

Until January 1959 Iraq had entered into a mutual economic contract with all of the socialist countries.⁴⁶ The USSR offered technical aid, preferential loan — in first step 40 million pounds at 2.5% interest rate — and experts for all sectors from ranging from the military through the agricultural sector up to oil industry. The Soviet Union was reported to carry weapons, too.⁴⁷ They tried to use the measures that were already successful in Egypt. A neutral or rather subordinate Iraq did not just mean a simple new position but also a realisation of an old Russian diplomatic direction and a quite a break in the ally system surrounding the Soviet Union.

But the key to the situation in Iraq was oil industry. Serving as the firm background of all Soviet diplomatic ambitions there should have been guarantee on running the oil industry in the situation of a possible western embargo or promising the purchase the whole quantity of petroleum. With this they might have given a free hand to Iraqians talking with IPC. But the Soviets were not in a position to promise such things. It started to be obvious that the key to oil industry is not the exploiting but the means of marketing: transporting and wholesale trade. In these sectors the Soviet Union was not at a higher level than the Iraqians. In the late 50s the Soviet Union started to be active on the world oil market. Observing this the companies had recognised the weak position of the Soviets in the key sectors. This made the IPC chose the strategy of winning time.

The activity of the Soviet Union on the oil market had an other important consequence: they started to be rivals. It is possible that the steps planned by the Soviet Foreign Ministry did not get full unlimited internal support or this support was undulating. This made the efforts of the Soviet diplomats quite weak. They did not have enough space to “swing” what could be a high risk in an extreme situation. They did not hold the trumps. The balanced situation from April 1959 was perfect for them. Without a new hazardous game, they could secure their position, while the British interest was limited, to the economic sphere at the first sight.

46 The Financial Times 05.01. 1959

47 The Financial Times 09.02., 17.03., 07.04. 1959