

BRITISH SEA POWER AND OIL POLICY IN  
THE PERSIAN GULF  
1909-1914

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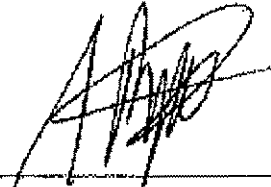
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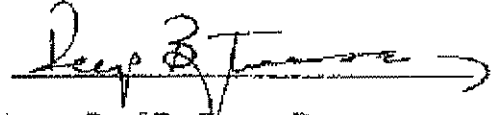
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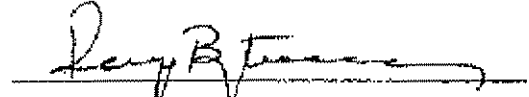
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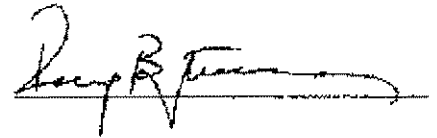


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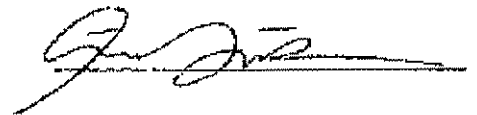
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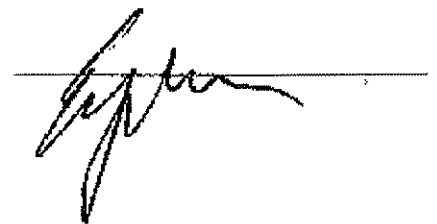
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## ABSTRACT

### BRITISH SEA POWER AND OIL POLICY IN THE PERSIAN GULF 1909-1914

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M.S., Department of Middle East Studies

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This thesis attempts to describe the role of the British Admiralty's oil related naval policies from 1909 to 1914 in the formation of British oil diplomacy in the northern hinterlands of the Persian Gulf. On the basis of this attempt, it examines the precise beginning of oil security concerns of Britain and its articulation on the southwest Persian and Mesopotamian oil basins in light of the transition of the Royal Navy from coal to oil burning internal combustion engines. It delineates the interconnectedness of the issues relating to the significance of oil in British naval developments and naval supremacy and her clash of interests with the other Great naval Powers, which had significant interest in oil rich Mesopotamia and southern Persia.

By 1914, the Admiralty, through its exceptional relations with the Anglo-Persian Oil Company in the hinterlands of the Persian Gulf became an important actor in the government's involvement in the oil industry. This thesis, suggests that the Admiralty was the political demand channel in the processes of British imperial expansion under the spread of new imperialism in general, and in the consolidation of fuel oil security in particular. The study will be a contribution to the academic literature on the history of naval powers in Turkey.

Keywords: British Admiralty, Fuel Oil, Oil Security, Mesopotamia and southwest Iranian oilfields, Anglo-Persian Oil Company.

## ÖZ

### İRAN KORFEZİ'NDE İNGİLİZ DENİZ GUCU VE PETROL POLİTİKASI 1909-1914

Üzel, Meltem

Yüksek Lisans, Orta Doğu Çalışmaları Bölümü

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Bu tez, İngiliz Donanma Komutanlığı'nın 1909 ve 1914 yılları arasında petrole ilişkin donanma politikasının, İran Körfezi'nin kuzey hinterlandına yönelik bir İngiliz petrol diplomasisinin oluşumu üzerindeki rolünü ortaya koymaktadır. Bu çerçevede, bu tez, İngiltere'de petrole ilişkin güvenlik politikasının başlangıcını ve bunun güney İran ve Mesopotamya petrol havzalarına nasıl yansıdığını İngiliz Kraliyet Deniz Kuvvetlerinin kömürden petrole geçişi ışığında değerlendirmektedir. Bu çalışma, petrolün İngiliz donanmasında kaydedilen gelişmelerin ve donanma üstünlüğünün devamlılığı için önemi ve İngiliz çıkarlarının petrol zengini Mezopotamya ve güney İran üzerinde, Büyük donanma Güçlerinin çıkarları ile çatışması gibi konular arasında yakın bağlantılara işaret etmektedir.

Donanma Komutanlığı Anglo-Iran Petrol Şirketi ile olan istisnai ilişkisi aracılığıyla, devletin 1914 yılında petrol endustrisine müdahil olmasında önemli rol oynamıştır. Bu tez, Donanma Komutanlığının, genel anlamda yeni emperyalizm dalgasının etkisi altında İngiliz emperyalizminin genişlemesi, özelde ise petrol yakıt güvenliğinin güçlendirilmesi süreçlerinde politik bir talep kanalı olduğunu öne sürmektedir. Çalışmanın Türkiye'de donanma tarihi literatürüne katkı sağlaması düşünülmektedir.

Anahtar Kelimeler: İngiliz Donanma Komutanlığı, Petrol, Petrol Güvenliği, Mezopotamya ve Güneybatı İran petrol alanları, Anglo-Iran Petrol Şirketi.

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## CHAPTER 1

### INTRODUCTION

#### 1.1- The Aim of Research

During the early years of the twentieth century, oil appeared as a means of transportation and a crucial element of technological innovations prominently for naval warfare. In the prewar years, the Royal Navy of Britain was radically working on ambitious plans to convert its fleets from coal to oil burning internal combustion engines. The use of machines powered with such engines in naval operations during the World War I provided victorious consequences to Britain at the end of war.

The British Admiralty, which handled and developed these fuel oil powered machines in the prewar years, had also taken an important role in constituting imperial oil diplomacy through its oil related naval policies. Britain did not have any sufficient oil reserves in her home and colonial territories. The British government before the World War I feared the strategic implications of the Royal Navy's dependence on oil of foreign countries. The Admiralty, in this sense, was very influential to assure the British government that the future needs should be met by means of controlling "oil rich regions" in the world. Among the oil rich regions, Southern Persia and Mesopotamia –as the northern hinterlands of Persian Gulf had been lifeline of Britain for several centuries. The region was vital for maintaining British sea supremacy, and securing communication with the Indian Empire. In addition, Britain had already constituted her long-standing commercial and political dominance there. However, the oil reserves in commercial proportions as well as other commercial features of the region had also increased attention of other powers.

In this thesis, I aim to answer the question how British Admiralty's oil policies from 1909 to 1914 were influential on the formation of British oil policy in time of oil competition in the hinterlands of the Persian Gulf.

## **1.2- The Conceptual and Methodological Framework**

In order to examine the British Admiralty's existence in the hinterlands of the Persian Gulf, this thesis would have concentrated only on military aspects of the British presence in the region. Or it would have focused on British maritime and commercial relations with the other powers in Mesopotamia and Persia. Or it would have just described technological innovation in the Royal Navy and its impact on navies in the region, such as the Ottoman Navy. However, all these ways of discussion would miss to see the core circumstances and developments reflected on security of British sea power at the beginning of the twentieth century.

Therefore, this thesis cannot be understood without putting it within a wider framework of national, international, technological, economic, commercial, and strategic considerations. The analytical nature of the aim of this thesis requires encompassing mutually supporting themes and circumstances of world history between the period of 1880s and 1910s. These developments have been evaluated within a systematized frame in this study: At one level, it focuses on the growth of the '*new Western imperialism*' in the late nineteenth century and its impact on the political geography of the spheres of influence. The awareness of the need for economic resources and markets under the spread of Industrial Revolution oriented imperial powers toward many ways of using power and many different means of establishing control over colonial territories. In this period, geography of this type of imperialism also included expansion into contiguous territories in addition to seizure of overseas territories and routes. Having a virtual monopoly in the overseas expansion since the start of the nineteenth century, Britain was then faced with

serious competition from France and Russia on her imperial "life lines"<sup>1</sup> throughout the second part of nineteenth century. Two new European powers, Germany and Italy and two non-European powers, the United States and Japan entered this competition by the last decades of the nineteenth century.<sup>2</sup>

At another level, the study reviews the formation of oil security policies as the new fuel technologies started to be developed and implemented. The oil related national security decision-making was influenced by increased fuel oil consumption in navies. The use of fuel oil in naval technologies in the late nineteenth and early twentieth centuries refashioned not only the organization of navy but also its related industries. The use of fuel oil in naval technologies also tightened the relations between private oil companies and governments. Navy departments of the Great Powers were important mediators in this relationship, and key pressures in government decisions for fuel oil supply.

It should be noted here that the emergence and expansion of British oil enterprise was the consequence of individual entrepreneurial decisions. British foreign investment in general was not influenced by the government, because there was free enterprise capitalism. The government had no concern in the merits of monopoly and competition in the oil industry. The last decade before the World War I, however, saw significant changes in the mode of oil consumption of the British government. It was the conversion of the Royal Navy to fuel oil which made the British government a factor in the British oil market<sup>3</sup>. The fuel oil became a vital strategic commodity for the Royal Navy - the instrument of British sea supremacy on which the security

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<sup>1</sup> H.Th.De Booy,, "The Life Lines of the British Empire", *Pacific Affairs*, (Vol.10, No.2, 1936), pp.161-167. !

<sup>2</sup> Norman Rich, *Great Power Diplomacy 1814-1914*, (New York: McGraw-Hill Inc., 1992), pp.263-268.

<sup>3</sup> Geoffrey Jones, *The State and the Emergence of the British Oil Industry*, (London: The Macmillan Press Ltd, 1981), p.7.

of the Empire depended. In this way, the relatively slow growth of the commercial consumption of fuel oil encouraged the companies to become interested in selling their oil to the Navy. The Admiralty was potentially a very large and secure customer in comparison to the merchant ships, railways and factories. Thus, a number of these companies tried to create special links and relations with the Admiralty and the British government. The other potential sectors such as the British mercantile marine and factories and railways of domestic industry remained solidly coal-burning since these sectors had doubts about the security as well as continuous supply of fuel oil<sup>4</sup>.

Yet another level, the study gives emphasis on the individual actors in the naval departments of Britain influencing and shaping the decision making process in consolidation of oil security. It argues that, First Sea Lord John Fisher, First Lord of the Admiralty Winston Spencer Churchill, and Rear, then Vice Admiral Edmond Slade were very important actors in this context. Among them Churchill's enthusiasm and interest in the oil supply campaign very influenced the other members of the Cabinet and Parliament. The other actors Alfred Thayer Mahan, Alfred von Tirpitz, William Knox D'Arcy, and Charles Greenway were also very influential in terms of shaping the British imperial sea power projections in the Persian Gulf and Mesopotamia philosophically, diplomatically, strategically and commercially.

And lastly, the study focuses on intensified antagonism and counter actions between Britain and Germany, and competition in naval armaments in the pre World War I. It reviews how the naval rivalry between these powers exacerbated the Anglo-German relations and reflected into the intensified oil competition and imperial penetration in Mesopotamia and the Persian Gulf. The German controlled Baghdad railway project to the Persian Gulf was posing a strategic threat to the British interests in the region.

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<sup>4</sup> *Ibid*, pp.42-48.

### 1.3- Sources and a Brief Histogramical Presentation

This study heavily benefits from official sources in English in the form of compiled documentary records. Mainly three original sources, added in the part of Appendices, "The William Know D'Arcy Oil Concession in Persia" dated 29 May 1901; and "Agreement of the British Treasury and Admiralty with the Anglo-Persian Oil Company" dated 20 May 1914; and 20 May 1914 dated "The Bradbury Letter" have been used and evaluated. However, Navy Fuel Oil Contract which includes the full terms and prices of the oil supply contract between the Admiralty and the Anglo Persian Oil Company, as well as the Slade's Commission Report - the confidential and most important annexes of the whole agreement of 20 May 1914, could not be studied from the original sources of material.

In addition to the original ones, this thesis relies on secondary sources in the form of articles, books, and dissertations which are strongly based on the first hand sources. Those secondary works are so valuable and touch on the themes evaluated in this thesis. Daniel Yergin in his book *The Prize*, for instance, claims that the conversion to oil fuel technology for military purposes was a matter of time or a matter of policymakers who recognized the utility of petroleum. Yergin opens his book on the history of oil by portraying Winston Churchill as a key figure in the process of conversion and behind the emergence of oil as a strategic commodity.<sup>5</sup>

Paul Kennedy's works on the rivalries of the era focused on the impact of technological innovations upon naval warfare and great power politics in context of the powers' economic rises and falls. One of his studies particularly concentrates on the rise and fall of Great Britain as the predominant maritime country in the period

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<sup>5</sup> Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, (New York: Simon&Schuster, 1990), pp.11-15.

form the Tudors to the present day from the aspects of political and economic developments.<sup>6</sup>

Studies of Marian Kent of British policy on Mesopotamian oil examines the efforts of British government to obtain and safeguard oil supplies for the armed forces and its economy, and evaluates how such efforts contributed to the development of a national oil policy and its effects on foreign policy<sup>7</sup>. Parallel to Kent's works, Helmut Mejer's book *Imperial Quest for Oil* also examines the British government's involvement in oil concession negotiations in Mesopotamia during the period 1910-1928.<sup>8</sup>

*History of the British Petroleum Company: The Development Years 1901-1932* written by Ronald W. Ferrier is a *grand* work on the Admiralty's fuel oil diplomacy, and relations between government and the Anglo-Persian Oil Company. This book examines the history of British Petroleum (BP) before and after its nationalization by the British government. This book is important in terms of the development of the thesis of this study but the chances were little to heavy it due to delivery difficulties.<sup>9</sup>

*The State and the Emergence of the British Oil Industry*, written by Geoffrey Jones and his articles "The British Government and the Oil Companies 1912-1924: The Search for and Oil Policy" and "The Oil-Fuel Market in Britain 1900-1914: A Lost

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<sup>6</sup> Paul M. Kennedy, *The Rise and Fall of the Great Powers: Economic Changes and Military Conflict from 1500-2000*, (New York: Random House, 1987); Paul M. Kennedy, *The Rise and Fall of British Naval Mastery*, (London: Fontana Press, 1991).

<sup>7</sup> Marian Kent, *Oil and Empire: British Oil Policy 1900-1920*, (London: The Macmillan Press Ltd, 1976); Marian Kent, *Moguls and Mandarins: Oil, Imperialism and the Middle East in British Foreign Policy 1900-1940*, (London: Frank Cass, 1993).

<sup>8</sup> Helmut Mejer, *Imperial Quest for Oil: Iraq 1910-1928*, (London: Anchor Press Ltd., 1976).

<sup>9</sup> Ronald W. Ferrier, *History of the British Petroleum Company Vol.1: The Development Years 1901-1932*, (Cambridge: Cambridge University Press, 1982).



Cause Revisited" published by the *Historical Journal* and *Business History* respectively provide a good account of some aspects of the birth and development of the British oil industry in the first quarter of the twentieth century, with the growing involvement of the State in that industry<sup>10</sup>.

*British Naval Documents 1204-1960* edited by John B.Hattendorf, R.J.B.Knight, A.W.H. Pearsall, N.A.M.Rodger, and Geoffrey Till<sup>11</sup>; *Administration Reports for the Persian Gulf Political Residency in The Persian Gulf Administration Reports (1873-1947)*<sup>12</sup>; and British documents of the pre-World War I which were compiled in the sources- *British Documents on the Origins of The War 1898-1914*, edited by G.P.Gooch and Harold Temperley; *The Middle East and North Africa in World Politics: A Documentary Record*, compiled by J.C.Hurewitz, and *English Historical Documents 1874 – 1914* edited by W.D.Handcock<sup>13</sup> helped to consider many important points on the foreign policy level.

The dissertation written by David Allan Snyder, *Petroleum and Power: Naval Fuel Technology and the Anglo-American Struggle for Core Hegemony, 1889-1922* was an excellent guide during evaluation of the contents of committee reports of the British Admiralty on the use of oil for the Royal Navy. These are 'Preliminary Report of James Melrose-Chief Inspector of Machinery', 'Summary of Investigations of the Committee dealing with the Supply of Fuel Oil for His

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<sup>10</sup> Geoffrey Jones, *The State and the Emergence of the British Oil Industry*, (London: The Macmillan Press Ltd, 1981).

<sup>11</sup> John B. Hattendorf, R.J.B. Knight, A.W.H. Pearsall, N.A.M. Rodger, and Geoffrey Till (ed.), *British Naval Documents 1204-1960*, (Aldershot, Hants: Scholar Press for the Navy Records Society, 1993).

<sup>12</sup> *The Persian Gulf Administration Reports (1873-1947)* Volume VI 1905-1911, (Buckinghamshire: Gerrards Cross, Archive Editions, 1986).

<sup>13</sup> D.C.Douglas (Ed.) *English Historical Documents 1874 – 1914*, (New York: Routledge, 1996).

Majesty's Ships and Notes on Subsequent Actions-pressed by Admiralty Contract Department', and 'Report and Minutes of the Royal Commission on Fuel and Engines'.<sup>14</sup>

Apart from above works, this thesis makes a peculiar effort not done yet. It puts the importance of the role of Admiralty to the center of history writing of Middle Eastern oil. This study undertakes a mission to reveal the interconnectedness of the issues relating to the significance of oil for Britain to keep her naval supremacy, and her clash of interests with other naval/great powers over oil rich Mesopotamian and southern Persia.

#### **1.4- Scope of Focal Region and Time Period**

The northern hinterlands of the Persian Gulf construct the focal region throughout the thesis. Instead of using ambiguous and indefinite names, "Middle East", "Near East", "Fertile Crescent", and "Asia Minor" this thesis draws the borders of the region within the context of late nineteenth and early twentieth centuries' Eastern Mediterranean political geography. Eastern Mediterranean has diversity and been spatially fragmented which results in a plurality of ways of thinking about its geography. The hinterlands of Eastern Mediterranean covers a very large area including the present-day Balkans, Greece, Libya, Egypt, Lebanon, Palestine, Syria, Mesopotamia, Anatolia, southern Persia, the Black Sea Region, and plenty of islands in the Mediterranean and the Black Sea. However, consideration of all parts of Eastern Mediterranean as such would extend the scope of the thesis. Therefore, for the sake of geographical restrictions, this inquiry restricts itself to the region specified as the northern hinterlands of the Persian Gulf. This thesis formed a link between Gulf, southwest Persian and Mesopotamian affairs. Separation of the two

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<sup>14</sup> David Allan Snyder, *Petroleum and Power: Naval Fuel Technology and the Anglo-American Struggle for Core Hegemony, 1889-1922*, Unpublished PhD Dissertation (Texas A&M University, December 2001).

regions (Persian and Mesopotamian) was not entirely possible in this study. This integrated perspective goes beyond the borders of the states.

The period from 1909 to 1914 draws the scope of time period of the thesis. 1909 was an important year because the Anglo-Persian Oil Company was formed. APOC was British Government's first investment in oil. The Admiralty was an important actor in the government's involvement in this enterprise. 1914 was also important since the agreement that formed the Turkish Petroleum Company on 19 March of that year was most favorable to APOC. Moreover, it was the year that the Admiralty went into persuasion efforts on the cabinet level for securing oilfields of southern Persia and Mesopotamia. However, the thesis is not limited to the period mentioned above. Prior to 1909 there were several important events and circumstances. Therefore the thesis retrospectively refers to historical developments in the previous decade. For instance, 1901 was important because the most significant concession in southern Persia was given to British businessman- William Knox D'Arcy who had developed close relations with the Admiralty and the Foreign Office. Again, the first decade of 1900s saw a noteworthy project - Baghdad Railway Project which intensified relations between Britain and Germany in the region.

### **1.5- Synopsis**

With regard to above introduction and framework, this thesis firstly examines the British sea power in terms of the aspects of the new imperialism. Then it focuses on technological changes in the Royal Navy, and the Admiralty's internal debates and reports which were about the availability of oil in the world for transition of naval fuel technology from coal to oil at the beginning of the twentieth century.

At the time of Britain's search for oil supply within and outside of the Empire, there were international questions in the geography of the Ottoman Empire formulated as the Eastern Question, and of the Persian Empire formulated as the policy of British

mastery in the East of Suez. As a part of the questions, there was an Eastern Mediterranean crisis, which Britain had already been included in. The crisis had particularly concentrated on northern hinterlands of the Persian Gulf due to interlocking interests of great powers on oil rich basins. Therefore, the third chapter introduces the background of the crisis in northern hinterlands of the Persian Gulf and conflicting interests of Britain, Russia and Germany there. It overviews extend of the British involvement and interest in the region in the period from 1890s to 1914. This part will also provide an examination of the British Government's attitude towards the Baghdad Railway Project as well as Russian and German penetration into the region. In particular, it examines various pressures, which influenced British officials and related government departments in the formulation of their policy towards the region.

The fourth chapter discusses various naval related factors strengthen the Admiralty's outlook in giving financial support to the Anglo Persian Oil Company, and the Admiralty's attempts and mediation to consolidate British oil policy in the hinterlands of Persian Gulf. In this context the thesis examines the exceptional relations between the Anglo-Persian Oil Company and the Admiralty.

**CHAPTER II**  
**BRITISH SEA POWER**  
**1880s – 1914**

The importance of the Royal Navy for Britain for many centuries is beyond dispute. It is important not only for the British government, naval officials and naval/maritime professionals but also for the general public. Winston S. Churchill<sup>15</sup> is clearly expressing Britain's belongings to the sea and claims "Great Britain, since the most remote time, had always been supreme at sea. The life of the nation, its culture, its prosperity, had rested on that basis."<sup>16</sup> British sea power, both naval and mercantile, and commerce, domestic as well as foreign affairs, were mutually depended. The Royal Navy, in this context, was regarded as essential to British existence, British expansion to overseas, the maintenance of British trade routes, the protection of the ships, and the security of the Empire.

**2.1- Traditional Naval Policies**

When we survey into the nineteenth century, the Royal Navy was in very deed an important actor in establishing and developing the British Empire as dominant power –frankly - dominant "sea power". Three orders of Queen Elizabeth I (1533-1603) was considered historical and traditional naval testament by the nineteenth century British naval officers. The first order was that the state guarantee shall be ensured for

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<sup>15</sup> Winston S.Churchill (1874-1965): First Lord of the Admiralty, 1911-15; Minister of Munitions 1917-18; Secretary of State for War and Air, 1919-21; Colonial Secretary, February 1921-October 1922; Chancellor of the Exchequer, October 1924-May 1929; First Lord of the Admiralty, September 1939-May 1940; Prime Minister and Minister of Defense 1940-45; Prime Minister 1951-55. See *A Daily Chronicle of Churchill's Life*, The Churchill Center <http://www.winstonchurchill.org/i4a/pages/index.cfm?pageid=36>

<sup>16</sup> Christopher Michael Bell, *British Ideas of Sea Power, 1919-1941*, Unpublished Ph.D. Dissertation, (The University of Calgary, 1998), p.3 c.f. CID 134<sup>th</sup> Mtg, 14 December 1920, CAB 2/3.

the merchants who are acting in overseas regions. Second, in the time of war, there should be a war administration by which after the war neither enemy nor ally and the neutral state would have an economic superiority over the British. And third, colonies will not make commercial contact with foreign world; they will sell their commodities only to the motherland.<sup>17</sup> These orders, even revised according to the international and political context of the nineteenth century, have been 'institutionalized orders' that envisaged consolidating global economic hegemony.<sup>18</sup>

Beside committing to and practicing this very foundation of British imperial policy, certain developments in the first three quarter of the nineteenth century were also very influential in consolidating British sea dominance all over the world. First of all, triumphs and naval victories of Britain at the Battle of Trafalgar on 21 October 1805, and at the Battle of Waterloo (which marked the end of the Napoleonic Wars and final defeat of Napoleonic France which was the rival of Britain) in 1815; as well as developing financial measures of the Royal Navy in the first decade of the nineteenth century marked the beginning of *Pax Britannica*. Secondly, Britain as a leading sea power possessed crucial wealth from overseas commerce and investment via *free trade* and *Navigation Acts* of 1840s. In the late 1850s Britain's dependence on overseas trade was such that over 90 per cent of its imports were raw materials and foodstuffs, while 85 per cent of its exports were finished goods. By 1880 Britain's sea-borne trade was valued three times that of France and ten times that of Russia.<sup>19</sup>

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<sup>17</sup> Afif Büyüktuğrul, *Osmanlı Deniz Harp Tarihi ve Cumhuriyet Donanması*, Cilt:3 (İstanbul: Deniz Basımevi, 1983), pp.2-3 c.f. Admiral Giuseppe Fioravanzo: *Il Comandi Navali*.

<sup>18</sup> Arthur J. Marder, *From the Dreadnought to Scapa Flow*, Vol.1 The Road to War 1904-1914 (London: Oxford University Press, 1966), p.5; Andrew D.Lambert, "The Shield of Empire 1815-1895", *The Oxford Illustrated History of the Royal Navy*, ed.by J.R.Hill, (Oxford: Oxford University Press, 1995), p.161; *British Naval Documents 1204-1960*, p.742.

<sup>19</sup> John Lowe, *The Great Powers, Imperialism and the German Problem*, (London: Routledge, 1994), p.5.

Thirdly, by her possession of an enormous colonial empire, Britain strategically enjoyed benefits of her naval bases throughout the world.<sup>20</sup> During the first three-quarters of the nineteenth century, Britain took over the Cape Colony from the Dutch; she annexed Canada, Australia, New Zealand, the Malay states, Hong Kong, Sierra Leone, Gambia, Lagos, and the Gold Coast; took over from the French the control of Egypt and the Suez Canal which united the Mediterranean with the Red Sea and shortened the sea voyage from Britain to India and the Far East by thousands of miles. The British East India Company<sup>21</sup> was very effective in the annexation of those countries and most of the Indian subcontinent, which became the British Empire's largest source of revenue. From British India the Company expanded into other surrounding Asian countries such as Punjab, Sind, Berar, Qudh, Kashmir, and Lower Burma. Thus, it established Britain's Asian Empire, the most important component of the British Empire. Fourthly, the communication network of imperial cable was linking those bases with the Empire and further enhancing British strategic domination of the world's seaway.<sup>22</sup>

Moreover, the Industrial Revolution in the mid-nineteenth century had already brought revolutionary consequences in British technology (advances in mechanical engineering), business organizations, economy, society and politics. It also made a complete transformation in naval technology. The development of the screw propeller allowed the direct application of steam power to the battlefleet. The Crimean War of 1854-1856 proved the value of iron armour and the fleet was replaced all wooden ships with ironclads. The Royal Navy adopted this technology with remarkable speed.

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<sup>20</sup> Five strategic points were -Dover, Gibraltar, the Cape, Alexandria, Singapore- all in British hands. Kennedy, *The Rise and Fall of British Naval Mastery*, p.205.

<sup>21</sup> The British East India Company originally began as a joint-stock company of traders and investors which was granted a Royal Charter by Queen Elizabeth I in 1600, with the intent to favour trade privileges in India. <http://www.theeastindiacompany.com/>

<sup>22</sup> Kennedy, *The Rise and Fall of British Naval Mastery*, p.244.

Over all with above survey, the historians and officials of sea power have introduced British Empire and Navy as “the empire on which the sun never sets”, “the only world power”<sup>23</sup>, “naval mastery”<sup>24</sup>, “naval supremacy”<sup>25</sup> for the period between 1810s and 1880s. However, while practicing naval supremacy, it was inevitable to come across with vulnerabilities somehow. In the late nineteenth century, Great Britain found her sea power superiority challenged by raising European as well as *extra-European* naval powers.<sup>26</sup> The United States, Japan, Germany and Italy appeared as new maritime rivals.<sup>27</sup> The naval transformation went far beyond the realm of the British Empire and influenced naval tactics and strategy, government finance, political discourse, and public opinion of those states.<sup>28</sup> Battleship construction as well as expenditures of those powers for naval establishments also increased in comparison to the British Empire. Germany did make a significant step forward from the 1880s to 1900, and the German Navy became the second largest navy after Britain both in expenditure capacity and technological advance in the subsequent decade. As Richard Hough writes, “[b]efore the end of the nineteenth century the growth of navies all over the world was already shaping the direction of twentieth century history. Nowhere was the course more sharply and

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<sup>23</sup> Lambert, p.161.

<sup>24</sup> Paul Kennedy by using the term ‘naval mastery’, means that a country has so developed its maritime strength that is superior to any rival power, and that is predominant is or could be exerted far outside its home waters, with the result that it is extremely difficult for other, lesser states to undertake maritime operations or trade without at least its tacit consent. According to him, Great Britain possessed such a naval mastery in 1815. Kennedy, *The Rise and Fall of British Naval Mastery*, p.11.

<sup>25</sup> Official web site of the Royal Navy. History link: “1815-1914: Maintaining Naval Supremacy” <http://www.royal-navy.mod.uk/server?show=nav.3854&outputFormat=print>.

<sup>27</sup> Lawrence Sondhaus, *Naval Warfare, 1815-1914*, (London: Routledge, 2001), p.160; James Goldrick, “The Battleship Fleet: The Test of War 1895-1919”, *The Oxford Illustrated History of the Royal Navy*, Hill, (Oxford: Oxford University Press, 1995), p.280.

<sup>28</sup> John F.Becler, *British Naval Policy in the Gladstone-Disraeli Era, 1866-1880*, (California: Stanford University Press, 1997), p.vii.



uncompromisingly delineated than in Germany".<sup>29</sup> It would rather be apt to open discussion on above challenge, particularly German challenge from the aspects of "new imperialism".

## 2.2- New Imperialism and New Navalism

Historians have called the colonial rivalries among the great powers such as Britain, Germany, France, Russia, Italy, the US and Japan in the late nineteenth century as the "new imperialism". But it should be remembered that there were also remarkable imperialist activities of some of those powers, including the seizure of overseas territory during the first three-quarters of the nineteenth century. During this same period France annexed Algeria, the Marqueses, Tahiti, and other islands in the Pacific; it began conquest of Indo-China; and attempted to establish an empire in Mexico. Russia conquered and annexed immense stretches of territory in central and eastern Asia (Russia's seizure of the khanates of Central Asia and parts of the Ottoman Empire) and on the east and west coasts of the Black Sea.<sup>30</sup> France and Russia were constant rivals of Britain. Thus, Britain was not unrivalled but she could deal with all naval challenges effectively.

What was "new" about imperialism in the final years of the nineteenth century was, with Norman Rich's words, "a significant increase in the establishment of formal rule over non-European territories" and "an intensified interest in imperialist enterprises on the part of all European governments and peoples".<sup>31</sup> According to Arthur J. Marder, it was an "acquisitive imperialism" of loans, leases, spheres of influence, protectorates, and wherever practicable, annexations. He says, "The new

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<sup>29</sup> Richard Hough, *The Great War at Sea (1914-1918)*, (Oxford: Oxford University Press, 1987), p.3.

<sup>30</sup> Rich, pp.263-268.

<sup>31</sup> *Ibid*, p.264.

imperialism owed its birth to economic necessity . . . Colonial and commercial expansion was the dynamic force behind the new imperialism with the slogan 'trade follows the flag'".<sup>32</sup>

This change in the nature of imperialism was a reflection of changes in the political and economic situation in Europe itself: the growth of nationalist sentiment that accompanied the national revolutions and an increased awareness of the need for economic resources and markets that accompanied the spread of the Industrial Revolution.

National security concerns were fed by theories, which asserted that a nation's survival as a great power depended on the extent of its overseas and territorial possessions and on the strategic advantages and economic resources those possessions would provide. Theories of sea power during this period were the ones declaring such imperialism oriented national concerns. These theories were pointing the navy as the essential instrument of an imperialistic policy for securing colonies and trade. Theories of Sir Julian Corbett, Admiral Philip H.Colomb of the Royal Navy, and the American naval official Alfred Thayer Mahan were very popular in this sense. The influence of these individuals on the formulation of naval and imperial policy is very clear. Among those, Alfred Thayer Mahan (1840-1914) of the US Navy and his influence on the British and other naval powers in the period are worth to discuss.

### **2.3- The Influence of Mahan on Naval Powers**

Why he was so popular? Actually, Mahan did not discover anything new about sea power; the earlier theorists such as Sir Walter Raleigh (1552-1618), Francis Bacon

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<sup>32</sup> Arthur J.Marder, *British Naval Policy 1880-1905, The Anatomy of British Sea Power* (London: Putnam Company, 1960), pp.10-11.

(1561-1626), and Leopold von Ranke (1795-1886) had had a similar conception of sea power. Admiral Philip H. Colomb published in the *Illustrated Naval and Military Magazine* a series of essays which appeared in book form in 1891 under the title *Naval War, Its Ruling Principles and Practice Historically Treated* had much the same conclusions.<sup>33</sup> But as Paul Kennedy marks, Mahan became famous because of the talented manner in which he had synthesized many hitherto disconnected notions into a coherent philosophy with historical examples and commentary.<sup>34</sup> Christopher Michael Bell writes "Mahan's popularity in naval circles stemmed from the authoritative confirmation his works appeared to offer of the importance of sea power".<sup>35</sup> The achievement of Mahan, according to other writers George Modeliski and William R. Thompson, has been to put the concept of sea power on the active agenda of world politics.<sup>36</sup>

Two particular works of Mahan (*The Influence of Sea Power upon History, 1660-1783*, and *The Influence of Sea power upon the French Revolution and the Empire*, published in 1890 and 1892, respectively) caused a revolution in the study of naval history "similar in kind to that affected by Copernicus in the domain of astronomy".<sup>37</sup> Almost 23,000 copies of first and 12,000 of the second have been sold in the US alone.<sup>38</sup> The books also attracted world attention, and were translated into many languages to be read in the Naval Colleges of the great powers. Mahan's

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<sup>33</sup> William L. Langer, *The Diplomacy of Imperialism (1890-1902)*, (New York: Alfred A. Knopf, 1956), p.418.

<sup>34</sup> Kennedy, *The Rise and Fall of British Naval Mastery*, pp.1-6.

<sup>35</sup> Bell, p.2.

<sup>36</sup> George Modeliski & William R. Thompson, *Sea Power in Global Politics, 1494-1993*, (London: The Macmillan Press Ltd, 1998), p.8.

<sup>37</sup> Marder, *From the Dreadnought to Scapa Flow*, p.4.

<sup>38</sup> Langer, p.418.

arguments had major consequences for naval policy all over the world but most of all for Germany, Britain, and the United States.<sup>39</sup>

Mahan's main purpose in these works was to make the officials aware of the supreme importance of sea power. His major propositions about navies and international relations were, first, maritime commerce was essential to the economic prosperity of a great power. The second was that the best means of protecting one's own trade while interdicting the enemy's was to deploy a fleet of battleships capable of maintaining naval supremacy, the consequence of which was that commerce. Thus, the hitherto focus has shifted somewhat from the emphasis upon a nation's capacity to dispatch troops across the sea to an equal or even greater emphasis upon control of mercantile trade and routes. The third was that a nation with naval supremacy could defeat a country that was militarily pre-eminent.<sup>40</sup> Mahan had also made the officials of six principal conditions that had affected sea power as follows; geographical conditions; physical conformation; extent of territory; number of population; national character; and character and policy of governments. Mahan, in his works in particular, reminded the British of their special stake in naval supremacy:

"Trade and protection and security from invasion both depended on sea power. The former became a pressing matter in the late nineteenth century, when most of British foodstuffs and the industrial raw material needed for industry were coming from abroad. Deprived of her trade, Britain could not maintain her industries, feed her rapidly growing population, or equip her armies."<sup>41</sup>

The influence of teachings of Mahan on Germany was significant in particular. It would certainly be wrong, however, to accept that Mahan's books were primarily responsible for the change in German naval power. The phenomenal development of

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<sup>39</sup> Modeliski & Thompson, p.9.

<sup>40</sup> Jon Sumida, "Alfred Thayer Mahan, Geopolitician", *Geopolitics: Geography and Strategy*, Ed.s, Colin S.Gray & Geoffrey Sloan, (London: Frank Cass 2003), p.39.

<sup>41</sup> Marder, *From the Dreadnought to Scapa Flow*, p.4.

German industry and trade; and personal enthusiasms of Kaiser William II and Alfred von Tirpitz toward naval issues and fleets were main factors of the change.

#### 2.4- The Genesis of the German Challenge and Anglo-German Naval Rivalry

In the years following the establishment of German Reich<sup>42</sup> in 1871, Germany achieved extraordinary industrial, commercial and military transformations. German industrialists and businessmen needed new overseas markets and sources of raw materials. It led naturally to a demand for overseas colonies, the extension of political influence that would ensure the control of the overseas markets, and a strong navy to secure these imperial interests.<sup>43</sup> William II- inspecting the ships of the British Royal Navy and dreaming Germany have a fleet like that of Britain in his youth, made an ambition to build a great navy when he became Kaiser in 1888.

He, as a first step, formed a separate Admiralty Department called the Imperial Naval Office, *Reichsmarineamt*, of which Rear Admiral Alfred von Tirpitz was appointed as State Secretary in 1897. Moreover, Kaiser attempted to teach the importance of sea power to the German people and stressed in every occasion that they would never achieve a *Weltpolitik* without a powerful navy. He also encouraged

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<sup>42</sup> With unification of the German Reich in 1871, the balance of power formulated in the Congress of Vienna in 1815 changed fundamentally. Germany had enlarged her territories through three successive wars without taking consent of any nation which had been an essence of the balance of power between 1815-1870. In that way, Germany had become the dominant force in central Europe and the foremost military power on the continent. First of these three successive wars was with Denmark in 1864 which gave Prussia Schleswig-Holstein. Second was with Austria in 1866(Austro-Prussian War), which allowed Prussia to annex Hanover and most other north German territories who had sided with Austria. Finally third was with France in 1870 (Franco-Prussian War), which allowed Prussia to force Mecklenburg, Bavaria, Baden, Wüttemberg, and Saxony to accept incorporation into a united German Empire (except Austria). With the formation of German Empire, William I assumed the title of Emperor (Kaiser). Lowe, p.13.

<sup>43</sup> This demand found expression in the famous concept of world policy "*Weltpolitik*"-product of 'new imperialism'. Charles Seymour, *The Diplomatic Background of the War 1870-1914*, (New Haven: Yale University Press, 1916), p.89.

reading the theories of Mahan and said "I am just now not reading but devouring Captain Mahan's book; and am trying to learn it by heart. It is a first class book and classical in all points. It is on board all my ships and constantly quoted by my Captains and officers".<sup>44</sup>

By 1889 the German Navy had 9 battleships, 31 cruisers, and 113 torpedo boats with 25,000 personnel and was ranking as the fourth among the navies in Europe. On the other hand Britain possessed 54 battleships, 104 cruisers, and several hundred torpedo boats.<sup>45</sup> It was Admiral Alfred von Tirpitz who made considerable expansion in the German Navy with the support of Kaiser. His ambition can be felt in the following words:

"In order to protect German trade and commerce under existing conditions only one thing will suffice, namely, Germany must possess a battle fleet of such a strength that even for the most powerful naval adversary a war would involve such risks as to make that Power's own supremacy doubtful. For this purpose it is not absolutely necessary that the German fleet should be as strong as that of the greatest naval Power, for as a rule, a great naval Power will not be in a position to concentrate all its forces against us".<sup>46</sup>

The memorandum below has so interesting messages exposing the logical framework that Tirpitz leaned on for his expansionism:

"The starting point for the development of a fleet must be the marine interests of the nation . . . A state that has marine or world interests, must be able to represent them and must be able to make its power felt beyond its territorial waters. Rational world trade, world industry, to a certain extent deep-sea fishing, world communications and colonies are impossible without a fleet capable of assuming the offensive . . . The natural purpose of a fleet is the strategic offensive".<sup>47</sup>

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<sup>44</sup> Roger Parkinson, *The Origins of World War I*, (New York: Putnam, 1970), p.87.

<sup>45</sup> Bernadotte E.Schmitt, *England and Germany*, (New York: D.Appleton-Century Company 1967), p.174.

<sup>46</sup> Hough, p.4.

<sup>47</sup> Langer, p.431; Raffael Scheck, *Alfred von Tirpitz and German right-wing politics, 1914-1930*, (N.J.: Humanities Press, 1998.), pp.87-88.

As the State Secretary of the Reich Naval Office, he outlined a proposed bill for a Naval Law which was calling for an armored fleet of 19 high sea battleships and 8 coastal battleships, with 12 large cruisers, 30 small cruisers, and 12 divisions of torpedo boats. The goals would be met by 1905. The bill became Navy Law on 10 April 1898. In June 1900, Tirpitz secured the passage of the Second Navy Law. The new legislation expanded the fleet to 38 battleships, 14 large and 24 small cruisers.<sup>48</sup>

This concentration on overseas trade, maritime interests and a great navy to protect the interests, naturally increased Germany's rivalry with Britain. Germany was fed by the speeches and messages pointing to the British threat of blockade or seizure of trade concessions and colonies.<sup>49</sup> Tirpitz wrote in his *Memoirs* for instance: "[p]eople in Germany had a wholly inadequate conception of the peculiar composition of English power and of its ability to encircle Germanism with mental and material forces . . ."<sup>50</sup>

Under the developments discussed above, what kind of preventive measures and actions at diplomacy and naval levels did Britain introduce to maintain her naval superiority? As European navies expanded their strength and new powerful navies emerged in the late nineteenth century, Britain began to calculate her naval requirements on the basis of "naval standards". These standards specified which power, combination of powers, or number of powers Britain should match in naval strength. The standards resulted from a careful balancing of strategic, diplomatic and financial considerations. In fact such measure of strength was a traditional practice for several decades but this time Britain did a commitment to achieve a level of supremacy again, which became known as a 'Two Power Standard'. The *Naval Defence Act of 1889* made the commitment official. The Naval Defence Act was providing £21.5 million over five years to construct 8 first-class battleships, 2

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<sup>48</sup> Lawrence Sondhaus, *Naval Warfare, 1815-1914*, (Routledge, London, 2001), p.180.

<sup>50</sup> Alfred von Tirpitz, *My Memoirs*, (London: Macmillan, 1996), p.88.

second-class battleships, 9 first-class cruisers, 29 second-class cruisers, 4 third-class cruisers and 18 torpedo gunboats. "The program was designed to leave the British navy roughly equal to the combined strength of the French and Russian navies".<sup>51</sup>

This authorization and subsequent events marked a dramatic departure from the policies of the previous decades, however. So far, Britain had been maintaining a policy of "Splendid Isolation" which required to distant from Continental entanglements and alliances. Increasing alliance between France and Russia which appeared as a strong power in the Mediterranean led Britain search for benevolent neutrality of the Triple Alliance either from Italy and Germany in a possible war with Russia and France.<sup>52</sup> The historians point to the Kaiser William II's Kruger Telegram dated January 1896 (See Appendices A and B) as the event that it made Britain realizes the real state of affairs between Germany and Britain. Churchill wrote in his *World Crisis* "When early in the present century, our potential enemy, for the first time, became, not France, but Germany, our naval strategic front shifted from the South to the East Coast, and from the Channel to the North Sea".<sup>53</sup> At the turn of new century, Britain concentrated her fleets in home waters in case of German attack by ensuring Anglo-Japanese Treaty of Friendship (30 January 1902) and the *Entente Cordiale* with France (8 April 1904).

It was the period 1908-1914 that these two powers seriously began to compete head to head in the building of battleships. The new supplementary laws of 1906, 1908 and 1912 in Germany intensified the naval rivalry between two powers. These laws were committing the German government to support a long-term building up

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<sup>51</sup> Sondhaus, p.161.

<sup>52</sup> Langer, p.424.

<sup>53</sup> Winston S.Churchill, *The World Crisis 1911-1918*, (London: New English Library, 1964),p.114.



German naval power by setting an overall strength.<sup>54</sup> The laws called for the construction of new warships, provided sailors to man these vessels, equipped the fleet with supplies of stores and weapons, developed the navy's bases, and expanded the shipbuilding capacity of German industry.<sup>55</sup>

Britain's decisive and ambitious response to the German naval rivalry came from the First Sea Lord John Arbuthnot "Jackie" Fisher (25 January 1841-10 July 1920). He was known for his technologically radical efforts for naval reforms, and considered the second most important figure of British naval history, after Lord Nelson. He was a driving force behind the Admiralty reorganization, the development of high-speed and big-gun battleships, and design of the first modern revolutionary battleship, HMS *Dreadnought*. He was also a strong figure in the introduction of submarine into the Royal Navy, and the conversion from a largely coal fuelled navy to an oil fuelled one. The new battleship designed with oil alone was the *Queen Elizabeth* class initiated by Fisher.<sup>56</sup> But Germany soon started launching her own dreadnoughts as well.

As mentioned above, between 1889 and 1909, successive British governments formally committed themselves to the practice of "Two Power Standard". In 1909 the Admiralty began to base its calculations on the maintenance of 60% superiority in dreadnoughts over its single most probable enemy, Germany. Churchill announced the abandonment of the Two Power Standard to the House of Commons

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<sup>54</sup> See also "Translation of Naval Bill changing the law of 1900 from the North German Gazette of November 19, 1907 with Distribution of the ships to be built between 1908 and 1917", cited in G.P.Gooch and Harold Temperly, eds., *British Documents on the Origins of the War, 1898-1914, The Near East, 1903-9*, V.5, (London: His Majesty's Stationery Office, 1926) pp.319-324.

<sup>55</sup> John H.Maurer, "Arms Control and the Anglo-German Naval Race before World War I: Lesson for Today?" *Political Science Quarterly*, (Vol 112, No.2, 1997), p.287

<sup>56</sup> Marder, *From Dreadnought to Scapa Flow*, pp.268-271.

in 1912. "Standards of naval strength must vary with circumstances and situations," he declared.

"Adequate naval superiority is the object, and the standards which we adopt are necessary, though arbitrary guides for securing it. When the next two strongest naval Powers were France and Russia, and when those two Powers were also what one might call the most probable adverse diplomatic combination, the two-Power standard was convenient rule, based upon reality, for us to follow as a guide. The passage of time and the rise of the Navy of a single Power to the first place upon the Continent has changed this . . . In order, therefore, to provide a reason for the necessary measures which have been taken during the last few years, it has become customary to extend the two-Power standard so as to include the United States of America, and thereby, I think, the two-Power standard has lost much of its good sense and its reality. The time has come to readjust our standards in closer accord with the actual facts and probable contingencies. The actual standard in new construction . . . which the Admiralty has, in fact, followed during recent years, has been to develop a 60 percent, superiority in vessels of the 'Dreadnought' type over the German Navy on the basis of the existing (German) Fleet Law".<sup>57</sup>

It is often thought that the Anglo-German naval rivalry and antagonism was herald of World War I. Actually, there was a considerable effort for an agreement to improve Anglo-German relations among decision makers. But they failed to achieve any negotiated solution to their naval competition.<sup>58</sup>

The following discussion deals with a short but remarkable point of Admiralty organization which Fisher tried to upgrade, and put into the British political

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<sup>57</sup> Robert Rhodes James (ed.), *Churchill Speaks: Winston S. Churchill in Peace and War Collected Speeches, 1897-1963*, (Leicester: Windward, 1981), pp.224-5.

<sup>58</sup> There were series of attempts to reduce the competition: the discussion at the Hague Conference in 1907, the British efforts during the summer of 1908 to initiate talks, the protracted negotiations of 1909-1911, the Haldane mission in 1912, Winston Churchill's calls during 1912 and 1913 for a naval holiday, the German bid to promote tacit arms control in 1913, and the final attempts by both sides in the spring of 1914 to renew discussions. Maurer, pp.285-287; for the Anglo-German naval discussions and negotiations, see also *The Annual Report on Germany for 1909* in Gooch & Temperly, *British Documents..... The Near East, 1903-9*, pp.319-324; G.Lowes Dickinson, *The International Anarchy, 1904-1914*, Vol.1, (London: George Allen&Unwin Ltd., 1926), pp387-399.

processes as an influential actor. According to this new organization, the British Royal Navy was administrated through a Board of Admiralty, and its chairman, the First Lord of the Admiralty, was the Minister responsible to Parliament for the work of the department. He was assisted by four Sea Lords, who were all naval officers of high rank: the First Sea Lord (Chief of the Naval Staff), the Second Sea Lord (Chief of the Naval Personnel), the Third Sea Lord (Controller of the Navy), and the Forth Sea Lord (Chief of Supplies and Transport). The other members of the Board are the Deputy Chief of the Naval Staff, and the Assistant Chief of the Naval Staff (Air), who were both technically trained officers; the Parliamentary and Financial Secretary, and the Civil Lord of the Admiralty, who were both politicians and aid to the First Lord in his parliamentary work; and the Permanent Secretary, who was head of the secretarial services, and is the only member of the Board who had a permanent position. The First Lord, the Parliamentary Secretary, and the Civil Lord have, certainly, seats in Parliament; and the First Lord is always a member of the Cabinet.<sup>59</sup> What striking point here is the role assumed by the political head of the department, the First Lord of the Admiralty. Truly, the manner in which Churchill, the follower of Fisher, was able to influence the political process in the Cabinet and Parliament through his skills. The fourth chapter will more refer to his influence and convincing ability in defense of Admiralty interests in the British channel of political demand and processes.

Apart from the discussions on Anglo-German Naval Race, and the Admiralty organization, the early twentieth century saw also tremendous development in naval technology. The use of oil fueled internal combustion engine technology in the navies did "a major turning point in the history of oil politics".<sup>60</sup> A series of

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<sup>59</sup> R.MacGregor Dawson,, "The Cabinet Minister and Administration Winston S.Churchill at the Admiralty, 1911-15", *The Canadian Journal of Economics and Political Science*, Vol.6, No.3 (Aug., 1940), p.329.

<sup>60</sup> Fiona Venn, *Oil Diplomacy in the Twentieth Century*, (London: Macmillan, 1996), p.16.

experiments with oil was made by the year 1864 in the United States Navy Yards, either Brooklyn or Philadelphia, and at the Battery, New York. The Italian Navy started its first experiments with oil in 1890, and by 1900 most of its torpedo boats became oil burning. The mixed-firing method of spraying oil on coal was a general practice by the early 1900s. But the Liquid Fuel Board in the United States recommended the US Navy using oil as a separate fuel in 1904. Consequently, the first oil-burning American destroyer, *USS Paulding*, was commissioned in 1910 and by 1911 the *USS Nevada*-class battleship was planned for solely oil as fuel.<sup>61</sup> There was a growing state financial and diplomatic support in oil corporations to facilitate oil experiments for naval and maritime vessels in the United States.<sup>62</sup> American experiments with burning oil in the boilers of ships as well as increasing use of oil by those foreign navies at the turn of the century provoked the British Admiralty to undertake its own trials and experiments with the fuel oil. The following passages of this part are first providing a synopsis on birth and development of the British oil industry in the first decade of twentieth century. The Admiralty's direct involvement into the oil market to supply secure oil is then the central theme.

## **2.5- The British Admiralty and Fuel Oil**

In 1865, British naval captain J.H.Selwyn drew attention of the Admiralty to American experiments with burning oil in the boilers of ships. By getting interest of the Admiralty, Selwyn as well as various manufacturers of fuel oil burning systems tried to make series of experiments. Selwyn, however, became aware that the difficulty of securing fuel oil in Britain was restricting further experiments with oil burning in the Royal Navy. He thought that grand projects for developing large

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<sup>61</sup> Erik J.Dahl, Naval Innovation, From Coal to Oil, *Joint Force Quarterly*, (Winter 2000-1) [http://www.dtic.mil/doctrine/jel/jfq\\_pubs/1327.pdf](http://www.dtic.mil/doctrine/jel/jfq_pubs/1327.pdf), p.54.

<sup>62</sup> J.A.DeNovo, "Petroleum and the United States Navy before World War One", *The Mississippi Valley Historical Review*, XLI (1954-55), pp.650-1.

deposits of fuel oil as a source of supply were highly needed.<sup>63</sup> In 1901 the Chief Inspector of Machinery was sent to Italy to investigate the burning of oil in Italian naval vessels. By the end of 1901 the Admiralty began its own trials with the fuel. In 1902 the First Lord, Lord Selborne, described the Admiralty's experiments with oil as "the most important investigation now in progress". In 1904 the Admiralty decided to fit all new battleships and cruisers to burn fuel oil as an auxiliary to coal, and all the destroyers for the following year with an installation for burning oil alone.<sup>64</sup>

While supporting the Admiralty's serious experimental works to develop oil fuel technology of the Royal Navy, the British government was reluctant to the rapid adoption of oil fuel in several reasons<sup>65</sup>: First of all, coal was a core component of the British Industrial Revolution. Industries were benefiting from the size and proximity of British coal reserves. The steam power fueled by coal became almost synonymous with British industrialization.<sup>66</sup> Coal was still the primary source of power for naval vessels in particular. Navies still world wide preferred Cardiff coal mined in Wales, for instance.<sup>67</sup> In addition, coal used for maritime purposes was an important economic asset to the British Empire. It was helping British trade to

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<sup>63</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.9, c.f. J.H.Selwyn, "Liquid Fuel for Marine Purposes", *Journal of the United States Service Institution* (1885); and *Petroleum Review* (18 March 1899)

<sup>64</sup> *Ibid*, p.10.

<sup>65</sup> Daniel R.Headrick, *The Tentacles of Progress: Technology Transfer in the Age of Imperialism, 1850-1940*, (New York: Oxford University Press, 1988), pp.43-44; Adam W.Kirkaldy, *British Shipping: Its History, Organization, and Importance*, (London: Kegan Paul, Trench, Trubner and Co.,1914), p.456.

<sup>66</sup> David S.Landes, *The Unbound Prometheus: The Technological Change and Industrial Development in Western Europe from 1750 to the Present*, (Cambridge: Cambridge University Press, 1969) p.88.

<sup>67</sup> Dahl, pp.50-1.

remain in balance.<sup>68</sup> Secondly, the Empire was lack of a sufficient domestic petroleum resources and production in itself. The lack of domestic petroleum production within the Empire meant a serious supply problem and a paramount security and defense issue for British Empire. This problem, in fact, was the main factor that moved the Admiralty to find a solution. Thirdly, the aggressive nature of modern oil industry was a complicating matter in deciding transition from coal to oil.<sup>69</sup>

### **2.5.1- The Nature of Modern Oil Industry in the First Quarter of the Twentieth Century**

The modern international petroleum industry was born in the United States in the early 1860s. In a very short period, the export of petroleum products, mostly Pennsylvanian oil to the world, became an important component of the American economy. The Standard Oil Company became dominant in the American petroleum industry. By the 1880s, however, American monopoly in oil business and production began to face with competition from other companies managing Baku-Batum railway project, and operating in the Black Sea and Caucasus oil fields of Russia. The Nobel Brothers Petroleum Producing Company financed by the Rothschild family, for instance, was a powerful name in the Russian oil market. The suppliers of the Nobel Brothers arrived in Britain during that time. They further enhanced their position in the British market by forming partnerships with British firms.<sup>70</sup>

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<sup>68</sup>Roy Church, *The History of the British Coal Industry, Vol.III, Victorian Pre-Eminence, 1830-1913* (Oxford:Oxford University Press, 1986), p.779; Headrick, p.44.

<sup>69</sup> Stephaine M.Hoopes, *Oil Privatization, Public Choice and International Forces*, (London: Macmillan Press, 1997), pp.13-14.

<sup>70</sup> Venn, pp.14-17; Fevzi Altuğ, *Petrol Sorununun Tarihsel Gelişimi ve Türkiye*, (Bursa: Bursa Akademi Kitapevi, 1983), pp.23-41; Şükrü S.Gürel, *Ortadoğu Petrolünün Uluslararası Politikadaki Yeri*, (Ankara: A.Ü.S.B.F. Yayınları No:432., Ankara Üniversitesi Basımevi, 1979), pp.36-38.

In response to this international challenge, the Standard Oil began to form foreign affiliates to increase its presence in Europe.<sup>71</sup> The Anglo-American Oil Company was the first foreign affiliate against the Russian and British partnership. Fiona Venn argues that the Standard Oil's response did make considerable repercussions in international diplomacy.<sup>72</sup> In fact, in the 1890s, the oil industry became more complex with the emergence of new oil producers in Romania, Austria-Hungary, Canada, Burma and the Dutch East Indies. Furthermore, the first quarter of the twentieth century saw the emergence of the "oligopolistic corporate structure". The Standard Oil Company was dissolved by the US Supreme Court order in 1911 due to its violation of the Anti-Trusts Acts by attempting to monopolize the petroleum industry. Then, so-called 'seven sisters', the seven large integrated multinational oil companies, which dominated the world oil industry, emerged.<sup>73</sup> These were three successor companies of Standard Oil Company, -Standard Oil of New Jersey (now Exxon), Standard Oil of New York (now Mobil) and Standard Oil of California (now Socal); two other American companies Gulf Oil and Texaco; as western European sisters Royal Dutch-Shell and Anglo-Persian Oil Company (now British Petroleum). Among them a merged Anglo-Dutch company known as Royal Dutch-Shell; and Anglo-Persian Oil Company are worth to be introduced here.

The British part of Royal Dutch-Shell Company was a firm of Samuel Samuel&Co, which was active in importing oil into Asia, and later Japan under the management of a London Jewish merchant, Marcus Samuel. Marcus Samuel's creation, Shell Transport and Trading expanded markets beyond East Asia by entering into Europe around 1901. He will be referred several times in this study since he became the leading advocate of oil fuel within Britain, attempting to convince not only the

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<sup>71</sup> Yergin, p.56; Venn, p.15.

<sup>72</sup> Venn, p.15

<sup>73</sup> Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World they Made* (London: Coronet, 1976), p.17.

Admiralty but also other shipping and railroad entrepreneurs to use oil-burning engines instead of coal.<sup>74</sup>

In the same period, another oil firm, Royal Dutch was operating in the Netherlands East Indies-on the island of Sumatra. Its Dutch-born manager Henri Wilhelm Deterding followed a philosophy of "unity makes might" and sought to work out price-setting agreements between Royal Dutch and its competitors. Chief among those competitors was Shell Transport and Trading.<sup>75</sup> A new network of subsidiary companies was formed in 1907 with the name Royal Dutch-Shell. Geoffrey Jones notifies that Royal Dutch had the stronger position in terms of production, finance, and market share. Shell possessed the assets of British headquarters. By 1912, Royal Dutch-Shell began to expand outside the Far East, into Europe, the Middle East, and South America and compete with Standard Oil Co. even in the United States itself.<sup>76</sup> By 1914, Royal Dutch-Shell became virtually a world-wide organization.<sup>77</sup>

The other sister, Anglo Persian Oil Company originated in the activities of William Knox D'Arcy, an adventurer who had made a fortune in Australian mining. In 1901 D'Arcy secured a concession from the Grand Vizier of Qajar Dynasty in Persia to explore for oil throughout most of his empire. The search for oil proved extremely costly and difficult, since Persia was devoid of infrastructure and politically unstable. Within a few years D'Arcy was in need of capital. Eventually, after intercession by members of the British Admiralty, the Burmah Oil Company joined D'Arcy in a Concession Oil Syndicate in 1905 and supplied further funds in return for operational control. In May 1908 oil was discovered in the southwest of Persia at

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<sup>74</sup> Yergin, pp.114-116; Jones, *The State and the Emergence of the British Oil Industry*, p.39.

<sup>75</sup> Yergin., pp.118-120; F.C.Gerretson, *History of the Royal Dutch*, Vol. 1 (Leiden: E.J.Brill, 1953), pp.199-202.

<sup>76</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.77.

<sup>77</sup> Venn, pp.15-16.



Mesjid-i-Suleiman. The following April the Anglo-Persian Oil Company was formed, with the Burmah Oil Company holding most of the shares.

The dominant figure in the early years of the Anglo-Persian Oil Company was Charles Greenway. Greenway began his career in the firm of managing agents who handled the marketing of Burmah Oil's products in India. Invited by Burmah Oil to help in the formation of Anglo-Persian Oil, he became a founding director, was appointed managing director in 1910, and took the position of chairman in 1914. The first few years of the company's existence were extremely difficult, and it survived as an independent entity largely through Greenway's skill. Although Anglo-Persian Oil had located a prolific oil field, it encountered major problems in refining the crude oil. The company also lacked a tanker fleet and a distribution network to sell its products.<sup>78</sup>

For a time Anglo-Persian Oil risked being absorbed by one of the larger oil companies, such as the Royal Dutch-Shell group, with whom it signed a ten-year marketing agreement in 1912. But in 1914 Greenway preserved the independence of Anglo-Persian Oil by a unique agreement with the British government. Under the terms of this agreement, negotiated with Winston Churchill, First Lord of the Admiralty, Greenway signed a long-term contract with the British Admiralty for the supply of fuel oil, which the Royal Navy wished to use as a replacement for coal.

At the same time, in an unusual departure from the Britain's laissez-faire traditions, the British government invested £2,001,000 in Anglo-Persian Oil, receiving in return a majority shareholding that it would retain for many years. The transaction provided the company with funds for further investment in refining equipment and an initial investment in transport and marketing to create an independent, integrated oil

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<sup>78</sup> British Petroleum Company plc, Company History  
<http://www.fundinguniverse.com/company-histories/The-British-Petroleum-Company-plc-Company-History.html>

business. Further details of the Anglo Persian Oil Company's oil ventures in Persia and Mesopotamia, and negotiations with the Admiralty will be elaborated in the forth chapter of this study.

### **2.5.2- The Structure of British Fuel Oil Industry in British and Foreign Oilfields**

Until 1900 kerosene, which was mainly used for heating and lightening purposes, had been the most valued petroleum product. In 1899 kerosene amounted to 64 percent of total petroleum products refined in the United States. In Britain at the turn of the century, the word "petroleum" was synonymous with kerosene.<sup>79</sup> By the beginning of the twentieth century, the petroleum industry began to produce new petroleum products to the market that led fundamental changes. Kerosene became less important than two new petroleum products, petrol\* and fuel oil. Oil was in the beginning mainly used for cleaning purposes or as a chemical solvent. By the advent of the motor car, the situation changed, and oil began to be used for motor vehicles. As a result, both the number of motor vehicles and sales of oil increased especially in the United States.

The other new product fuel oil, the subject of this thesis, might be had more impact on the oil industry and market, and technological advances. In the late nineteenth century, the nature of petroleum product refining had led to the unexpected production of large surplus quantities of heavy residuals. It was the fuel oil, thus waste, that is left after kerosene and gasoline is refined from crude oil. The large amount of residuals had been extracted from the heavy Baku crude, and was called

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<sup>79</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.4.

\* In his study Jones identifies the term 'petrol' as a petroleum product. This thesis will use the term 'oil' instead of petrol not to confuse it with the general term 'petroleum'.

as "*ostatki* or waste, and simply burned".<sup>80</sup> Thus, the Russians were the founder of the use of those residuals as commodity. By 1900 fuel oil was powering many Russian trains, ships and factories. The use of fuel oil also spread rapidly in the United States. Unfortunately, the adoption of fuel oil in countries where coal was plentiful and cheap was much slower and hard. Britain was a case in this sense. Britain was an industrialized country with the largest merchant fleet as well as with an amazing railway network that was consuming about 12 million tons of coal annually in the early 1900s.

How were the structure of the British oil market in general, and the position of British fuel oil in particular, in above picture of the world petroleum industry in the first quarter of the twentieth century? The amount of oil produced in the British Empire was minor. Beside the Scottish oil, Britain supplied most of her oil from the United States (American kerosene, mostly supplied from the Standard Oil) until the 1880s. By the 1890s, Russian oil (Russian kerosene, the Rothschilds and the Nobels) supplied over a third of Britain's oil consumption and build a serious challenge to the US supply. In 1903, the Russian oil rose to a peak and became the largest single supplier to Britain. In the following decade, new sources of supply such as the Dutch East Indies, Borneo and Romania (fuel oil from the Shell Transport and Trading Company; and later mostly kerosene from the Royal Dutch-Shell), Burmese oil (the Burmah Oil Company) Mexican and Persian oil (Anglo-Persian Oil Company) entered into the British market<sup>81</sup>. Appendix L. shows that diversification of Britain's sources of supply.

As shown in Table 2.1., there was a steady increase in the relative importance of fuel oil in Britain after 1900. However, fuel oil was always more expensive than the

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<sup>80</sup> *Ibid*, p.39.

<sup>81</sup> G.G.Jones, "The Oil-Fuel Market in Britain 1900-1914: A Lost Cause Revisited", *Business History*, XX (1978), pp.131-143.

Welsh coal before 1914, and there was a general concern that the sustainable supply of fuel oil and its high price were unreliable.<sup>82</sup> There were also concerns related to the distribution of fuel oil in Britain. Because it needed special storage facilities, and was distributed in mass to large consumers rather than in small cans to retail customers. The marketers of fuel oil had therefore to undertake considerable investment in the new distribution facilities. The Shell Transport and Trading Company was the pioneer in selling fuel oil to British shipping and railway companies, and the Royal Navy. But it felt to provide secure supply of oil due to its premature marketing.

**Table 2.1. British Imports of Petroleum Products 1885-1913**

Year	Total	Kerosene	Fuel Oil	Oil	Lubricating oil	Gas Oil
(Million Gallons)						
1885	73.9	-	-	-	-	-
1890	105.1	-	-	-	-	-
1895	177.1	-	-	-	-	-
1900	255.0	215.3	-	-	39.7	-
1905	300.1	157.3	12.3	18.7	47.5	63.8
1910	345.5	138.8	34.4	55.0	58.6	57.5
1913	488.1	157.1	95.0	100.9	68.0	66.0

*Source:* G.G. Jones, *The State and the Emergence of the British Oil Industry*, (London: The Macmillan Press Ltd, 1981), p.31.

As we shall see in subsequent discussions, the Admiralty's investigations to find a secure supply of oil and the conversion of the Royal Navy from coal to oil were important factors in the emergence of the British fuel oil industry and the emergence of the government's interest in the affairs of the oil companies. Thus, the Admiralty occupies an important place in a study of the British oil industry.

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<sup>82</sup> *Ibid*, pp.135-138.

### 2.5.3- The Admiralty's Search for Secure Oil Supply

There are mainly three important reports covering deep feasibility discussions<sup>83</sup> of the Admiralty on the use of fuel oil in the fleet. The first study is the report written by James Melrose-Chief Inspector of Machinery in 1902. The report was giving positive feedbacks on the engineering work with fuel oil. He pointed the efficiencies in using petroleum over coal. First, the number of stokers could be reduced if oil was adopted. Second, there could be a reduction in the labor costs related with coal. Finally, it would provide for the same distance carrying less fuel and fewer refueling. On the other hand Melrose's main concern was taking the attention into the cost of oil in Britain. He comparatively outlined the costs of fuel oil and coal on the basis of fourteen ships with Texas fuel oil for a full year. Regarding the figures he found, Melrose estimated that the annual cost of fuel for the entire Royal Navy would be £1,620,000 when using coal and £3,935,220 when using Texas fuel oil. Melrose also compared the price of oil from various sources of oil as Borneo, Russia, and British shale. These were the prices of the fuels delivered to Portsmouth. However, Melrose felt that the expense of redistributing the fuel to other Royal Navy bases would drive the price of oil fuel up even further. Overall according to the report of Melrose, oil was far superior to coal when looking only from an engineering standpoint. The problem was lying in obtaining a stable, secure, and inexpensive supply of fuel oil.<sup>84</sup>

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<sup>83</sup> This thesis takes three reports into consideration: (1) Preliminary Report of James Melrose-Chief Inspector of Machinery (2) "Summary of Investigations of the Committee Dealing with the Supply of Fuel Oil for His Majesty's Ships and Notes on Subsequent Actions"(hereafter written Summary Report of the Oil Fuel Committee), pressed by Admiralty Contract Department, (3) Report and Minutes of the Royal Commission on Fuel and Engines.

<sup>84</sup> Snyder, pp.152-154.

Following Melrose's report, the Admiralty decided to formally begin investigating the oil requirements of the fleet. On this purpose, the Oil Fuel Committee was called into being on 18 August 1903. The Oil Fuel Committee run until 1908 by the Financial Secretary E.G.Pretymann, the Director of Navy Contracts Gordon W. Miller, Assistant Director of Naval Intelligence Captain H.L.Heath, and Professor Vivian B. Lewes of the Royal Navy College in Greenwich. Sir Boverton Redwood- a leading British authority on petroleum also participated as technical adviser. The precise mandate of the Committee was to investigate actual and potential sources of supply in British territory or within British sphere of influence; and to determine how best to develop secure supply of oil for the Royal Navy with the economic aspects of oil industry as well as the strategic aspects. David Allan Snyder provides us a good review of the Oil Fuel Committee document *Summary of Investigations of the Committee Dealing with the Supply of Fuel Oil for His Majesty's Ships and Notes on Subsequent Actions*. With the assistance and guidance of his review, we will overview the discussions and conclusions of the Oil Fuel Committee to better evaluate the Admiralty's oil related decision-making process.

The Oil Fuel Committee certainly accepted the practicality of fuel oil. David Allan Snyder quotes the Committee's findings on fuel oil as follows:

"The committee referred to the many advantages of oil, specifically the superior evaporative power and increased radius of action for a given weight of fuel . . . Oil occupied less space than coal did. Other advantages of oil included the regularity of combustion and absence of smoke; greater control over fuel expenditure; decreased loss of heat through the opening of furnace doors and a resultant decline in wastage of steam; and a cleaner stokehold. Oil permitted a smaller stokehold crew and more convenient and rapid handling in replenishment operations . . . Furthermore; oil could be burnt with almost any kind of coal, thereby widening the available coal supply. In harbor or on blockade, ships could raise steam through the use of oil alone, keeping their coal supply in reserve and thus expending the life of the fuel supply. Balanced against these advantages, the Oil Fuel Committee discovered only a handful of engineering disadvantages to the use of oil fuel. These disadvantages centered on the machinery required, specifically, the extra weight necessitated by steam spraying apparatus, the extra noise generated by

the sprayers, and the extra fresh water required by steam sprayers. Other difficulties included the production of excessive smoke when altering speeds and the presence of explosive gases in empty oil fuel bunkers".<sup>85</sup>

The disadvantages quoted were primarily engineering problems, and were successfully overcome as marine engineering improved. Beside them, the Oil Fuel Committee focused on some interrelated and skeptical concerns. The most important one was the dependence on resources in peacetime, which would probably fail in wartime. This security related concern directed the Committee focus on regions where oil would be benefited efficiently and securely. The committee was also concerned about the issues like stability of the price; quality; security; access availability and supply of oil.<sup>86</sup>

The Committee also examined the Admiralty's hitherto oil supply practices and agreed on that the Admiralty's oil policies had serious problems. As for coal, the Admiralty had been making oil contracts by publishing a set of specifications and taking bids from reputable suppliers. According to the Committee, this competitive practice had been working well when applied to articles of general consumption such as coal which was produced by a mature industry with a number of strong competitors. But in this case, fuel oil was a more specialized article and the contracting practice was creating a series of special relationships between specialized producers even if they were not exploiting crude oil fields that formed the basis of fuel oil. The War Office and the Admiralty were often only customers of those producers.<sup>87</sup> The Committee worked in close cooperation with the Colonial Office to develop more qualified policies which would encourage the production of heavier

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<sup>85</sup> *Ibid*, pp. 157-158, c.f. Admiralty Contract Department, "Summary of Investigations of the Committee Dealing with the Supply of Fuel Oil for His Majesty's Ships and Notes on Subsequent Actions", ADM 265/45, p.3.

<sup>86</sup> Jones, *The State and the Emergence of the British Oil Industry*, pp.11-14.

<sup>87</sup> *Ibid*, pp.17-18.

residuals in oil fields in the colonies. The Oil Mines Act of Barbados dated 1904 was a product of such work. According to the law, oil concessionaries in Barbados had to be predominantly British. Refining had to take place in the colony itself, and the refining had to maximize the output available for naval purposes. The government reserved the right to preempt the sale of crude at a price favorable to the government, to expand production earmarked for the navy, and to take complete control of the concession during wartime.<sup>88</sup> The Oil Fuel Committee believed that government involvement was necessary to overcome the monopolistic nature of companies such as Standard Oil Company.<sup>89</sup>

According to the Oil Fuel Committee's examinations the 1905's output of crude oil was 30 million tons. 18 million of this came from the United States. Russia produced another 7,5 million tons, and the Dutch East Indies had another 1 million. Other countries were producing no more than 1 million tons. Within the Empire, only Burma and Canada produced noticeable quantities of oil—566,000 tons and 86,000 tons respectively.<sup>90</sup> Regarding to this examination, the Committee commented, "Oil was either in the hands of other powers (notably the Americans and the Dutch) or was found in insufficient quantities".<sup>91</sup> A.E.Dunstan presents close figures to the Committee's the 1905 figures considering the Empire in itself in Table 2.2. below.<sup>92</sup>

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<sup>88</sup> Snyder, pp.160.

<sup>89</sup> *Ibid*, p.160-161.

<sup>90</sup> *Ibid*, p.162.

<sup>91</sup> *Ibid*, p.162.

<sup>92</sup> A.E.Dunstan, *The Science of Petroleum*, Vol.1, (London:Oxford University Press, 1938), pp.22-23.



**Table 2.2. Crude Oil Production in the British Empire 1890-1914**

Year	India	Trinidad	Canada	Egypt	Sarawak/Brunei	Total Empire Production as % Total World Production
(Thousands of Metric Tons)						
1890	20	-	102	-	-	1.9 %
1895	52	-	93	-	-	1.0 %
1900	152	-	91	-	-	1.2 %
1905	582	-	82	-	-	2.2 %
1910	863	9	41	-	-	3.0 %
1914	1,042	126	28	100	46	3.8 %

*Source:* A.E.Dunstan, *The Science of Petroleum*, Vol.1, (London:Oxford University Press, 1938), pp.22-23.

As seen in both the Committee and Dunstan's figures, the Indian Empire was the only large-scale producer of oil in the British Empire by 1900. In fact, all the satisfactory oilfields were located in Burma. Thus, the increase in the production of oil in India was related to its annexation to the Indian government in January 1886. Moreover, the Indian government was successful in confronting with the concessionaire pressure of Standard Oil and its subsidiary in the region, the Asiatic Petroleum Company. The situation would provide fuel oil in large quantities to the Royal Navy in Asian waters. Consequently, the Oil Fuel Committee entered into negotiations with the Scottish-based Burmah Oil Company (BOC). However, BOC's principal product was "burning oil"(kerosene) and fuel oil was not a large part of the company's refinery output. But the company officials felt that if they could find in large quantities in their current areas of exploration along the Irrawaddy River, they might be in a position to restructure the operation of the refineries.<sup>93</sup> From 1903 to 1905 the terms of contract between the Admiralty and the BOC proceeded slowly due to some reservations on the price changes between kerosene and fuel oil; and

<sup>93</sup> Snyder, p.163, c.f. Admiralty to BOC, 24 July 1903, ADM 116/3807; BOC to Admiralty, 30 July 1903, ADM 116/3807; BOC to Admiralty, 2 November 1903, ADM 116/3807.

doubts on the company's capability to continue operations if refining was not feasible.

Nevertheless, the Admiralty, the Company and the India Office, all, had the same intentions regarding oil concessions in India and Burma: concessions should and would remain British in organization and control; and all refining would be conducted on British soil by British firms. However, the India Office was unsure about allowing the Royal Navy the right of preemption of fuel oil as a term of the concession. It was also unsure about continuity of the policy of refusing to grant any concessions in India to non-British companies under future secretaries of state for India.<sup>94</sup> The Admiralty response to the India Office is significant to understand how oil was reforming the imperial defense policies. It wrote to the India Office that "the provision of a supply of fuel oil for the Navy, available in war in British hands and on British territory, (was) of supreme importance . . . The BOC was the only 'important' British firm currently capable of producing a large, secure quantity of fuel oil".<sup>95</sup> Another point was that the Burmah Oil Company was an influential factor behind the Admiralty's lobbying the India Office.

As a consequence, on 21 November 1905, the Admiralty entered into its first long-term contract for fuel oil. Under the terms of the Contract between the BOC and the Admiralty, the Burmah Oil Company agreed to construct, without charge to the Admiralty, the additional refining capacity in India and/or Burma fuel oil annually in peace and during a war. Within a year, the BOC would begin to build a reserve of fuel oil with the necessary storage facilities to the Royal Navy. The price of the oil was set to a down scale based on the quantity supplied to the navy. Finally, the BOC agreed, "[n]o part share or interest in this Agreement shall be transferred or assigned

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<sup>94</sup> *Ibid*, pp.171-175, c.f. India Office to Admiralty, 3 February 1905, ADM 116/3807; India Office to Admiralty, 8 March 1905, ADM 116/3807.

<sup>95</sup> *Ibid*, p.175, c.f. Admiralty to India Office, 7 June 1905, ADM 116/3807.

by the Company directly or indirectly to any person or persons without the written consent of the Admiralty".<sup>96</sup> Thus, through this article, the imperial defense concerns regarding the future British nature of the Burmah Oil Company were secured.

However, this long-term agreement did not solve the problem of supply. Despite the potential of the Burmah Oil Company, the Royal Navy was feeling still lack of feasible large-scale source of fuel oil. According to the Oil Fuel Committee's evaluation, "[t]he distance, cost, and difficulty of transport of the fuel oil between Burma and the United Kingdom render Burma a more suitable source of supply to ships in Eastern waters". The Committee argued and suggested, "Reliance upon Burmese oil to supply fleets in home waters would be 'impolitic'. Even so, the BOC contract should continue to be honored, as the company had gone to great expense in erecting special refining and refrigerating plant to produce oil suitable to the Royal Navy".<sup>97</sup>

Nonetheless, the contract with BOC was a start up. What is important at this point is that the success of the BOC in obtaining Admiralty support encouraged other petroleum companies and concessionaries to seek the assistance of the Admiralty. Although obtaining the Admiralty assistance was not easy, those companies and persons kept the Admiralty busy during the 1910s.

The Oil Fuel Committee's Summary Report further offered a catalogue identifying the state of Imperial oil production in 1906. In the Empire, in Canadian Northwest Territories, British Columbia, Australia, South Africa, Egypt, Nigeria, New Brunswick and Newfoundland, New Zealand, and Home Island of United Kingdom for instances, indications of oil and producing fields existed but production was minor in scale. Canadian fields was in a situation of diminishing; and the production

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<sup>96</sup> *Ibid*, p.178.

<sup>97</sup> *Ibid*, p.188.

in Ontario where drilling was fairly easy compared to other regions of the Empire was under control of the Standard Oil. In general, Canadian domestic oil reserves could only supply about one-third of its needs, importing the rest from the United States.<sup>98</sup> In case of the status of (Egyptian and) Nigerian oil production, the Oil Fuel Committee was optimistic about two companies involved in exploiting potential Nigerian reserves, the Nigerian Investment Company and the Nigeria Bitumen Corporation. However, “while the Committee described the possibility of finding oil in large quantities in Nigeria very promising, the Committee also noted that refining Nigerian oil to ensure the highest percentage possible of oil fuel might not be feasible”.<sup>99</sup> In case of the Home Islands, the Oil Fuel Committee examined that Scotland had specialized firms producing around 200,000 tons of crude oil per year, of which about 80,000 tons were suitable for use as fuel oil. However, the Scottish shale resources could be exhausted over fifty years. According to the Committee, Kimmeridge in England represented the largest single source of English shale, but it was of poor quality and limited to commercial purpose.

On the basis of these examinations, the Committee concluded, “If the Admiralty converted the Royal Navy to oil fuel, the supply of fuel oil would have to come from outside the Empire”.<sup>100</sup> Oil sources outside of the Empire, of course, were quite significant in terms of production capacity and size. But such sources were presenting several problems for the Admiralty, as security and access difficulties. The Committee discussed locations outside whether possible sources of supply were available, and focused on Texas, California, Rumania, the islands of Borneo, Java, and Sumatra, and Persia.<sup>101</sup>

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<sup>98</sup> *Ibid*, p.162.

<sup>99</sup> *Ibid*, p.181.

<sup>100</sup> *Ibid*, p.184.

<sup>101</sup> *Ibid*, pp.184-187.

In terms of production, the US was the foremost commercial source. Particularly, Texas had been providing the Royal Navy with oil since its oil industry emerged. In fact, the Admiralty was mainly relying on Texas fuel oil during the first decade of the twentieth century. The purchases were generally made through Sir Marcus Samuel. For the fiscal years from 1902 to 1909, the Admiralty purchased 218,020 tons of fuel oil, of which 191,620 tons came from Texas. Burma supplied 21,400 tons, and Alaska supplied the other 5,000 tons. David Allan Snyder claims that such reliance on Texas oil presented problems. He points to an example of the insecurity of foreign oil supplies. He writes that in December 1908, Arnold Schlaet, the German-born Vice President of Texaco, offered to reveal all information pertaining to British purchase of crude oil, as well as any other information regarding British naval use of liquid fuel, to the United States Navy.<sup>102</sup> Californian oil was also a remarkable potential for the Admiralty. With production about 4.750,000 tons in 1905, the Californian petroleum was very suitable for fuel oil. Unfortunately, it could only serve as a peacetime source.

Romanian production was constantly increasing and the locations of the fields were convenient for the Mediterranean Fleet in peacetime. However, for the Admiralty, German firms controlled Romanian production through the Deutsche Bank of Berlin. The Standard Oil Company was another large producer in Rumania.<sup>103</sup>

The production in the islands of Borneo, Java and Sumatra had also difficulties. The Admiralty felt oil produced in those islands were under the control of Samuel's Shell Transport and Trading Company and the Dutch's. Even, transporting the oil to the homeland would be too expensive.

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<sup>102</sup> *Ibid*, p.185.

<sup>103</sup> *Ibid*, pp.185-186.

But among all the foreign sources of supply, the Admiralty's Oil Fuel Committee found the Persian oilfields most potential. Concession of William Knox D'Arcy in Persia had already taken the attention of Jackie Fisher in July 1903. However, there were technical and financial problems and resistance from local tribes to recognize any concessions granted by the Shah. Even, the Oil Fuel Committee's assistance to find additional financial support from the BOC to keep the enterprise under British was not sufficient. Nevertheless, the Oil Fuel Committee concluded, "Although work in the concession was far from developed or even completely proven, the prospects in this country are understood to be promising".<sup>104</sup> As the main survey, the third chapter of the thesis will issue the D'Arcy concession in more detail.

The Oil Committee completed its task in 1907. Its final conclusions mark "apart from any other consideration, the quantities available absolutely prohibit the likelihood of oil becoming a substitute for coal . . . the lack of a secure and stable supply sufficient to meet the Admiralty's needs precluded the adoption of oil by the Admiralty as a substitute fuel".<sup>105</sup> From 1907 to 1910 no real progress was realized in developing a secure supply of oil for the Royal Navy.

In the first half of the 1910, however, British Admiralty assertively again entered the oil business in order to solve its energy needs. What the real impulses and forces in continuation of the conversion and supply processes were intensified Anglo-German naval race discussed in previous passages; agitation of 'oil and speed maniac' Fisher; and the intimate involvement of Churchill in oil diplomacy. With these factors, a secure source of oil became part of British defense policy and energy security.

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<sup>104</sup> *Ibid*, p.186.

<sup>105</sup> *Ibid*, p.188.

To proceed the conversion and secure supply processes Churchill formed a secret committee, the Royal Commission on Fuel and Engine in 1912. Churchill appointed Fisher (he was already Churchill's unofficial adviser) as chairman. He had to find oil, show how it could be purchased cheaply in peace, and with absolute certainty in war, show how it could be cheaply stored, and how to best develop its use in existing and prospective ships.<sup>106</sup> As Churchill defines the tasks of the Commission composed of twelve distinguished men in the following:

“But on the other hand yr R(oyal) Commission will be advisory & not executive. It will assemble facts & state conclusions. It cannot touch *policy* or action . . . Its reports must be secret from the public, & its work separate from the Admy”.<sup>107</sup>

During its meetings, various oil industry figures mainly Marcus Samuel and Henry Deterding of Royal Dutch-Shell, Lord Cowdray of Mexican Eagle and Charles Greenway of the APOC were examined. The Commission submitted its first preliminary report on 27 November 1912.<sup>108</sup> According to the report, the Royal Dutch-Shell combination was controlling a large proportion of the available supply of petroleum that would inevitably increase the prices. The Commission report cited Anglo-Persian and Mexican Eagle as two companies facing pressure from Royal Dutch-Shell. The Commission concluded, “[i]t may be desirable, as a general principle, for the Government to give financial help in cases where such help may be necessary for the preservation of independence of control of important sources of supply already developed”.<sup>109</sup> Although the report was not calling a government financial support for Mexican Eagle or Anglo-Persian, it gave Churchill a basis to

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<sup>106</sup> Sara Reguer, “Persian Oil and the First Lord: A Chapter in the Career of Winston Churchill”, *Military Affairs*, Vol.46, No. 3 (Oct. 1982), p.134.

<sup>107</sup> *Ibid*, p.134, c.f. R.Churchill, *Campanion*, Vol II, Part.3, p.1929.

<sup>108</sup> *Ibid*, p.134.

<sup>109</sup> Snyder, p.191, c.f. Volume II of the Report and Minutes of the Royal Commission on Fuel and Engines ADM 116 265/33.

pressure the government into supporting D'Arcy and his company. Within a year, Parliament authorized the purchase of 51 percent of the shares of Anglo-Persian by the Admiralty.<sup>110</sup>

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<sup>110</sup> Yergin, pp.158-164.



**CHAPTER III**  
**BRITISH SEA AND FOREIGN POLICIES ON**  
**SOUTHERN PERSIA AND**  
**MESOPOTAMIA**  
**1890s – 1914**

At the time of Britain's search for oil supply within the Empire and outside, there had been established and long-lived Eastern Question in the geography of the Ottoman Empire, and the question regarding to the partition of Persia between Britain and Russia.

On the one side, by the late eighteenth century, the problems arose from economic, political and administrative weaknesses and dissolution of the Ottoman Empire, and policies of the Great Powers pertaining to the political geography of her ruling area aroused a serious international issue-so called the Eastern Question.<sup>111</sup> Although there is no uniform definition of the geographical area of the Eastern Question, its scope included the Balkan region of southeastern Europe; the Black Sea; the Straits of Bosphorus and Dardanelles; Eastern Mediterranean and North Africa, the eastern part in particular; the area encircled by the Caucasus Mountains in the northeast, and the Red Sea in the south. All these areas were politically parts of the Ottoman Empire at the beginning of the nineteenth century.<sup>112</sup>

On the other side, there was a Persian Problem regarding to the rival positions of Russia and Great Britain in Persia with some account of the Anglo-Ottoman conflicts on the status of Bahrain, Qatar, and Kuwait; Turko-Persian border disputes, Anglo-German relations regarding Kuwait and the terminus of the Baghdad Railway. It should be considered that the widening circle of great power politics and trade had

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<sup>111</sup> Rich, p.44.

<sup>112</sup> *Ibid*, p.44.

included the future of Persia as part of the general Eastern Question and as the case of new imperialism. Therefore, Persian affairs were not only the concern of Britain and Russia but also Germany and the Ottoman Empire, as well. Therefore, the Eastern Question and the Persian problem should be evaluated within the context of Eastern affairs as a whole. As parts of these questions there was a very crisis due to interlocking interests of these great powers in a specific region beginning Mosul in Mesopotamia and extending in southeasterly direction far into southern Persia as including the Turko-Persian border.

In the period between the 1890s and 1914, Great Powers had achieved imperial expansion via projects of modern engineering, and machines of modern transportation -steamships and railways. Old trade routes regained importance via these wonders. In the Middle Ages the caravan routes from the Persian Gulf to the ports of the Levant had carried much of the trade between Europe and the Far East. Since the Ottomans dominated most of this trade by the sixteenth century, powers of the time followed the oceanic seaways. Therefore, how did this new technologies and new imperialism movement reflect in the northern hinterlands of the Persian Gulf? How were the environment and conditions in the region to realize an economic penetration?

### **3.1- Political Geography of the Northern Hinterlands of the Persian Gulf from 1890s to 1914**

The contemporary "Persian Gulf" offers panorama of the countries sharing its coasts and waters: Iran, with the longest shoreline and some of the busiest ports along the northeastern coast; Iraq at the top of the Persian Gulf, then Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates, and Oman. The northern hinterland of the Persian Gulf, as the focal region of this thesis, fringes the center of the Middle East, and possesses a particular significance in world history. As Appendix M. visualizes, it points a region watered by rivers of Euphrates and Tigris, and the delta of Shat-al

Arab, thus Mesopotamia, Khuzistan and Abadan in the southwest Persia. These areas correspond to the present-day Iraq and southwestern Iran.

The whole region's historical, strategic and commercial significance stems from its unique geographical position. Throughout human history, the region has played as the homeland of several imperial civilizations; as the meeting place of cultures; as the focus of great religions; and as the battleground of rival states.<sup>113</sup> The region has witnessed a political transformation for many centuries. The Persians spread their rule over much of Mesopotamia, and the Persian Gulf. The process stimulated movement of populations and settlements in some Persian part by Arabs and visa versa. These Persians and Arabs were mostly the merchants and mariners who brought a range of Oriental luxuries such as spices, gems and pearls; and also commodities like ceramics not only from India but from China.

Strategically, it forms a link between Asia, Europe and Africa and a bridge between two oceanic areas; the one washed by the Atlantic and its long Mediterranean projection and the other by the Arabian-Indian Ocean.<sup>114</sup> Furthermore, the Persian Gulf and its hinterlands have formed “the nerve-center of the world’s commerce”<sup>115</sup>, and crossroads of trade routes between the East and the West. The importance of the Persian Gulf became an accepted fact by the naval powers near the turn of the century because it was a strategic junction for the navies. While Mosul, and Baghdad have been important inland and distribution centers, Basra and the Trucial coasts for instance have been the main Gulf ports.

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<sup>113</sup> David Abulafia (Ed.), *The Mediterranean in History*, (London: Thames & Hudson, 2003), p.cover page inside.

<sup>114</sup> *Ibid*, p.5.

<sup>115</sup> J.A.R. Marriot, *The Eastern Question An Historical Study in European Diplomacy*, (London: Oxford University Press, 1940), p.22.

In addition, the region itself has offered some opportunities when utilization applied through planned ways. It has been rich in agricultural possibilities, and in raw materials. Mesopotamia is a cotton-growing region. Persia was a great storehouse of important metals such as chrome, antimony, lead and zinc mines, copper, emery and other similar abrasives, meerschaum mines, mercury, nickel, iron, manganese, sulfur, coal etc.<sup>116</sup> Furthermore, the discovery and exploitation of oil in commercial proportions in Persia and Mesopotamia at the beginning of the twentieth century greatly enhanced the strategic and commercial importance of the region, which will be discussed in detail in Chapter IV. It is this vital resource that has really pushed the region into the attention of great powers and companies.

### **3.2- The Nature of the Qajar Sovereignty in Persian Southwest between the 1890s and 1914**

In the period between 1890s and 1914 Persia was under the rule of the Qajar Dynasty (1781-1925). The sovereignty of the Qajars all over the country was limited and decentralized. The society was very fragmented locally, religiously, and linguistically, also occupationally (the new commercial classes, traditional *bazaari* bourgeoisie, and the *ulama*-high ranking clerics). The Shahs<sup>117</sup> were lying on collecting taxes or raising military units for security from the local chiefs (*ilhans*) which, in return, were allowed to rule their tribes in the peripheries without any interference. However, the Qajars' system of government was manipulating one rival faction either tribal or religious against another. That is why there was a rivalry and legal and economic disunity among them.

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<sup>116</sup> Edward Mead Earle, *Turkey, the Great Powers and the Bagdad Railway A Study in Imperialism*, (New York: Rusell&Rusell, 1966), pp.13-17.

<sup>117</sup> Nasser-al-Din Shah (1848-1896); Mozaffer-al-Din Shah (1896-1907); Mohammad Ali Shah(1907-1909);SultanAhmadShah(1909-1925)  
<http://www.iranchamber.com/history/qajar/qajar.php>

In addition, by the late nineteenth century, Persia became seriously focal field of two neighbors -Russia in the north and the British India in the east. The Qajar shahs then found themselves subjected to the diplomatic and commercial competition between these two powers for dominance over Persia. Lord Curzon describes Persia as “one of the pieces on a chessboard upon which is being played out a game for the domination of the world”<sup>118</sup>. The two powers rivaled through concessions and loans and other tools such as manipulating tribes each other. As a result, the Dynasty lost sovereignty over many of its provinces to these great powers via series of treaties that will be discussed below.

As concessions were granted with increasing frequency and the spheres of interests were recognized in the northern and southern parts of the country, the traditional noble classes, and bourgeois and religious authorities, and educated elite wanted to restrict authority of the Shahs, and to establish a rule against growing foreign influence. The Persian Constitutional Revolution then took place between 1905 and 1911. The revolution has a significant place in the history of Modern Iran since it may be the first development in this kind in the Middle East. It led to the establishment of a parliament – *Mejlis*, from all sectors of society in Iran.

The geographical coverage of Persia was identified in various British military reports, gazetteers and books that there were five parts together with sub regions in Persia: North-east (Khorasan, Kain, Seistan); North and Central part including Azerbaijan, Kurdistan, Kermanshah and Tehran; South west (Luristan, Bakhtiari, Isfahan, Arabistan, Khuzistan, Kughalu); South (Yazd, Fars, Laristan, Gulf Ports); and finally South-east (Kerman, and Persian Baluchistan). The Azeris, Kurds, Lurs, Baluchis, Arabs, Bakhtiyaris, Qashqais, and Turkmans were the main tribes living in

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<sup>118</sup> Yergin, p.136.

their distinctive regions.<sup>119</sup> Southwest of Persia, the focal region of this thesis (together with Mesopotamia) was bordering Iraq and the Persian Gulf and including major cities as Ahwaz, Abadan, Mesjid-i Suleiman, and Behbahan at that time. Arabestan, was the name given only to the area south and southwest of the Ahwaz hills and Zahros Mountains. To the north and northeast of these hills and mountains, the Persian elements such as Bakhtiyari, and Lurs were keeping the name Khuzistan.

The Bakhtiyari was including the pastoral nomads who were speaking the Bakhtiyari dialect of Persian- called Lori, and were Shiite Muslims, and migrating seasonally between the central and the uplands of Khuzistan. The Bakhtiyari tribes were a confederacy and political and administrative unit under the Qajar Dynasty. The political change in the Bakhtiyari was an important element in above foreign and internal processes. In the late nineteenth century, the increasing power and influence of the Bakhtiyari tribal confederacy threatened Nasir-al-Din Shah. The Shah kept the Bakhtiyari “precariously under check through the juxtaposition of tribal chiefs”.<sup>120</sup> This policy in return nurtured rivalries between the khans and fractured the Bakhtiyari confederacy. But this situation changed as the ties were set up with Britain. Thus, it will not be an overstatement to claim that the positions of Bakhtiyaris moved beyond the khans. The advent of British existence and relations between Bakhtiyari and Britain will be referred in following passages and recounted in detail in the fourth chapter of this thesis.

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<sup>119</sup> *British Intelligence and Policy on Persia (Iran) 1900-1940*, Brochure of India Office Political and Secret Files and Confidential Print, (Leiden: IDC Publishers, 2004), [www.idc.nl](http://www.idc.nl)

<sup>120</sup> Arash Khazeni, “The Bakhtiari Tribes in the Iranian Constitutional Revolution”, Vol.24, No.2, *Comparative Studies of South Africa and the Middle East*, Duke University Press, 2005, p.381.

### 3.3- The Nature of Ottoman Sovereignty in Mesopotamia

Due to administrative degeneration in the Ottoman Empire, there were chronic problems of maintaining peace and order in the provinces of the Empire in her last centuries. These problems were also evident in the hinterlands of Eastern Mediterranean and the Mesopotamian provinces in particular. In Mesopotamia the *Pashaliks* of Baghdad and Mosul were virtually hereditary and independent principalities during much of the eighteenth and early nineteenth centuries, the former under a dynasty founded by Hasan Paşa, the latter under the rule of the Celili family.<sup>121</sup>

Throughout the last decades of the nineteenth century some reforms were implemented to recover the ill-disposed governance and degenerated administration all over the Empire. A British Report, written in 1906, on the position of sovereignty and administration of Ottoman Empire points that a new provincial administration was adopted in 1864. The report clarifies that

“...The principal object of the scheme appears to have been the centralization of the internal administration of the Empire in the hands of the Ministry, with a view to reducing the independence of the old "eyalets", or provinces, as well as the importance of their Governors. This policy has been assiduously pursued by the present Sultan, who has found the erection of a network of telegraph lines uniting the most distant parts of his Empire to the capital a most effective means of bringing the entire machinery of local administration under his immediate supervision and control”.<sup>122</sup>

By this system, whole of the Ottoman Empire was divided into a number of *vilayets*, which were in turn subdivided into *sanjaks*, *kazas*, and *nahiyés*, corresponding roughly to French départements, arrondissements, cantons, and communes. The vilayet was to be governed by a *Vali*, or Governor-General; the sanjaks by a

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<sup>121</sup> M.S.Anderson, *Eastern Question: 1774-1923*, (New York: St.Martin's Press, 1966) p.xvi.

<sup>122</sup> Gooch, & Temperley, *The Near East*, p.3.

Governor, or *Mutessarrif*; the kaza was to be under the control of a Perfect (*Kaymakam*); and the nahiyé under that of a *Múdür*, or Mayor.<sup>123</sup>

Another British Report dated 1906, however, reflects that the administrative reforms had not been much influential in the Empire in general, and in Mesopotamia in particular. When applied above orderly administrative system in Mesopotamia, the area was divided into three *vilayets* of Basra, Baghdad, and Mosul, which were subdivided into *sanjaks*, and kazas. In such system the chain of authority and links of responsibility between the *vali* and the *muktar* of each village should be well defined and clear. Furthermore, each district should be of easily manageable size. In practice, however, the system was ruined with disunity and inefficiency. Even, the same Report points that throughout Mesopotamia the situation marked more than the usual degree of insecurity and lawlessness and this, “combined with the state of affairs on, and beyond the Persian border and the consequent military requisitions, did much to paralyze pilgrim traffic and trade” in the vilayets of Mosul and Baghdad. There had been an intertribal fighting and “constant cases of piracy on the Shat-el-Arab which the Turkish authorities were quite incapable of dealing with”.<sup>124</sup> In addition, the Report marks that the administration of all three vilayets of Mesopotamia –Mosul, Baghdad and Basra- was also suffering greatly from financial depression.<sup>125</sup>

Beside administrative weaknesses, Ottoman Empire in the last decade of the nineteenth and the first decade of the twentieth centuries was industrially as well as politically a “backward state”.<sup>126</sup> In this regard, at the turn of the twentieth century, it became difficult to prevent the extension of spheres of influences of industrialized

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<sup>123</sup> *Ibid*, p.3.

<sup>124</sup> *Ibid*, p.302.

<sup>125</sup> *Ibid*, p.301.

<sup>126</sup> Earle, *Turkey, the Great Powers and the Bagdad Railway*, p.10



powers and of foreign interference and control in Ottoman affairs.<sup>127</sup> There were several elements of European economic and political power in the Ottoman Empire. First of all, there had been special privileges from commercial to extra-territorial jurisdiction enjoyed by foreigners in virtue of the Capitulations.<sup>128</sup> Second, there were instances of the limitation of the Sultan's authority and government via the intervention of the European Powers. The foreign control over Ottoman finance and the formation of the Ottoman Public Debt Administration (PDA) is a well known case in this sense. The specially privileged Ottoman Bank, for instance, was a financial institution largely controlled by British and French interests; and the Ottoman Public Debt Administration was virtually a foreign control of the chief sources of revenue of the Empire.<sup>129</sup> To what extent were these elements mirrored in Mesopotamia? There had been vast agricultural and natural resources in Mesopotamia. But the Ottoman bureaucracy neglected the economic potential productivity of the region. The Admiralty's *Geographical Handbook on Iraq and the Persian Gulf* points that virtually nothing was done to revive the ancient system of irrigation:

“The common view that the ruin of the land (i.e. Mesopotamia) was affected in a few years by the destruction of irrigation head-works at the hands of Mongol invaders in the thirteenth and fourteenth centuries A.D. is certainly false. Some of the Euphrates canals were still in use in the early nineteenth century when Chesney sailed down the Saqlawiya – the Abbasid Nahr Isa-into the Tigris, but all had suffered from administrative neglect and from gradual silting up of both main and branch canals over a period of centuries. It is relatively easy for cultivators to maintain some head of water in their distributaries by their own efforts and at the expense of weaker neighbors, but when it becomes uneconomical to clear the silt from the canal bed because of the increasing height of the banks, a new channel can be cut alongside. But it needs a strong central government to co-ordinate these efforts, to ensure the economic use of water, and, above all, to develop some

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<sup>127</sup> *Ibid*, p.10

<sup>128</sup> Gooch, & Temperley, *The Near East*, p.5.

<sup>129</sup> *Ibid.*, p.6.

schemes necessitated by changes in the course of the rivers which supply the water”<sup>130</sup>.

As in the case of the Admiralty, the British, France and German members of the PDA were also aware of this situation. They supplied advisers as well as creditors to the Ottoman government to implement projects in the region in terms of transportation through river navigation and railways, mining, trade. Concessionaries were usually taking diplomatic and financial backing from their governments. The most ambitious of all these concessions was the Baghdad Railways Project.

### **3.4- Eastern Mediterranean and its hinterlands, as Highways of Britain's Asiatic Empire.**

British interests in the northern hinterlands of the Persian Gulf geography and her relations between the Ottoman and Persian Empires go back to the sixteenth century. In the seventeenth and eighteenth centuries, the history of British relations with the Ottoman Empire was mainly the history of the Levant Company which remained a power in the Eastern Mediterranean until it was taken over by the British Government in 1821.<sup>131</sup> Similarly, the importance of Persia to Britain and relations with this country go back to the times of the British Moscovy Company which got the grant of commercial privileges by Shah Tahmasp in the sixteenth century. British merchants were interested in Persian silk produced along the southern Caspian shores, and transit rights for possible commerce with India. The historians generally refer to the East India Company's trading in the early seventeenth century as a striking beginning of British involvement. Britain, through the Company established

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<sup>130</sup> W.O Henderson, "German Economic Penetration in the Middle East, 1870-1914", *The Economic History Review*, Vol.18, No.1/2 (1948), p.55.

<sup>131</sup> 'History of Bilateral Relations between Britain and Turkey', British Embassy, Turkey web page.  
<http://www.britishembassy.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1053446568285>

an agency - which became a residency in 1763 - in the region, broke the Portuguese influence and held the trade of the Persian Gulf. In the first half of the nineteenth century, through the Anglo-Ottoman Convention of 1838, otherwise known as Treaty of Balta Liman Britain began formally practicing free trade in the Ottoman Empire.

At the end of the nineteenth century, Britain had already institutionalized commercial, cultural, diplomatic, military, technical and educational mission in particularly Persian southwest and the Persian Gulf. However, her interests and policies in the region should be, first, evaluated in context of broader British sea power projections from a larger point of view which covers the secure of India. For the reason that the defense of the Indian Empire had been an established principle of British foreign policy, and successive British governments tried to secure India from all possible attack. These governments had found it necessary both to safeguard all the routes leading to India and to establish control over the bases from which those routes might be threatened.<sup>132</sup> Thus, the territories lying between Eastern Mediterranean and the Persian Gulf as the highways of India were very important for Britain. Trade throughout these highways was also a prominent interest of Britain for keeping the region under her control. The importance of the region to Britain is well defined in Lord Curzon's words. As he told the House of Commons in 1911:

“It is a foundation principle of British policy that we cannot allow the growth of any rival or predominant political interest in the waters of the Gulf, not because it would affect our local prestige alone, but because it would have influence that would extend for many thousands of miles beyond”.<sup>133</sup>

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<sup>132</sup> Stuart A Cohen, *British Policy in Mesopotamia 1903-1914*, (London: St. Antony's Middle East Monographs No.5, 1976), p.4.

<sup>133</sup> Marian Kent, *Moguls and Mandarins: Oil, Imperialism and the Middle East in British Foreign Policy 1900-1940*, (London: Frank Cass, 1993), p.11, c.f. Lord Curzon speech in the House of Commons in 1911.

It needs to set out some background to analyze the extent of the British interest in the region. Until the last decade of the eighteenth century although she was concerned with the events in the region, Britain was apolitical or inactive in the Eastern Mediterranean affairs. However, Russian ambitious expansion and sea policies, thus her 'Mediterraneanization', and French oriental movements on aforementioned highways to the Far East absorbed Britain into the regional politics and rivalry from the late eighteenth century. Those actions increased Britain's sensitivity towards the Eastern Mediterranean as a part of the issue of Eastern and Persian Questions. By these crises, Britain convinced that her commercial as well as strategic interests required the prevention of further seizures of Ottoman and Persian territories by rival powers.<sup>134</sup> Consequently, the preservation of the independence and integrity of the whole Ottoman and Persian Empires remained a major foreign policy objective of Britain until 1860s.

Manifestations of a considerable change in the British policy of preservation of the independence and integrity of the whole Ottoman and Persian Empires were consequence of some circumstances such as the opening of the Suez Canal in 1869, the Congress of Berlin followed by the Russo-Turkish War of 1877-1878, and her occupations of Cyprus (1878) and Egypt (1882). With these developments, Britain no more needed either to protect Istanbul or remaining Balkan territories of the Ottoman Empire. Last decade of the nineteenth century, however, saw British officials made arguments concerning potential threats to British interests in Egypt, the Straits, Mesopotamia, Persian Gulf, Afghanistan, and the Indian sub-continent. In his Memorandum on Naval Policy (October 28, 1896), for instance, Director of Naval Intelligence (DNI) points to "Certain Changes" which have established new conditions and new problems regarding these political geographies. Assumptions of DNI in these considerations emphasize that France and particularly Russia were still

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<sup>134</sup> Marriot, p.3; Rich, p.47; Bernard Lewis, "What Went Wrong?: Western Impact and Middle Eastern Response Chapter one. The Lessons of the Battlefield", January 28, 2002. <http://www.washingtonpost.com/wp-srv/style/longterm/books/chap1/whatwentwrong.htm>

threats to her maintenance in the Mediterranean, in Egypt, in India and Far East.<sup>135</sup> In addition to these threats, Germany appeared as the new and ambitious world power acting in the Eastern Mediterranean in the 1890s.<sup>136</sup>

Russia had been following Peter the Great's (1672-1725) impetus for three directions of imperial expansion as historical testimony. These were first, westward to annex territory along the Baltic; second, eastward across Siberia to the Pacific; and third southward to the Black and Caspian Seas and beyond them to the Mediterranean and the Persian Gulf. As Sidney B. Fay writes, "[i]n each direction Peter was looking for 'a window on the water' – for water outlets for his hitherto landlocked empire".<sup>137</sup> By several wars and the treaty of *Gulistan* in 1813, the Persian Shah was forced to recognize Russia's annexation of Georgia, Daghestan, Mingrelia, Ankhasia and other mountain tribes of the Caucasus, and grants the Russians free navigation of the Caspian Sea. By the treaty of *Turkmenchay* in 1828, Russia took another Persian territory by annexing most of Armenia and extending her boundary southward to the Araxes River. By this treaty, Russia got a commercial and diplomatic hold on Persian internal affairs by the right to establish consulates anywhere in Persia, and to export goods to Persia with minimum tariff charge of only five percent.<sup>138</sup> On the other hand, Russia had stayed behind the economic penetration to the Ottoman Empire in comparison to the French, British and Germans. There was a lack of knowledge of the market, capital investments, railway concessions and commercial organizations such as chambers of commerce, commercial attaches, and trade exhibitions there. In addition, Russia had no delegation in the Ottoman Public Dept Administration.<sup>139</sup>

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<sup>135</sup> Marder, *British Naval Policy*, pp.569-577.

<sup>137</sup> Sidney B.Fay, "Russia and the Middle East", *Current History*, 10:57, 1946:May, p.387

<sup>138</sup> *Ibid*, p 388.

<sup>139</sup> Alan Bodger, "Russia and the End of the Ottoman Empire", *The Great Powers and the End of the Ottoman Empire*, (ed.) Marian Kent, (London: Frank Cass, 1996), p.79.

France had always had an interest in the hinterlands of Eastern Mediterranean and Persian Gulf since the Crusades. In the sixteenth century France again acquired influence by her policy of alliance with the Ottoman Empire. But as a result of her defeats in the Napoleonic imperial wars of 1792-1815, and 1870-1871, France remained at the back in terms of great powers rivalry in the region.<sup>140</sup>

Germany became a very active imperialistic rival in the region in the last decades before 1914 through the Baghdad Railway activities.<sup>141</sup> Germany's spread of influence symbolized by the Berlin-Baghdad Railway Project resulted in the hostility of Britain, France and Russia toward Germany, and caused to bring them together in common opposition. In fact, Germany's penetration into the Ottoman Empire and Persia was an important factor in rendering British and Russian imperialist rivalry in Persia through constituting spheres of influence interest in 1907. German penetration was also a factor in the formation of the systems of Triple Alliance and Triple Entente on the path of World War I.<sup>142</sup>

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<sup>140</sup> Fay, p 388.

<sup>142</sup> Germany and Austria-Hungary signed the Dual Alliance in 1879, an agreement committing the two states to mutual assistance in the event of attack by France or Russia. The Dual Alliance was expanded into the *Triple Alliance* in 1882 when Italy joined. On the other hand, after many years of rivalry, Britain and France signed an *Entente Cordiale* (friendly understanding) in 1904. This resolved several colonial disputes and established better diplomatic understanding between the two states. However, it did not commit Britain and France to offer each other military support. The Entente Cordiale was expanded to a *Triple Entente* in 1907 when Russia and Britain signed an Entente. Russia and France had already concluded a military alliance in 1891-94 with the object of squeezing Germany in any future two-front war. The Triple Entente was a counter-balance to the Triple Alliance of Germany, Austria-Hungary and Italy, but it did not unambiguously commit Britain to support France and Russia in any major conflict. Nonetheless, the division of Europe into two armed camps in the early twentieth century was a significant pre-condition for the outbreak of a major war. The First World War Glossary  
[http://www.channel4.com/history/microsites/F/firstworldwar/index\\_glossary.html](http://www.channel4.com/history/microsites/F/firstworldwar/index_glossary.html)

With these developments, Britain abandoned the principle of maintaining the integrity of the whole Ottoman Empire and Persia, and immersed herself more to achieve political and economic penetration to the geography of the hinterlands of Persian Gulf and Mesopotamia. It is not an exaggeration to claim that Britain's interests in the Ottoman Empire in the final decades of its existence were concentrated primarily in Mesopotamia and the Persian Gulf. As Marian Kent says "Britain upheld this interest by upholding two others of long standing: her commercial and her political dominance in the region".<sup>143</sup> Commerce was, she points, became the language of Britain's diplomacy in the region.<sup>144</sup> The most remarkable example of this was negotiations for years over the Baghdad Railway which was added to the existing Anatolian Railway system.

It is necessary to touch on the mechanism conducted Britain's foreign policy and strategic policy formulation in the region. These offices were mainly Foreign Office and Diplomatic Service, including the consular service; the Board of Trade with the Commercial Intelligence Committee for commercial matters; the Admiralty; the War Office and the Government of India, and the India Office in London. The sphere of administration of the Government of India covered relations with the Persian Gulf sheikhdoms, as well as the consular establishment in Persia and the Persian Gulf, including the Baghdad consulate. The India Office in London was acting as a consultant in all policy decisions concerning the Ottoman and Persian Empires. Lord Curzon and Lord Hardinge as Undersecretary of State of Foreign Office: Landowne, and Edward Grey as Foreign Secretaries; Sir Nicholas O'Connor, and Ambassadors of Istanbul and Persia respectively, were the great officials carrying the foreign policy mechanism of that period.

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<sup>143</sup> Marian Kent, "Great Britain and the End of the Ottoman Empire 1900-23", *The Great Powers and the End of the Ottoman Empire*, p.172.

<sup>144</sup> *Ibid*, p.177.

### 3.5- The Extend of British Imperial Interest in the Hinterlands of Persian Gulf between the 1890s and 1914

The British influence turned out to be a real dominance by the beginning of nineteenth century through a major military intervention in 1820, and then a serial of protectorate treaties signed with various local sheiks.<sup>145</sup> By the Exclusive Agreement between the Kuwaiti Sheikh and Britain, on 23 January 1899 for instance, the Sheikh received £15,000 in return he agreed not to cede any Kuwaiti territory (particularly for a railway terminus), nor to receive the representatives of any foreign state, without the consent of the British Resident. As other treaties in the Gulf, this treaty was a result of Britain's continuous concern about foreign control over the Mesopotamian route to India.<sup>146</sup>

By the late nineteenth century, Britain also emerged as the dominant foreign partner of Bakhtiari khans in Khuzistan and 'sheiks in Arabestan' with immense commercial privileges and valuable oil concessions.

In terms of a permanent diplomatic, commercial and jurisdictional representation, there was the British Legation in Tehran from the 1850s<sup>147</sup> together with the Consul General in Bushire from 1878, Isfahan from 1891 and Meshed from 1889, and temporary Consuls in Ahwaz, Kerman, Kermanshah, Khorramshahr, Resht, Seistan

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<sup>145</sup>The Treaty with the Trucial Coast (TC) and Bahrain, abolishing slave-trade and forbidding piracy and warfare between the sheiks (1820, renewed in 1835, 1853, and 1861); The Protectorate treaty with Bahrain (completed by treaties of 1880 and 1892). The Protectorate treaty with Oman and the TC (1892); The Protectorate treaty with Kuwait (1899); The Protectorate treaty with Qatar (1916). J.C.Hurewitz, *The Middle East and North Africa in World Politics A Documented Record, Volume I European Expansion 1535-1914*, (New Haven: Yale University Press, 1975), p.474.

<sup>146</sup> *Ibid*, "Exclusive Agreement: The Kuwaiti Shaykh and Great Britain, 23 January 1899", pp.475-477.



and Shiraz.<sup>148</sup> The Residents were Consul-Generals and officials of the Foreign Department of the Government of India. They were responsible to that office for Persian Gulf affairs on the Arabian side of south Persia. As Consul Generals, however, the Residents were under the jurisdiction of the British Minister to Persia in Tehran and ultimately to the Foreign Office. There were several officers possessing such dual responsibilities. But this duality was sometimes overlapping British administration and the jurisdiction of many offices in the region. The similar problem was also seen in Baghdad and Basra in Mesopotamia. The Resident in Baghdad and Consul in Basra for instance were officers in the Indian Political Service, but subordinate to London through the British Ambassador in Constantinople. As Busch says, “[t]his jurisdictional confusion had an important bearing on the problem of Kuwait; it was a case not only of conflicting responsibility but also of conflicting information sent to higher authorities”.<sup>149</sup>

A number of concessionaires and promoters supplied proposals in the late nineteenth century. The majors among these were the Talbot Tobacco Concession (1890) for a fifty-year monopoly of the buying, selling, and manufacturing of Persian tobacco; and Baron Reuter concession which covered important economic advantages considering British telegraph lines, roads, loans, an Imperial Bank, mining and a tobacco monopoly. But the works and merchants of these concessions over the country were met with unpopularity and financial and speculative difficulties, so these concessions were terminated by the Shah. In addition to these difficulties, her position in the interior of Persia was increasingly threatened by Russia. In fact, the Russian pressure on Shah was the main reason in terminating those concessions.

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<sup>148</sup> India Office Political and Secret Files and Confidential Print, Guide, Editor: A.J. Farrington, (Leiden: IDC Publishers, 2004), [www.idc.nl](http://www.idc.nl)

<sup>149</sup> Briton Cooper Busch, *Britain and the Persian Gulf, 1894-1914*, (Los Angeles: University of California Press, 1964), p.7.

The Russian goal in this period was to secure Iran as a buffer state between the Ottoman Empire and British India. Russia was also seeking to establish a naval presence in the Persian Gulf. The tsars pursued this aim by maintaining the Qajars in power. The Russian Legation in Tehran came to exercise a commanding influence over the Shahs. While Russian trade with Persia in 1898 was estimated at £1,788,500, British and Indian combined trade was at £1,379,000. By 1904, Russian trade had reached £5,500,000 and by 1914, 12 million. British trade, on the other hand, was £2,500,000 and £4,500,000 respectively<sup>150</sup> that maintained mostly in Southern Persia.

To break the Russian financial and commercial monopoly over Persia, the British Government and the government of India made a series of loans to the Persian government in 1903-4 and again in 1912-1913 through the medium of Imperial Bank of Persia. A Foreign Office Memorandum on British policy in Persia, dated 31 October 1905, reported that

“We have sought to foster British trade and influence by every means at our disposal. We have encouraged by moral and financial assistance such enterprises as the Bakhtiari road, uniting Ahwaz with Ispahan, the navigation of the Kharun, and the efforts of the Persian Transport Company to improve communications in Central Persia. We have given the Imperial Bank a full measure of support and have assisted them to establish their agencies in provincial towns. We have extended the network of our Indo-European telegraphic systems”.<sup>151</sup>

At the turn of the twentieth century, Britain and Russia reciprocally recognized their spheres of influence in Persia. With a series of negotiations and agreements Britain limited her activities and claims of exclusive rights to southern Persia by 1890s, and became more sensitive to possible partition or disintegration of the Persian Gulf.

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<sup>150</sup> D.C.M.Platt, *Finance, Trade, and British Foreign Policy 1815-1914*, (Oxford: Clarendon Press, 1968),p.227.

<sup>151</sup> Gooch, & Temperley, *The Near East*, p.372.

Foreign Secretary Lord Lansdowne made clear with his Memorandum on the British Policy in Persia.<sup>152</sup> He acknowledges about the general policy of the Government in regard to the secure of Indian route and Indian Empire and writes that it was an object to

“encourage and strengthen the States lying outside the frontier of our Indian Empire, with the hope that we should find in them an intervening zone sufficient to prevent direct contact between the dominions of Great Britain and those of other great military Powers. We could not, however, maintain this policy if in any particular instance we should find that one of these intervening States was being crushed out of national existence, and falling practically under the complete domination of another Power”.<sup>153</sup>

Applying this principle to Persia, Britain recognized the interest and position of Russia in the northern provinces- Azerbaijan, Gilan, Mazandaran, Asdrabad, and Khorasaan of the Shah's Persia due to her long-extended natural and coterminous frontier. In the south, on the other hand, Britain acquired exceptional interest regarding her “substantial and preeminent mercantile position”.<sup>154</sup> Britain tried to ensure her predominance in the south through several reminders and agreements with the Shah. The Memorandum of Lansdowne also takes attention of the Persian Government:

“The Persian Government should distinctly understand and bear in mind that Great Britain could not consent to the acquisition by Russia of a military or naval station in the Persian Gulf, for the reason that such a station must be regarded as a challenge to Great Britain and a menace to her Indian Empire”.<sup>155</sup>

The convention on Persia concluded between Britain and Russia on 18 August 1907 further proceeded to their spheres of interests in Persia. According to the agreement Britain engaged not to seek for herself, and not to support in favor of British

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<sup>152</sup> Hurewitz, “Memorandum on British Policy on Persia (6 January 1902)”, pp.489-492.

<sup>153</sup> *Ibid*, p.491.

<sup>154</sup> *Ibid*, p.491.

<sup>155</sup> *Ibid*, p.491

subjects, or in favor of British subjects of third powers, any concession that possessed a political or commercial nature –such as concessions for railways, banks, telegraphs, roads, transport, insurance etc. beyond a line from Kasr-i Shirin, passing through Isfahan, Yezd, Kakhk, and ending at a point on the Persian frontier at the intersection of the Russian and Afghan frontiers. Britain also engaged not to oppose directly or indirectly demands for similar concessions in the region which were supported by the Russian government. According to the agreement Russia also engaged not to seek any concessions mentioned above beyond a line going from the Afghan frontier by way of Gazik, Birjand, Kerman, and ending at Bunder Abbas.<sup>156</sup>

*Administration Report on the Persian Gulf Political Residency* for 1905-1906; and for the year 1912 were a single compilation by the Resident of the annual reports of officers of Bushire and Fars, Arabistan, Kermnashah, Kerman, Bunder Abbas and Persian Mekran on the Persian side; and Maskat Trucial Oman, Bahrain and Kuwait on the Arabian side of Persia. The Resident for the aforementioned years pointed that there were two most important problems which had influence on every important local question. These were first “the future of the Baghdad-Persian Gulf Railway and the entry of Germany into the lists of the commerce and politics of the Middle East” and second, “the gradual but manifest trend of Persia towards disruption and complications resulting from therefrom”, thus dissolution of Persia.<sup>157</sup> Among other foremost issues subjected to these Reports were Turko-Persian Frontiers and Anglo-Turkish Negotiations; and the financial and security problems of D’Arcy Oil Concession in the territories of the Bakhtiyari Khans.

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<sup>156</sup> *Ibid*, “Convention on Persia and Afghanistan: Great Britain and Russia (1831 August 1907)”, pp.570-1.

<sup>157</sup> *The Persian Gulf Administration Reports (1873-1947)* Volume VI 1905-1911, (Buckinghamshire: Gerrards Cross, Archive Editions, 1986), Administration Report for the Persian Gulf Political Residency for 1905-1906, p.B. Also see General Situation in Persia in Administration Report for the Persian Gulf Political Residency for 1912, p.2.

In addition to Russian threat in the region, there were German and Turkish challenges interlocking at Kuwait and the Baghdad Railway issue. Frankly, after 1907 the major concern of Britain became the involvement of Germany in the affairs of Persia, the Persian Gulf and the Ottoman Empire.

Britain's policy in Persia in the nineteenth century was motivated by fears of Russian expansion through Central Asia, Afghanistan, and Persia to the borders of India. In Persia, Britain hoped to stop Russian advancement by adopting the principle of strengthening and reforming the Qajar Dynasty to exercise control over the country. At the end of the century, when the British understood that it was difficult to adopt a pro-British position on the Qajar side, Britain modified her policy and began to give support to Sheikh Khazal of Muhammerah as well as the Bakhtiyari. Therefore, at the beginning of World War I Britain was an actual participant in tribal affairs and guarantor of tribal autonomies.

Britain's strategic requirements in southern Persia and the Persian Gulf were essentially for the defense of India and growing regional commercial relations. With the discovery of oil in large quantities in 1908 and secure the oilfields for the Royal Navy in 1914, Britain attempted to impose political stability on Khuzistan and the Bakhtiyari which the Qajars seldom achieved. The British representatives for instance supported Bakhtiyari khans for cabinet positions to achieve provincial governorships during the constitutional processes.

### **3.6- The Extend of British Power in Mesopotamia.**

Britain's investment in the Ottoman Empire was relatively small among the Great Powers in terms of finance. In 1914 for instance her share in the PDA was only 15 percent (loans given through the National Bank for Constantinople municipal in 1909, and the naval construction in 1913) and her share in the private enterprise was 14 percent. These figures were behind Germany and France. British investments in

prewar years also included dock constructions, shipyards and arsenal improvements, the Smyrna-Aydin Railway, the Euphrates and Tigris Steam Navigation Company and the Constantinople Telephone Company and a number of transport, mining, engineering, cloth-milling, insurance, and import-export enterprises. The important part of these investments was made in Mesopotamia and the Persian Gulf. The *Board of Trade Memorandum (1908)* on the position of British trade in the Persian Gulf gives figures that the major part of the trade of Baghdad and Basra valued £2,500,000 in 1903, and this was in the hands of British and Indian merchants. The total value of Persian Gulf seaborne trade including trade with south Persian ports was £8,205,000. Of this, the combined British and Indian share was £6,467,000. Three particular British interests in the region were seaborne trade, inland communications trade, and railways.<sup>158</sup>

In terms of shipping in the Persian Gulf, the same memorandum and also the *Memorandum by the DNI (1908)* on trade and shipping in the region points to a much stronger British position from 1890s to 1906. The main goods of British and India's Gulf trade were Manchester cottons. But in the following years, German import and export shares remarkably increased over from 1 percent to 10 percent. That is why the Baghdad Railway Project was a threat for British interests in Mesopotamia and the Persian Gulf. The main inland communications route from the Gulf to central Mesopotamia was from Basra to Baghdad. The British Lynch firm, and the Euphrates and Tigris Steam Navigation Company since 1860s dominated trade and mail concessions on this inland communications route and on the Kharun River.<sup>159</sup>

The British trade, however, was lack of banking service to facilitate the confessional operations. The only British bank in the region in the first decade of twentieth

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<sup>158</sup> Kent, "Great Britain and the End of the Ottoman Empire 1900-23", p.179, 197.

<sup>159</sup> *Ibid*, p.180; Cohen, *British Policy in Mesopotamia 1903-1914*, pp.6-8.

century was the Imperial Bank of Persia which was forced out of Baghdad and Basra by the Ottoman Bank. The Bank of Persia has a main branch in Bushire with ineffective local operations. The National Bank of Turkey was established during the 1910s oil competitions in the region.

### **3.7- The Nature of German Threat to the British Position in the region and the Measures taken by British Government Departments.**

Under this heading it is necessary here to make an assessment of the development of German interests in the Ottoman Empire, which became a crucial issue of the Eastern Mediterranean crisis. It should be, however, highlighted that Germany's involvement into the geography of Anatolia, Mesopotamia and the Gulf was more than just the construction of a Baghdad railway project. The project was representing Germany's far-reaching political, economic and territorial claims in Anatolia, Mesopotamia and the Gulf.

Germany was late in possessing oceanic colonies in the imperial rivalry. During the government of Otto von Bismark and his soft imperial diplomacy, Germany's colonial attempts in Africa, the Pacific, Russia, China and Persia did not give fruitful results in the 1890s. He was primarily interested in settling the German political interests to the continent of Europe, and in avoiding commercial and colonial conflicts overseas. But at the same time German manufacturers were still making rapid progress and German industrialists and entrepreneurs were seeking new overseas markets and sources of raw materials. With the reign of William Kaiser II, the extremists and Pan Germans worked for an empire; "founded on a coherent chain of German settlements along the Danube and perhaps along the German-built railway through Asia Minor . . ." <sup>160</sup> In these circumstances Germany turned her expansionist move toward the Ottoman Empire and the Persian Gulf. <sup>161</sup>

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<sup>160</sup> W.O. Henderson, "German Economic Penetration in the Middle East, 1870-1914", *The Economic History Review*, Vol.18, No.1/2 (1948), p.55.

One should notice the important nuance between Bismarckian and Kaiser's means of penetration into the region. The relations between Germany and the Ottoman Empire went back to 1830s<sup>162</sup>, and during the state governance of Bismarck, there had been many German military officers, economists, merchants serving for the Ottoman Government. It is known that even there were several Prussian officers; Helmut von Moltke (1800-1891) and Baron von der Goltz (1843-1916), for instances, worked as advisers and instructors in the Ottoman army. However, Germans did not perform active commercial and economic institutionalization in the Eastern Mediterranean and Persian Gulf due to the policies of Bismarck. Because the expansion of German economic interests and political prestige in the Ottoman Empire was not looked upon with favor by Bismarck.

It was under Kaiser Wilhelm II that Germany definitely involved in the Ottoman territories. Unlike Bismarck, Kaiser sponsored the demands of German industrial, commercial and financial interests, and granted active government support and protection in the Ottoman concessions. Furthermore, Kaiser himself showed his sympathy to the region by carrying out (official) visits to the Sultan Abdulhamid II in İstanbul, to the Holy Land, and to Damascus "where the local *ulema* welcomed him in the name of the 'three hundred million Muslims' of the world and where Wilhelm, in response, assured his listeners that Muslims everywhere could always count on his friendship".<sup>163</sup>

During the 1890s, Germans showed a significant interest in the economic potentialities of the region lying from the Mediterranean to the Red Sea and to the

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<sup>161</sup> *Ibid*, p.54.

<sup>162</sup> Earl, *Turkey, the Great Powers and the Bagdad Railway*, p.349.

<sup>163</sup> Ulrich Trumpener, "Germany and the End of the Ottoman Empire" *The Great Powers and the End of the Ottoman Empire*, p.112.



Persian Gulf. Several people and groups such as Dr. Sprenger in 1889, Carl Kaerger in 1892, Carl Kannenberg in 1897, and the Pan-German League pointed to the region as an ideal field for German colonization. They influenced the German public opinion in the direction that there was little time for Germany to establish her influence, since other Great Powers – Britain, Russia and France were well aware of the possibility of exploiting the region.<sup>164</sup> Through this way, the German investors and financiers were backed via their representative in the Ottoman Public Debt Administration Council in 1881s. The Deutsche Bank in 1888 for instance, not only secured important interests in Balkan railways but also played a leading part in the establishment of the Ottoman Anatolian Railway Company. Marschall von Bieberstein, the German ambassador in Istanbul wrote in his report at the turn of the century that there was:

“plenty of scope for useful future expansion for solid enterprises, employing German capital and German industry. There are – quite apart from special services for the army – railways, ports and bridges to build, electrical works to erect for lightening, tramways etc. and the really wretched condition of most of the steamers that ply regularly here offers good chances for German competition. We shall naturally not be left alone to do all this, and certain concessions will be granted to others. But one thing we must claim for ourselves and that is the connecting up of the present sphere of interest of the Anatolian Railway with the river districts of the Tigris and Euphrates, and so on to the Persian Gulf”<sup>165</sup>

Edward Mead Earle quotes a review of the status of German enterprise in the Ottoman Empire from the London Times of October 28, 1898:

“Whereas ten years before, the finance and trade of Turkey were practically monopolized by France and Great Britain, the Germans were now by far the most active group in Constantinople and in Asia Minor. Hundreds of German salesmen were traveling in Turkey, vigorously pushing their wares and studiously canvassing the markets to learn the wants of the people. The Krupp-owned Germania Shipbuilding Company was furnishing torpedoes to the Turkish navy; Ludwig Loewe and Company, of Berlin, was equipping the Sultan's military machine with small arms; Krupp, of Essen, was sharing with

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<sup>164</sup> Henderson, pp.55-7.

<sup>165</sup> *Ibid*, pp.58-9.

Armstrong the orders for artillery. German bicycles were replacing American made-machines. There was a noticeable increase of German trade with Palestine and Syria. In 1899 a group of German financiers founded the *Deutsche Palastina Bank*, which proceeded to establish branches at Beirut, Damascus, Gaza, Haifa, Jaffa, Jerusalem, Nablus, Nazareth, and Tripoli-in-Syria".<sup>166</sup>

Factors such as Kaiser's friendly relations with those Muslim lands, and German investors' proposals of railway concession, and growing number of German consuls stationed in various regions facilitated the German penetration into the region.<sup>167</sup>

These were concerted with Abdulhamid II's Pan-Islamist policy which projected to keep the remaining Muslim territories within the Empire. As mentioned in previous chapters, the administrative, economic and political weaknesses and misgovernment of the Ottoman Empire prevented her to make economic recovery in her vast and naturally rich territories. Abdulhamid II was interested in the extension of railway construction in the Empire. According to him, the railways would have ensured economic development, communication and rapid transportation of military forces to rebellious regions in Mesopotamia and Arabia, thus political stability and integrity, and the maintenance of order. For these reasons, he favored the concession of Baghdad Railway which he granted to the Ottoman Anatolian Railway Company during Kaiser's second visit to the Sultan in 1898.<sup>168</sup> His *firman* for the concession was issued in 1903, and thus it extended the line of the Anatolian railway from

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<sup>166</sup> Earle, *Turkey, the Great Powers and the Bagdad Railway*, p.37.

<sup>167</sup> By 1912, German consular posts in Asiatic Turkey alone numbered close to 20, including three in the Mesopotamian region (Mosul, Baghdad, Basra), over seven in Syria and Lebanon (Aleppo, Damascus, Tarabulus, Beirut, Haifa, Jaffa and Jerusalem), two in Cilicia (Adana and Mersin), and two on the Black Sea coast (Samsun and Trabzon). German business and vice Consulate also appeared in the Gulf in the late nineteenth century. In comparison to British shipping, a regular and cheaper service was established by the Hamburg America Line (HAPAG) and threatened the British trade in the Gulf. Ulrich Trumpeter, "Germany and the End of the Ottoman Empire", Kent (ed.), *The Great Powers and the End....*, pp.112-3.

<sup>168</sup> *Ibid*, p.11

Konya to Baghdad and Basra, “passing through, or as near as possible to, the towns of Karaman, Eregli, KardashBeli, Adana, Hamidieh, Osmanieh, Bagtchep, Kazanali, Killis, Tel-Habesh, Harran Ras-ul-Ain, Nisibin, Avniat, Mosul, Tekrit, Sadidjeh, Bagdad, Kerbela, Nedjef, Zobeir, and Busra”, as well as the branches “from Tel-Habesh to Aleppo; from a neighbouring point on the main line, to be agreed upon, to Urfa; from Sadidjeh to Khanikin: from Zobeir to a point on the Persian Gulf to be agreed upon between the Imperial Ottoman Government and the concessionaires”.<sup>169</sup> It was for ninety nine years assured high kilometric guarantees, and gave definite mineral and oil exploitation rights, applicable to a twenty-kilometer each side of the proposed line, important electric power and other privileges, and the right to build ports at Baghdad, Basra, and at the Persian Gulf terminus. It also required the formation of an Ottoman joint-stock company under the name of the Imperial Ottoman Baghdad Railway Company to operate the concession.

The Baghdad Railway Project encountered many difficulties, and it was delayed for years for several reasons. Firstly, the German penetration into the region was not welcomed by the British, French and Russians, because it was threatening their commercial and strategic interests in the area.<sup>170</sup> Russia criticized the route and the construction of a branch to Khanikin, since it was close to her own and Persian frontier. Britain which had strongly resisted any attempt of a foreign power to establish a port on the Persian Gulf opposed the railway roads vigorously. It was also hindered by political instability –as of the fall of Abdulhamid during the Young Turk Revolution in the Ottoman Empire. There were also financial difficulties. The Anatolian Railways Company tried to finance the project and intended to raise capital with British without any results. A group of French bankers however provided some through the Deutsche Bank.

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<sup>169</sup> Hurewitz, “Baghdad Railroad Convention, 5 March 1903”, pp.495- 507.

<sup>170</sup> A.L Macfie, *The End of the Ottoman Empire, 1908-1923*, (New York: Longman, 1998), p.98.

How was this German expansion in the region welcomed by Britain? Between 1907 and 1909 was the period which made the British government to understand and identify the German threat to British interests in the Persian Gulf and Mesopotamia. In this period, a number of reports and memorandums were written by the related government departments such as the Foreign Office, the Admiralty, the Board of Trade, and the Committee of Imperial Defense. Their conclusions pointed that commercial dominance was the key to political dominance, and Germany's method. As the Foreign Office debates:

“. . . the whole history of the Persian Gulf . . . has shown that commercial prosperity inevitably leads to political hegemony, and in these circumstances it is a matter for grave consideration whether, on political grounds, exceptional measures should not be taken to facilitate British enterprise in the Persian Gulf and to neutralise the efforts being made to undermine our existing position . . .”<sup>171</sup>

As a result of interdepartmental discussions between the Foreign Office, the Admiralty and the India Office in 1907, a secret agreement with the Sheikh of Kuwait was arranged. By this agreement, Britain was able to secure to herself control over any of the sheikh's land suitable for use as terminus for the Baghdad Railway.

The British government's commercial strategy from 1907 to the outbreak of war in 1914 can be divided in four. Its first tactic was diplomatic. Britain diplomatically complained to the German and Ottoman governments about the threat posed by the Baghdad Railway to Britain's long established commercial interests. As a result of the negotiations with the Ottoman Empire, the *British-Ottoman (Draft) Convention on the Persian Gulf Area dated 29 July 1913* was initiated on 12 August 1913. The convention secured the British commercial and political position. Under the agreement, Kuwaiti sheikdom, while it became an autonomous *kaza* (provincial sub-district) of the Ottoman Empire, was assimilated into the British quasi-protectorate

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<sup>171</sup> Kent, "Great Britain and the End of the Ottoman Empire 1900-23", p.181.

system in the Gulf.<sup>172</sup> As a second tactic, the British government tried to persuade British merchants and shippers to improve their methods to be more competitive against German operations. The third tactic has a particular importance. The British government used a direct commercial intervention which was “the hardest weapon for a *laissez faire* government”.<sup>173</sup> The Foreign Office’s effort to obtain oil concessions in Mesopotamia is justifying this. The fourth tactic can be actually seen from a broader aspect of endeavors to make an Anglo-German agreement to prevent a possible naval crisis and war. It was a rapprochement with Germany in implementation of the Baghdad railway project to prevent complete German control in the region during the international negotiations on the project. Such rapprochement was stipulating an appropriate division of territorial spheres and sharing of the channels of communication and traffic. According to this, Germany’s Baghdad railway was “terminated at Baghdad while the line further south, down to Basra and the Gulf, was to have a different gauge and British management”.<sup>174</sup>

The purpose of extending the British dominance over a much wider area between the Mediterranean and India was to consolidate her informal empire and thus secure the sea passages with their hinterlands to maintain her sea power and imperial communications and control over India. The translation of philosophy and theory of Mahanian imperialistic sea power into practice can be observed in this wider area. Britain tried to make balance between the territorial expansion, overseas security and trade protectionism through several tactics as in the case of German threat discussed above. Because the British officials believed that British secure position in the region was indispensable for the British sea superiority, and if Britain lost her sea supremacy, she lost her Empire. This implies that securing this informal imperial

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<sup>172</sup> See “British Ottoman Draft Convention on the Persian Gulf Area, 29 July 1913” in Gooch & Temperley, Vol.X. The Near and Middle East on the Eve of War, pp.190-194.

<sup>173</sup> Kent, “Great Britain and the End of the Ottoman Empire 1900-23”, p.183.

<sup>174</sup> Mejcher, pp.3-4.

stemmed from a defensive strategy which stipulated keeping regional and transit trade under control in order to prevent any deterioration of traditions of British sea power. The scope of such preventive measures of Britain in Mesopotamia and Persia was largely determined by the great power rivalry and political geographies of the region at the age of new imperialism. Central to this discussion of Britain's imperial sea power position in the second decade of the twentieth century was her formulation of oil policy combined with her strategic requirements in the region. This was upheld essentially through backing Anglo-Persian Oil Company and control over the Mesopotamian and south Persian oilfields. The influence of the British Admiralty in pressing the government to give a financial support to the Company, and formulating oil policies was a very remarkable stage in this sense.

**CHAPTER IV**  
**BRITISH ADMIRALTY'S OIL POLICY**  
**AND CONSOLIDATION OF OIL SECURITY**

Being strategic highway between the Eastern Mediterranean and the Indian Ocean, the Mesopotamia and the Persian Gulf region have had valuable mineral resources, particularly, vast petroleum resources which became vital to the great powers in the early years of the twentieth century.

**4.1- The Oilfields of Persia and Mesopotamia**

The knowledge of the existence of petroleum in Mesopotamia and southwestern Persia go back to ancient times. Since ancient times there have been clear surface indications of the presence of petroleum on the Persian Gulf and its northern hinterlands including Kuwait, Mesopotamia, and Luristan, Khuzistan, the northwest of Kasr-i Shirin, and Ahwaz on Zagros mountains, thus group of internal and small basins in southwest Persia. Mesopotamia contained the great bitumen deposits at Hit and on the Euphrates, oil springs and seepages and lightened gas escape in Baba Gurgur near Kirkuk, on the Upper Tigris, at Qaiyara, Kirkuk, Tuz Khormatu, and in the Mandali district (northern sector of the Persian Gulf basin).<sup>175</sup>

There were also many evidences of earliest uses by local inhabitants those areas several thousands years ago. It was used by them for various purposes. They employed oil and its derivatives as mortar or flooring-material, as domestic water-channel lining, as caulking material for shipping; and for making fires and lighting and certain uses in warfare. Oil was a resource for the potter, and useful to the

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<sup>175</sup> Stephen Hemsley Longrigg, *Oil in the Middle East, Its Discovery and Development*, (London: Oxford University Press, 1961), A.M Bouillon., "British Claims to Persian Oil", *Current History*, New York, 37:6, March 1933, p.663.

jewelry, toolmaker, and the other craftsmen.<sup>176</sup> Apart from these primitive local uses there was no developed industry and commerce. In the second half of the nineteenth century, several efforts were made by various foreigners to explore and study the possibilities of developing the oil fields in the region.

#### 4.1.1- Early Oil Concessions in Mesopotamia

In a period from the 1890s to 1914, the petroleum industry in great powers such as Britain, Germany and the United States already took its modern forms on production, tank-wagon and pipeline transportation, refining, and distribution.<sup>177</sup> On the other hand, Ottoman Empire was lack of such industrial dynamics and modern petroleum industry. Longrigg portrays:

“Its weak, capricious, and corrupt government was unsuited in every way to the initiation of major industrial enterprises; the mining law was ill-drafted and largely inapplicable, its execution uncertain . . . . It was not, in these conditions, surprising that in the Turkish Empire no petroleum enterprise existed . . . .”<sup>178</sup>

Nevertheless, the Ottoman officials were aware of natural resources in Mesopotamia and the importance of petroleum. The officials as well as merchants in Istanbul were studying on the reports of oil occurrences, notably those in the Baghdad and Mosul vilayets. The British-educated Ottoman Armenian, Calouste Serkis Gulbenkian, son of a wealthy merchant, was notable among those who interested themselves in oil possibilities there. Mithat Paşa, an important name in the westernization of the Empire, endeavored to apply development projects and to form a modern petroleum

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<sup>176</sup> Longrigg, pp.10-11.

<sup>177</sup> *Ibid*, p.11.

<sup>178</sup> *Ibid*, p.13.



industry via foreign assistance in the region during his governorship in Baghdad province (1869-1873) and during his Grand Vizierate.<sup>179</sup>

The weakness of the Ottoman Empire in utilizing its vast petroleum resources gave Western powers opportunity to seek oil concessions, which were integrated with the railway projects. Then, oil turned into a major factor in great power politics and rivalry in the Eastern Mediterranean Crisis. European interests in Mesopotamia increased in the last decade of the nineteenth century through numerous favorable reports on oil potentialities and on the possibility of commercial exploiting. These reports<sup>180</sup> were made, "either to the home governments or to learned societies, or as in the case of C.S.Gulbenkian, to the Turkish Government".<sup>181</sup> These examinations led Sultan Abdulhamid II become aware of possible source of revenues. With suggestion of Agop Pa;a, Director of the Treasury- *Hazine-i Hassa*, Sultan Abdulhamid II issued *firman*s in 1888 and 1898 (renewed in 1902). These *firman*s secured the revenue of the oil properties of the Mosul and Baghdad vilayets under the control/monopoly of his Civil List (See Appendices C, D and E). These documents were kind of declaration explaining status of those vilayets as the private property of the *Memalik-i Şahane* of the Sultan. Subsequently, obtaining oil concessions from the Ottoman Government was linked to series of procedures. Thus, the concession seeker was to obtain legal rights of any concession only through a firman or a *permis de recherche*. The *Permis* was initially given for one year. If the Ministry of Mines was satisfied with the work of preliminary exploration by the end of year, the *firman* would extend for the next year. If during this extra period, further exploration was carried out and the Ministry was satisfied with the resources and

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<sup>187</sup> Bilmez Bülent Can, *Demiryolundan Petrole Chester Projesi (1908-1923)*, (İstanbul : Tarih Vakfı Yurt Yayınları, 2000), pp.101-2.

<sup>180</sup> Among foreign observers who reported on petroleum occurrences in Mesopotamia were M.de Morgan(1892), A.F.Stahl(1893), Colonel S.R.Maunsell (1897), and Baron von Oppenheim in 1899. Longrigg, p.13.

<sup>181</sup> Kent, *Oil and Empire*, p.15

work of the *concessionaire*, the applicant was granted with the definite concession.<sup>182</sup> The first foreign concession was given to the Anatolian Railway Company through this procedure. In the following the Baghdad Railway Convention in 1903, the Anatolian Railway Company signed a contract with the Civil List authorities. The contract was a kind of two years timetable arrangement based on preliminary oil investigations of the Company for the Mosul and Baghdad vilayets. It defined steps and procedures to do joint operations in the field and to get further concessions and grants from the Civil List. However, two years later the Civil List considered these arrangements and convention terminated since the Company didn't fulfill the requirements of the arrangements. Thus, the Ottoman government did not confirm the concession.

#### **4.1.2- The Early Oil Concessions in the Persian Southwest**

Primary sources and researches on Middle East petropolitics mark that the first *concessionaire* to exploit mineral resources of Persia was a German born British national and founder of the news service that still bears his name, Baron Julius de Reuter. The concession was granted to him by Shah Nasr ed-Din on July 25, 1872.<sup>183</sup> This exclusive and definite concession was extending from the Caspian Sea to the Persian Gulf with a 70-year monopoly to construct railroads and tramways, and to build irrigation facilities, and to exploit all mineral resources such as coal, iron, petroleum, copper, lead etc. except gold, silver and precious stones.<sup>184</sup> Lord Curzon's thought about the concession was:

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<sup>182</sup> *Ibid*, pp.15-16.

<sup>183</sup> Benjamin Shwadran, *The Middle East, Oil and the Great Powers*, (New York: Council for Middle Eastern Affairs Press, 1959), p.14; Hikmet Uluğbay, *İmparatorlukta Cumhuriyete Petropolitik*, (Ankara: Ayraç Yayınları 2003), pp.35-36; George N. Curzon, *Persia and the Persian Question*, Vol 1, (London:Routledge 1966), p.480.

<sup>184</sup> See "Reuter Draft Railroad Concessions in Persia, 25 July 1872" in Hurewitz, pp.382-387.

“When published to the world, it was found to contain the most complete and extraordinary surrender of the entire industrial resources of a kingdom into foreign hands that has probably ever been dreamt of, much less accomplished in history”.<sup>185</sup>

However, the Shah due to Russian pressure canceled the concession in 1873. With the British government’s refusal to this cancellation, and through the help of the British Minister in Tehran (Sir Henry Drummond Wolff) and the Director General of the Persian Customs (General Kitabgi) Reuter got a new 60-year concession in 1889 including the exploitation of petroleum as well as the foundation of a state bank in the Persian Empire under the name of Imperial Bank of Persia. Reuter set up a Persian Bank Mining Rights Corporation. But its unsuccessful efforts in concession areas led the Persian Government withdrawn Reuter’s mineral development privileges in the same year.<sup>186</sup>

#### **4.1.3- The Acquisition of the D’Arcy Concession in 1901**

1901 was a turning point in development of Persian oil resources, and Middle Eastern ‘petropolitics’.<sup>187</sup> The French geologist and archeologist, Jacques de Morgan who published that oil existed in the Qasr-i Shirin near the Persian-Mesopotamian border<sup>188</sup>, General Kitabgi Khan, and Sir Henry Drummond Wolff, took the attention of William Knox D’Arcy to the possibilities of Persian fields. D’Arcy was a wealthy British speculator with Australian gold mining experience.<sup>189</sup> He agreed to finance an attempt to obtain a new concession. D’Arcy who never visited Persia, dispatch his

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<sup>185</sup> Curzon, p.480.

<sup>186</sup> “Reuter Concession for the Imperial Bank of Persia, 30 January 1889” in Hurewitz, pp.457-461.

<sup>187</sup> Ulughbay, p.69.

<sup>188</sup> Shwadran, p.15.

<sup>189</sup> Longrigg, p.17.

personal assistant A.L.Marriot, begin concession negotiations with Tehran in 1901.<sup>190</sup>

Since Russia had established an influential foreign power in Persia, the British diplomatic circles focused to challenge this influence by supporting British commercial interests in Persia. A remarkable example of such support was British Ambassador to Persia Sir Arthur Hardinge's mediation of Muzaffar al-Din Shah (1896-1907) on D'Arcy's behalf. This remained the main conduct for the continued British diplomatic support that will be discussed in the following paragraphs.

Through the attempts of British diplomacy, Alfred M. Marriot and Shah Muzaffar al-Din signed a 60-year concession on May 29, 1901<sup>191</sup> (See Appendix F). During the negotiations however, Russian's position in Persia and her possible political objections were taken into consideration, and five major Northern provinces - Azerbaijan, Gilan, Mazandaran, Asdrabad, and Khorasan - were excluded from the concession (Article 6). By the concession, D'Arcy got exclusive privilege to search for, obtain, exploit, carry and sell natural gas including petroleum, asphalt and ozokerite throughout the Persian Empire for sixty years (Article 1). D'Arcy acquired exclusive right to lay the necessary pipelines from the place where any of the above products were discovered to the Persian Gulf, as well as distributing branches (Article 2). The Persian government granted D'Arcy all uncultivable lands and in fair prices cultivable lands belonging to the State. The government also granted him the right to acquire all other lands or buildings necessary for D'Arcy's exploitation works with the consent of the proprietors in their respective localities (Article 3). The Article 4 specifically set the conditions for exploiting three petroleum mines lay in Schouster, Kasr-i Shirin in the province of Kermanschah, and Delaki near Bouchir

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<sup>190</sup> J.R.L.Anderson, *East of Suez: A Study of Britain's Greatest Trading Enterprise*, (London: Hodder and Stoughton Ltd, 1969), pp.26-27.

<sup>191</sup>Hurewitz, "The William Knox D'Arcy Oil Concession in Persia (29 May 1901)", pp.482-484.

that these mines “shall be comprised in the Deed of Concession in conformity with Article 1”.

According to the concession, all those lands acquired through the concession were to be free of all imposts and taxes during the life of the concession; and all material imported for the operation, maintenance and development of the concession was to be free of all taxes and custom duties (Article 7). Furthermore, D’Arcy was granted the right to found one or several companies for the working of the concession, and these companies were to enjoy all the rights and privileges granted to the concessionaire and to assume all his responsibilities and engagements (Article 9).

In terms of financial arrangement, the first exploitation company to be organized by D’Arcy was to pay the Persian Government, within one month of its formation, £20,000 in cash and an additional £20,000 in paid-up shares. The company was also to “pay the said Government annually a sum equal to 16 per cent of the annual net profits of any company or companies” that were formed (Article 10).

The articles of D’Arcy concession are significant in the history of Middle Eastern petropolitics. The 1901 concession served as a model and prototype for later concessions in the region through World War II.<sup>192</sup> Thus, D’Arcy can be regarded as the founding father of the British Petroleum Company and the whole oil industry in the Middle East.

#### **4.1.4- The funding and finding of oil**

In accordance with Articles 9 and 16, D’Arcy organized the First Exploitation Company in May 1903.<sup>193</sup> He sent a geologist to Persia and appointed G.B.Reynolds

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<sup>192</sup> *Ibid*, p.482.

<sup>193</sup> Shwadran, p.18.

as a field superintendent to be in charge of operations. Reynolds has also an important place in the history of British Petroleum and of oil in the Middle East. He and his drillers ran the operations in Chiah Surkh near Qasr-i Shirin on the frontier between Persia and the Ottoman Empire, then Shardin in Bakhtiari territory, about fifty-five miles east of Ahwaz with hopeless efforts.<sup>194</sup> In general, Khuzistan including Mohammerah and valleys of the Zahros Mountains in southwest Persia was an area nominally subjected to the Persian governments in Tehran, but in fact the territory was in the hands of the authority of local Bakhtiari Khans.

D'Arcy's investment was exhausted during his fruitless operations in the territory of the Bakhtiari khans.<sup>195</sup> By the end of 1903, D'Arcy called for financial assistance, and tried to raise capital from several British firms and individuals, including Sir Ernest Cassel and Joseph Lyons and Co. in England, and from the Rothschilds in Paris without any success.<sup>196</sup> Anderson states the situation "There was a real chance that the D'Arcy concession might go for a song to the Germans, the Americans or the French".<sup>197</sup> The Foreign Office and the British Government also refrained from taking any responsibility for a commercial enterprise, although they were permissive to give diplomatic support for D'Arcy. The Admiralty response to this critical financial situation was positive, however.

As touched on in Chapter I, the Admiralty was at that time doing technology transfer through experiments with fuel oil for its fleets. The Oil Fuel Committee was called into being in 1903 to investigate the world's oil resources. The Committee detected several problems existed with the sources of supply as well as monopolistic nature of

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<sup>194</sup> Anderson, *East of Suez*, p.28.

<sup>195</sup> Shwadran, p.18,

<sup>196</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.132.

<sup>197</sup> Anderson, *East of Suez*, p.31.

oil companies in the world. The Admiralty became interested in finding financial assistance to D'Arcy because it feared that the concession might fall into the hands of foreigners, particularly the American or Dutch oil trusts. The Admiralty attitude was reasonable since it was thinking from the point of view of supplies for the navy of the future.

The Admiralty's assistance came into being through its negotiations with Lord Strathcona of the Burmah Oil Company to cooperate with D'Arcy. Lord Fisher who became First Sea Lord at that time was an influential actor in this attempt. He suggested that the Burmah Oil should get together with D'Arcy to keep the concession British and to continue to search for oil in Persia.

The Burmah Oil Company agreed to form a syndicate with D'Arcy. The Concession Syndicate Ltd was formed on 5 May 1905 with D'Arcy as a director. The Burmah Oil Company's connection with D'Arcy gave a considerable value to D'Arcy. The agreement with Burmah Oil provided £100,000 working capital for exploration purposes, and repay part of D'Arcy's personal expenditure. If and when oil was found, a larger company would be formed, with D'Arcy as a director, with a capital of £3,000,000 in order to work the concession. The Burmah Oil provided not only further capital in 1909 and 1913 with £1,500,000 investment, but also qualified management and technical officers as Charles Greenway who became Chairman and Managing Director of the APOC in long term.<sup>198</sup>

Regarding these developments, it can be claimed that the concession was just a diplomatic problem until D'Arcy's need of further funds. With the Admiralty's involvement, the D'Arcy oil concession became a British naval fuel oil supply problem as well.

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<sup>198</sup> *Ibid*, pp.31-32.

#### 4.1.4.1-The Bakhtiyari Agreement with Khans in 1905

By the Bakhtiyari Agreement with Khans signed on 15 November 1905, D'Arcy was allowed to explore for petroleum for five years in the Bakhtiyari territories in return for an annual payment of £2,000. The Khans agreed to appoint guards to protect the company's works, especially from the Bakhtiyaries themselves. If oil was found, the Khans were to get 3 percent of the ordinary shares of any company formed to exploit it.<sup>199</sup> However, the agreement was not successful because the Concession Syndicate experienced serious difficulties with relations with the Bakhtiyaries. The Resident reports developments with the concession as the following:

"This Syndicate having for the time being relinquished their borings near Kasr-i Shirin under Kermanshah, transferred their chief attention to Southern Arabistan, and with the assistance of Mr.J.R.Preece, C.M.G., British Council-General at Ispahan, were able in October 1905 to conclude a working agreement with the Bakhtiyari Khans for the inception of operations in their territory. It would be premature at present to hazard any prognostications as to the probable future of this concession; suffice to say at present that the promoters are taking all possible measures to push their work forward".<sup>200</sup>

During the early years of the D'Arcy concession, two important events took place, and affected the future history of Persia as well as the development of D'Arcy's oil exploitation. The first was the constitutional revolution by which Shah Mozaffar Ad -Din issued a proclamation granting constitutional government on August 5, 1906. And the second was an agreement between Britain and Russia which divided Persia into three zones: the northern under Russian influence; the southern, under British influence; and the center, a neutral zone on August 31, 1907. The results of these

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<sup>199</sup> Jones, *The State and the Emergence of the British Oil Industry*, pp.134-136.

<sup>200</sup> The Persian Gulf Administration Reports (1873-1947) Volume VI 1905-1911, Archive Editions, 1986, Administration Report for the Persian Gulf Political Residency for 1905-1906, p.B.1.



events were that the local chieftains of tribal areas and involvement of foreign powers considerably weakened the control of central government.<sup>201</sup>

The situation was more negatively reflected in the working of D'Arcy concession. Because the Bakhtiyari tribes were also resisting and sabotaging British oil exploration in the Zagros Mountains. The conflict between the Bakhtiyari tribes and the Concession Syndicate in Khuzistan reveal the complexity of Bakhtiyari-British relations. Furthermore, during the constitutional revolution, the situation in the southern part of the country became more chaotic. The Sheikh of Muhammarah in southern Khuzistan with its Arab inhabitants, and the Bakhtiyaries openly opposed the Government. In these circumstances, it was thought that the Concession Syndicate could work well with both the tribal chiefs and the local people through a "moral gunboat diplomacy".<sup>202</sup> In 1907, the attacks of Bakhtiyari and other Lur tribes in Khuzistan against the company became aggressive enough for the British to mobilize Indian guards to protect company lives and properties<sup>203</sup>. At the end of 1907, Sir Arnold Wilson of the 32<sup>nd</sup> Sikh Pioneers was sent to Persia as a consular guard to protect the drillers working in Khuzistan (or Arabistan). He was seconded to the Foreign Service of the Government of India, and stayed in Persia as a Political Officer until 1914.

Anderson writes that Wilson played a considerable part in negotiations with the Bakhtiyari Khans in the period just before and just after Reynolds found oil in Mesjid- Sulaiman. Wilson put down the lifestyle of Bakhtiari tribesman, and the physical difficulties Reynolds and his drillers encountered on *A Political Officer's*

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<sup>201</sup> See Hurewitz "Convention on Persia: Great Britain and Russia (18 August 1907)", pp.538-540.

<sup>202</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.139.

<sup>203</sup> Khazeni, p.394.

*Diary*.<sup>204</sup> Wilson makes a significant comment on the non-physical difficulties with which Reynolds met:

“The position of a company which is working under a concession from one Government (Persian) but depends on the goodwill of a provincial administration (Arab and Bakhtiari) and the military and moral support of a third (British and Indian), with a head office in Glasgow, dealing with the Foreign Office (in London) and a Foreign Department (Simla) through local officers (in Persia) is not easy”.<sup>205</sup>

In general, Wilson acted as *de facto* adviser on local matters. He performed an important function of managing some of the company's political negotiations, and made the company concentrate on oil. Also, this shows the British government support for oil company and use of oil company in furthering British interests.

Economic and strategic factors played important roles in relations between the Bakhtiari and British military and diplomatic missions within the British sphere of interest. Chief among these factors were the discovery of oil in the Bakhtiari area. As emphasized in the above quotation, it was not easy for the company to deal with multiple actors in the concession area. Nevertheless developing the oil industry in the Bakhtiari pastures by D'Arcy and the Concession Syndicate, the British led the integration of the tribes into an expanding market economy. Anglo Persian Oil Company further established the infrastructure needed to control the Bakhtiari territory and its natural resources.<sup>206</sup> The relations of D'Arcy in 1900s and the Anglo-Persian Oil Company in 1910s with the Bakhtiari were the circumstances that constituted the modern Anglo-Iranian diplomacy, and the development and transition of southwestern Persia.<sup>207</sup>

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<sup>204</sup> Anderson, *East of Suez*, p.29.

<sup>205</sup> *Ibid*, p.30.

<sup>206</sup> Khazeni, p.381.

<sup>207</sup> *Ibid*, pp.371-384; Gene R.Garthwaite, “The Bakhtiari Khans, the Government of Iran, and the British, 1846-1915”, *International Journal of Middle East Studies*, Vol.3, No, 1 (Jan., 1972), pp.24-25.

#### 4.1.4.2- The Discovery of oil in Mesjid-i Sulaiman in 1908 and the Formation of APOC, 1909

Near Shardin, in the Zagros Mountains, there was a possible site, with a hopeful name Maidan-i Naftun, or the 'Plain of Oil'. Nearby was an ancient temple called Mesjid-i Sulaiman, or 'Solomon's Mosque'. In 1908, the Concession Syndicate entered a new financial deadlock and instructed Reynolds to pack up everything and return to Britain. Ignoring the notice, Reynolds transferred his engine equipments and drillers to Maidan-i Naftun. On May 26, 1908 after seven years of hopeless labor, Reynolds struck oil there and discovered the richest oilfield in Persia, even in the Middle East (See Appendix G).<sup>208</sup> Maidan-i Naftun was renamed as Mesjid-i Sulaiman soon after oil was discovered with its English abbreviation, MIS.

The discovery of a large and commercial quantity of oil from the Mesjid-i Sulaiman was the turning point of the D'Arcy concession. D'Arcy's Concession Syndicate was reorganized as the Anglo-Persian Oil Company (APOC) on April 14, 1909 with an initial capital of £2,000,000. Of this capital £1,000,000 in common stocks were shared by the Burmah Oil Company (£570,000), the Concession Syndicate (£400,000) and Lord Starthcona (£30,000), who became chairman of the new company. Another £1,000,000 in preferred stock were intended for sale.<sup>209</sup> Charles Greenway became the Managing Director. The managing Agent Lloyd Scott & Company was appointed in 1909 to co-ordinate work from a headquarters at Muhammara.<sup>210</sup> In this organization, D'Arcy lost his former influence. In compensation for his expenditures, he received £900,000 from Burmah Oil, and also

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<sup>208</sup> *Ibid*, p.33.

<sup>209</sup> A.A.Fursenko, *The Battle for Oil: The Economics and Politics of International Corporate Conflict over Petroleum 1860-1930*, ( Greenwich: JAI Press Inc., 1990), p.135.

<sup>210</sup> Longrigg, p.19.

the position of the directorship of the company. The Bakhtiari Oil Company was also formed in the same year along with APOC to exploit the oilfields in the southwest Persia.

On the other hand, the Company faced some critical challenges at the beginning. First of all, the Company possessed a large supply of crude but there was also a need of infrastructure for refinery, pipelines, and distribution outlets and network for its vast reserves of oil. This was highly capital intensive enterprise, and risky in the event of tensions growing from the local inhabitants. This challenge was dealt through the assistance of Wilson and other consular officers, and the company conducted negotiations with the Sheikh of Mohammerah for the sale of land on Abadan. An agreement with the Sheikh Khazzal granted the Company a right of route for the pipeline to carry the oil, and the right to buy navigable frontage on the Shatt-al Arab to build a refinery, depot and storehouses.<sup>211</sup> The pipeline was laid from MIS to the estuary of the Shatt-al Arab and it begun to bring the oil to Abadan by 1912. Thus, it took the Company three years to develop commercial production and to lay a pipeline to the Persian Gulf. The refinery came on stream in 1912. Wilson appreciates the company in 1913 with the words:

“It does me good to see the progress made by the oil company, and it makes me proud of my compatriots in the engineering world . . . Tribesman who used to stone or shoot at me a few miles from the oilfields are becoming skilled mechanics. We are witnessing here a new Industrial Revolution, which is quickly transforming this part of Persia”.<sup>212</sup>

The second challenge was about the marketing of the Company’s products.<sup>213</sup> There were three aspects regarding this marketing challenge, with Jones’ phrase, “what to

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<sup>211</sup> Shwadran, p.21.

<sup>212</sup> Anderson, *East of Suez*, p.38.

<sup>213</sup> Jones, *The State and the Emergence of the British Oil Industry*, pp.140-144.

market, where to market it and how to market”.<sup>214</sup> For the first aspect, there was little information about the nature of the newly discovered crude oil such as the yields and qualities of products. The Company had little detailed guidance about the commodity that its refinery would deal with. For the second aspect, where to market APOC’s products, the local market in southern Persia was reasonably considerable. APOC was selling some kerosene and limited quantities of fuel oil in Baghdad, Mohammerah, Basra, Bushire and other ports. However, India with its vast market for kerosene was the nearest large foreign market. The Burmah Oil was an established organization with distribution facilities. The Burmah Oil had also good knowledge of the market. The third aspect, how to market products moved APOC to a paradoxical position. On the one hand, APOC entirely lacked the necessary distribution capacity and organization to market its own products. On the other hand, the Company was possessing considerable growth figures based on its vast reserves of crude oil. This position forced APOC in 1912 to negotiate and make an agreement with the Asiatic Petroleum Company of Shell Group which possessed the worldwide distribution network. But as time passes, APOC perceived the Group’s possible operations as a real threat to its existence in Persia. It was for this threat that APOC tried to find a market outside the control of Shell. APOC’s paraffin oil was easily burnt without smoke which was quite preferable for the militaries and rising oil burnt navies and railways. The APOC officers thought that either the Admiralty under British Government or the Indian Railway System under the Indian government would be the greatest potential market for fuel oil of the company.

The third challenge was the naturally dependant territories of southwestern Persia and Mesopotamia, and the uncertain nature of Mesopotamian oil and railway concessions under the Ottoman Empire. APOC required further strong diplomatic support to prevent any foreign power obtaining oil concession and establishing power in Mesopotamia, since APOC identified Mesopotamian concession vital, and

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<sup>214</sup> *Ibid*, p.141.

indispensable for its Persian concession. The company persisted in its arguments that the presence of a rival group for obtaining the Mesopotamian concession would be a potential threat to British control in Persia, as well as a disturbance of British naval power in the region.<sup>215</sup> The British Residency in the Persian Gulf also pointed out similar concerns in 1912 as the following:

“The Anglo-Persian Oil Company has made steady progress during the year and may now be said to have reached the productive stage, refined oil having been placed in small quantities on the local Market; thus from the local point of view, the position of the Company is decidedly satisfactory.

His Majesty’s Government, however, viewed with considerable anxiety the prospect, which there is reason to think, is by no means remote, that the Anglo-Persian Oil Company, which is at present entirely British, might be forced by commercial pressure to come to terms with and virtually be absorbed by the Shell Transport Company, which is under foreign control, a consummation which could only result in the increase of foreign interests in the Persian Gulf, and a considerable enhancement of the price of oil, a matter of much concern to the British Admiralty.

The question is closely bound up with the prospects of the concession for oil fields in Mesopotamia being obtained by the Anglo-Persian Oil Company, who as Concessionaires on the other side of the border in Persia, would be greatly handicapped, were the Turkish fields, at all events in the wilayets of Baghdad and Musul, to be in the hands of a rival concern. The Anglo-Persian Oil Company were accordingly supported by His Majesty’s Government in their application to the Turkish authorities for a concession, and negotiations at Constantinople were in active progress at the end of the year”.<sup>216</sup>

Truly, between 1908 and 1914, numerous rival international groups had made bids for Mesopotamian oil concessions to the Ottoman Empire. The historians think that the discovery of oil in 1908 at M I S gave impetus to search for oil also in Mesopotamia by 1908.<sup>217</sup> D’Arcy who set the foundations of British oil power in Persia also took part in these multiple interests and acted like a representative of

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<sup>215</sup> Kent, *Oil and Empire*, p.35.

<sup>216</sup> The Persian Gulf Administration Reports (1873-1947) Volume VI 1905-1911, Archive Editions, 1986, Administration Report for the Persian Gulf Political Residency for 1912, p.8.

<sup>217</sup> Earl, p.267, Uluğbay, pp.69-70.

British interests in Mesopotamian oil. In 1909 the Shell Group joined to Mesopotamian oil concession race however. By 1912 there were chiefly four groups seeking concessions in Mesopotamia: (1) The German-Deutsche Bank supported Anatolian Railway Company was attempting to make its old concession confirmed; (2) APOC supported by the British Ambassador in Istanbul; (3) The Royal Dutch Shell group through its subsidiary the Anglo Saxon Oil Company with the assistance of an Armenian Sarkis Calouste Gulbenkian, "an Ottoman subject of considerable influence, sometimes called the Talleyrand of oil diplomacy"<sup>218</sup>; and finally (4) American Chester group.<sup>219</sup>

The period of 1912 and 1913 saw intensified clash of British and German oil interests in the region. The oil rivalry in this case, increased because of the governments' increased support for their national companies. As Shwadran points out, negotiations were carried on, not between the Turkish government and the groups seeking the concessions, but between the Turkish Government and the British and German governments.<sup>220</sup>

The Turkish Petroleum Company (T P C) formed in 1912 with a capital of £80,000 was a particular case in such rivalry. T P C was established with the initiatives of an English banker of German birth Ernest Cassel<sup>221</sup> and Gulbenkian. Its foundation purpose was to explore petroleum rights and to acquire all oil claims by forming a coalition from divergent oil negotiations and processes in Mesopotamia. The Turkish Petroleum Company structured in the form of Anglo-German syndicate as including

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<sup>218</sup> Earle, p.267.

<sup>219</sup> Swadran, p.194.

<sup>220</sup> *Ibid*, p.194

<sup>221</sup> A German-born English banker and a Governor of the Bank of England. *Ibid*, p.194.

(1) the National Bank<sup>222</sup> of Turkey (providing half of the capital), (2) The Asiatic Petroleum Company in other words, the Royal-Dutch Shell group of companies, and its associated interests, and (3) the Deutsche Bank. Each of the last two company provided a quarter of the capital. The company was apparently consisted of the Anatolian and Baghdad Railway companies.

Greenway interpreted the formation of T P C as a 'flank attack' by the Shell Group to APOC's Persian concession. This flank attack became primary issue of APOC in the late 1912 and early 1913. Whether true or not, the Shell menace imposed by Greenway is seen by historians as a campaign to persuade the government to make an agreement with APOC. The campaign was covering three discourses. The first was related to the Shell's interest in controlling the APOC's ordinary shares held by the Burmah Oil Company. The second was that absorption of APOC by Shell would be a threat to the Admiralty. According to Greenway, Shell was working in the direction of securing a monopoly of oil fuel for the whole world. That meant that the Foreign Office would witness an expansion of foreign influence in Persia and Mesopotamia. Shell's alliance with the Deutsche Bank in the TPC enabled Greenway to make a direct connection between Shell and the Germans. Greenway stated, "[c]ontrol by Shell meant control by the Royal Dutch, which meant according to the latest information . . . that we should become, through the Royal Dutch Company, under the control of the German Government itself".<sup>223</sup> In his third

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<sup>222</sup> The National Bank of Turkey was a British-owned institution established in 1909. Hugo Baring was the acting manager of the National Bank. Sir Henry Babington Smith was the Bank's President and former British representative of the Ottoman PDA. Half of the shares in the Bank belonged to the Gulbenkian family. Earl, p.267.

<sup>223</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.152, c.f. Evidence of Charles Greenway to Fisher Commission, 19 November 1912, First Report, ADM 116\1208, pp.335, 337



discourse, Greenway stated the imperialist nature of his company. He pointed that the company possessed a patriotic determination to do its best for the Empire.<sup>224</sup>

Greenway was successful in involving a number of government departments into APOC's matters Persian and Mesopotamian oil and Shell threat. His imperial and naval related arguments were very influential in terms of perceptions and change in decisions of those departments.<sup>225</sup> These departments were the Indian Office, the Foreign Office, the Admiralty, and later the Treasury. Each of the offices had its own sphere of activity, and different points of view regards to APOC affairs.

The response of the India Office and the Government of India to APOC's financial request for Persian oils and diplomatic backing for Mesopotamian concession was negative. The Indian government maintained that the affair was not directly related to India. In terms of the Indian Railway System, APOC saw a possibility of conversion to fuel oil in the railways of western India. And it was thinking that the contract for an Indian railways system would be a marketing success.<sup>226</sup> However, the Indian government considered that the eastern side of the country was coal rich. Moreover, the conversion of the Indian railway network from coal to oil would take many years. Furthermore, it refused to see any imperial threat in Shell's activities over Mesopotamian and Persian oilfields.<sup>227</sup>

The Foreign Office, on the other hand, believed that the company needed financial support from the Government. It was a supporter of the APOC about the so called menace posed by Shell. Because Britain's political predominance in the Persian Gulf is largely the result of her commercial predominance, the Foreign Office claimed,

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<sup>224</sup> *Ibid*, p.152 c.f. Charles Greenway to Alwyn Parker, 20 November 1912, F.O.371\ 1486 no. 49498\472.

<sup>226</sup> *Ibid*, p.145.

<sup>227</sup> Kent, *Oil and Empire*, p.41.

“[t]he Anglo-Persian concession, embracing as it did the entire oil fields of Persia . . . should not pass under the control of a foreign syndicate”.<sup>228</sup>

The company’s concession was in a diplomatically sensitive area at time of Anglo-German rivalry. Geopolitical aspects for the Foreign Office were important in this sense: Sir Edward Grey points “[t]he real point is that South Persia near the coast is more controllable by us than other centuries of oil production in the world, which are entirely out of our reach”.<sup>229</sup>

Furthermore, the Foreign Office created a political ground to support the APOC interests to obtain the Mesopotamian concession. It was quite active in making the other departments follow its own approach to the APOC problem in favor of the APOC against Shell threat in the T P C structure.<sup>230</sup> The Foreign Office Agreement on 19 March 1914 which received strong support from the Board of Trade and the Admiralty was an evidence of the Foreign Office’s diplomatic commitments to APOC. The negotiations took place in the British Foreign Office. The representatives of the British and German Governments as well as the companies signed the agreement.<sup>231</sup> The Foreign Office Agreement gave APOC a predominated share of 50%, and the Deutsche Group and Royal Dutch-Shell through the Anglo-Saxon Oil

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<sup>228</sup> Yergin, p.159.

<sup>229</sup> Jones, *The Prize*, pp.172-3.

<sup>230</sup> Kent, *Oil and Empire*, p.39.

<sup>231</sup>The signatories of this agreement were Sir Henry Babington Smith, representing Sir Ernest Cassel and the National Bank of Turkey; Sir Henri Deterding, representing the Royal Dutch, and Walter H.Samuel, the Shell, interests in the Anglo-Saxon Petroleum Company<sup>231</sup>; Dr.Carl Bergmann, representing the Deutche Bank; Sir Charles Greenway and H.S.Barned, representing the D'Arcy interests, otherwise the APOC. It also bore the signatures of Sir Eyre Crowe, on behalf of His Britannic Majesty's Government, and of Herr.R.von Kühlmann, on behalf of the Imperial German Government. See Earle, pp.277-279.

Company's had shares of 25% each. Gulbenkyan<sup>232</sup> also received a 2.5% share from D'Arcy Group and a 2.5% share from A.S.O.C. in return for his mediation and his share in the Turkish National Bank which was the founder partner of the TPC.

The agreement arranged the fusion of British and German interests in Mesopotamian petroleum concessions. On the basis of 'self-denying ordinance', the Article 10, below, was restricting concession seeking in the Ottoman Empire by any one of the partners without the participation of the others:

"The three groups participating in the Turkish Petroleum Company shall give undertaking on their own behalf and on behalf of the companies associated with them not to be interested directly or indirectly in the production or manufacture of crude oil in the Ottoman Empire in Europe and Asia, except in that part which is under the administration of the Egyptian Government or the Sheikh of Koweit or in the transferred territories on the Turco-Persian frontier, otherwise than through the Turkish Petroleum Company".<sup>233</sup>

#### **4.1.5- Fuel Oil and the Admiralty and Progress in the Persian Gulf**

During the period from 1912 to 1914, the Admiralty discussion on converting the Royal Navy from coal to oil intensified. The Admiralty became more concerned about securing oil for the Navy. The Admiralty involved again itself into the APOC's affairs by 1912. And it went into more discussions and negotiations with the company.

The discussions between the Admiralty and APOC focused on the company's future role as a supplier of fuel oil to the Royal Navy and its possible financial implications. The development of the Persian oilfields and increase of the production for the Navy

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<sup>232</sup> From this arrangement he was henceforward to be known as "Mr. 5 Percent."

<sup>233</sup> See "The Arrangement for the Reorganization of the Turkish Petroleum Company: The D'Arcy Group, the Deutsche Bank, and the Anglo-Saxon Company (14 March 1914)" in Hurewitz, pp.574-576.

was a capital intensive venture, but APOC had already exhausted its working capital by 1912.<sup>234</sup> Greenway provided several approaches and proposals to the Admiralty about the possibilities of a large supply contract. He offered a contract for 500,000 tons of fuel oil per annum for 15-20 year period and he pointed out the necessity of raising more capital for being a naval contractor. He explained the Royal Commission on Fuel and Engines in November 1912 "In order to produce 500,000 tons of fuel oil per annum we should have to spend minimum £2,000,000 capital in further developing the field and in putting down additional pipelines".<sup>235</sup> The two largest items of expenditure were refinery extensions with £600,000 and new pipeline with £400,000. The remaining £1,000,000 was to be spent on additional tugs and barges, further geological exploration, a deep water port and £200,000 for a projected tanker company.<sup>236</sup>

In order to finance these expenditures, Greenway suggested three plans to the Commission. Firstly, the government should guarantee the interest at 4 percent on the £2,000,000 fresh capital required over a certain period. Ten years were regarded as a minimum. Secondly, a government subsidy of £100,000 a year should be paid to the company by means of advance payments on a naval fuel oil contract. Thirdly, there was a proposal for a straightforward state capital investment in the company. Therefore, the state support and the request for government financial assistance became a central part of the negotiations. The need for government finance was vital because APOC was unable to raise from the other sources, the Burmah Oil Company and the British capital markets. BOC had already provided extra capital both in 1905 and 1909. By 1912, however, BOC was reluctant to lend more because it was

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<sup>234</sup> Anderson, p.39.

<sup>235</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.146-147, c.f. Evidence of Charles Greenway to Fisher Commission, 19 November 1912, First Report, ADM 116\1208, p.338.

<sup>236</sup> *Ibid*, p.147, c.f. Rough Estimate of Probable Expenditure, ADM 116\1687C no.CP 12417.

searching for new oilfields in India and trying to secure exploration rights in Baluchistan, a territory within the Indian Empire. The British capital markets were also hesitant to supply capital. British investors regarded Persia an insecure country since the beginning of the century. The British and Indian governments were diplomatically backing the British investors, but they hesitated to give financial guarantee to the investors' capital.<sup>237</sup> Naturally, Greenway's request for government guarantee should also be regarded from aspects of this state of affairs.

In general, the Admiralty was agreeing to the policy that envisaged preventing possible foreign acquisition of control of the Persian oilfields via Mesopotamia. The Admiralty had also given some attention to the problem of Persian oil and to the company since 1903. But it was quite critical about financially subsidizing a particular company. It would be dangerous since there were numbers of other companies seeking such backing. The Shell Transport and Trading Company of Marcus Samuel, for instance, was one of them. Up to that time, the Admiralty had traditionally refused to commit itself financially to any oil company, either in the form of providing subsidies or long-term supply contracts.

However, the first half of 1913 saw a critical shift in opinion at the Admiralty. This was essentially due to concerns about prospective and reliable sources of supply, and about a complementary policy concerning storage and reserves, and about changes and trends pertaining to the fuel oil market. The most striking of these trends was a rise in fuel oil prices in the world. It was a result of the raise in freight rates and the rapid growth of world demand for fuel oil. On the other hand long-term dependence on fuel oil became very obvious to the Admiralty. The Admiralty in January 1913 directed the War Staff to examine the question scientifically, to work out probable oil consumption by the fleet during a period of wartime and to estimate the necessary fuel oil reserve. The War Staff's report agreed in general with the Oil Fuel

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<sup>237</sup> Platt, pp.228-229.

Committee and Fisher's Royal Commission that large reserve stocks were necessary. The report pointed a definite policy of forward contracts rather than uncertain annual contracts to be adopted by the Admiralty. The report also pointed to the Director of Contracts' assessment on various companies about the possibility of supplying the Admiralty on a forward contract basis. The results issued in the report were highly discouraging. Because the rise in fuel oil prices was not profitable for the oil companies to make a long-term contract. The Shell Group, Anglo-American Oil Company, Asiatic Oil for instances, avoided making long-term contracts. Only APOC and Anglo-Mexican offered large quantities of fuel oil on a forward basis. But Mexican oil was not fit to the Admiralty specification. Although the War Staff was against the general principle of subsidies or direct intervention in the affairs of oil companies, it conceded that Persia was a special case. The report mentioned that Persia provided a high grade fuel oil, its price was reasonable, and its economic freight arrangements would be practicable over a term of years.<sup>238</sup> It wrote "[i]t was desirable that the Admiralty should be in a position to contract for the full quantity offered by the Anglo Persian Oil Company".<sup>239</sup> Persian oil, according to the report, particularly would be contracted for by advance payments. It also claimed that since in peacetime the Admiralty would not need so much oil it would be greatly helped if India participated in the contract. In wartime the Indian Railways, would be expected to revert to coal, so releasing the additional amount of oil for the Navy.<sup>240</sup>

On the basis of this report, Churchill wrote a Cabinet Memorandum dated 16 June 1913 on the major problems involved in securing an 'Oil Fuel Supply for His Majesty's Navy'. To provide for the increased reserves Churchill made two proposals to the Cabinet. First, additional oil must be bought immediately. Second,

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<sup>238</sup> Kent, *Moguls and Mandarins*, p.45.

<sup>239</sup> *Ibid*, p.45.

<sup>240</sup> *Ibid*, p.45.

the Admiralty must take a series of forward contracts to provide the future supply, at the same time providing necessary storage tanks. Churchill defined three governing principles for the Admiralty's policy in consolidation of forward contracts'. These were:

“(1) A wide geographical distribution to guard against local failure of supplies, to avoid undue reliance on any particular source, and to preserve as much expansive power or elasticity in regard to each source as possible; (2) to frustrate as effectively as possible, by keeping alive independent competitive sources of supply, the formation of a universal oil monopoly and thus to safeguard the Admiralty from becoming dependent on any combination; and (3) to draw oil supplies as far as possible from sources under British control or British influence and along those sea routes which the Navy can most easily and most surely protect”.<sup>241</sup>

The aforementioned principles, together with the price situation and the problems facing the Anglo-Persian Oil Company, were Churchill's arguments for a long-term contract with the Company. In the memorandum of 16 June 1913 he concluded:

“In the last few months, since the proposal of the Anglo Persian Oil Company were first received by the Admiralty, the trend of prices, as well as the results of experiments with other descriptions of oil, and the conclusions arrived at by the Royal Commission have all contributed to render the Persian supply relatively more important than was originally anticipated, without altering the Admiralty view that too much reliance should not be placed on any one source of supply”.<sup>242</sup>

The Cabinet set up a Committee to examine the details of the proposed contract. Its meeting on 11 July the Cabinet was entirely occupied with the oil question. The ministries agreed that:

“in view of the vital necessity to the Navy of a continuous and independent supply of oil in the future it was desirable that the Government should acquire a controlling interest in trustworthy sources of supply, both at home and abroad”.<sup>243</sup>

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<sup>241</sup> *Ibid*, p.46.

<sup>242</sup> *Ibid*, p.48.

<sup>243</sup> *Ibid*, p.49.

These considerations directed Admiralty to assume Persian oil as important for naval supply projections. In Admiralty Naval Estimates of 1913-14 projected Persian oil as to rise from 5 percent of consumption in 1913-14 to over 25 percent in 1917-18.<sup>244</sup> This growing projected importance of Persian oil was a factor that strengthened the Admiralty's thought about APOC.<sup>245</sup> On 17 July, Churchill announced, on the basis of the Naval Estimates for 1913-1914, the Admiralty's new oil policy:

"Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel, first, by building up an oil reserve sufficient to make us safe in war and able to over-ride price fluctuations in peace; second, by acquiring the power to deal in crude oils as they come cheaply into the market . . . third . . . we must become owners, or at any rate, the controllers at the source of at least a proportion of the supply of natural oil which we require".<sup>246</sup>

The idea of development of Anglo-Persian oil supply according to Churchill was indispensable for the solution of the fuel oil problem. He noticed that the Anglo-Persian Oil Company would receive substantial financial aid in one form or another from the British or Indian Government. As mentioned above, the Indian Government refused to provide financial assistance. The Cabinet also rejected the Indian guarantee suggestion discussed above. So it became the responsibility of the Admiralty to make financial arrangements and a fuel oil contact. It is for this reason that the Admiralty sent a commission of experts headed by Rear-Admiral Edmond Slade to examine the APOC's concession in 1913. Edmond Slade with his expeditionary work from late October 1913 to the late January 1914, and Reports, played important role in the development of British oil policy.<sup>247</sup> Edmond Slade was

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<sup>244</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.167, c.f. Director of Contracts Report, 28 February 1913, ADM 116\1219.

<sup>245</sup> *Ibid*, p.166.

<sup>246</sup> *Ibid*, pp.49-50.

<sup>247</sup> *Ibid*, p.169.



the President of the War College between 1904 and 1907, Director of the Intelligence Division of the Admiralty (DID) between 1907 and 1909, and Commander-in Chief East Indies between 1909 and 1912. His duties as DID brought importance of oil directly to his attention, while his service in the East Indies acquainted him with the Persian oilfields.

The Slade Commission examined the geology of the oilfields and assessed the APOC's equipment and proceedings (See Appendix N.). The Commission also visited the company's fields in Kuwait and Bahrain. In the Slade Commission Report (January 1914), the Commission pointed that the company's concession was extremely valuable for the Royal Navy's long term needs. It was satisfied that:

“The Company's Concession is a most valuable one and, providing no unforeseen factor intervenes, the existing field is capable with proper development, of supplying a large proportion of the requirements of the Admiralty for a considerable period, while the whole Concession, judiciously worked, would probably safeguard the fuel supply of His Majesty's Navy”.<sup>248</sup>

The commission stated that the Company's southern fields should be developed, and 'all possible steps should be taken to maintain APOC as an independent British undertaking'. In reference to the Company's finance request, the commission put forward the government support. The government should have exercise tight controls over APOC's operations, in return. It meant that there would be the state control, and a voice on the company's decisions on future capital investment, on pricing policy for the navy, and on the use of the oil reserves.<sup>249</sup> The Report, actually, set out the frame of the final agreement between the Admiralty and APOC.

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<sup>248</sup> Marian Kent, *Moguls and Mandarins*, pp.52-53.

<sup>249</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.170, c.f. Second Interim Report of Slade Commission, 26 January 1914, ADM 116\3806, no.CP 12053\1914 referred by

There is an interesting coincidence with Admiral Slade's expedition that Britain signed a secret agreement with the sheikh of Kuwait. The pledge signed by the Kuwaiti sheikh on 27 October 1913 assured Britain obtaining exclusive oil rights without given any concession to any parties (See Appendix H). This pledge, in fact, paved the way for a similar undertaking on the agreement of 14 May 1914 by the Bahraini sheikh, and then for each to be British protectorates. This detail is important to remind again both commercial and strategic importance of the region for Britain.

On the basis of Slade report, it would be necessary to analyze the purchase of the British Government's shares in the APOC during the period of 1913-1914, and the Admiralty's roles in this process. After the Commission's favorable report, the Cabinet also convinced about the government's finding the necessary capital, and it authorized the Company, the Admiralty and the Treasury to proceed their discussions and negotiations on an agreement. The agreement was to provide an allotment to the Treasury of some debentures and of share interest which would give the government a majority of the voting power in the Company's affairs; the creation of one share with special voting powers designed to control the action of the Company in matters concerning its British nationality and similar points; the nomination of two government directors to serve on the board, whose duty it would be to control the general policy of the Company as distinct from interfering with its commercial administration; and finally, the reduction of the price of oil to be sold to the Admiralty on a sliding scale based on the dividend earned.<sup>250</sup>

A Cabinet Committee was also set up to supervise the details of the agreement and the necessary Parliament procedures. The Cabinet Committee included the Foreign Secretary, the Chancellor of the Exchequer, the First Lord of the Admiralty, the Home Secretary, the President of the Board of Agriculture, the Attorney-General, the Civil Lord and the Additional Civil Lord of the Admiralty, the President of the

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<sup>250</sup> Kent, *Moguls and Mandarins*, p.52.

Admiralty Persian Oil Commission (Admiral Slade), the Permanent Secretary of the Treasury, the Director of Navy Contracts, and the Representative of the Foreign Office (Alwyn Parker). On 17 March 1914, Churchill made his speech on the Navy Estimates for 19014-1915 at the Cabinet, and restated the advantages of oil, and the difficulties of getting it at a good price. Therefore he tried to make a campaign for the government's decision to become a shareholder in the Anglo-Persian Oil Company.<sup>251</sup>

On 20 May 1914 the British Admiralty and Treasury signed the agreement (See Appendix I) with the Anglo Persian Oil Company. The Treasury also submitted a letter (See Appendix J) added to the Agreement. In addition to these documents, a confidential supply contract between the Admiralty and the Company was concluded.<sup>252</sup> On 17 June these were presented into the Parliament as a White Paper. The Paper received the approval of Parliamentary by 254 votes to 18.<sup>253</sup> Then it received the Royal Assent on 10 August 1914.<sup>254</sup> The passages below are evaluating these documents respectively.

Under the terms of the agreement (Appendix J), the Admiralty and Treasury agreed to subscribe the capital of £2,200,000 to the company's capital:

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<sup>251</sup> *Ibid*, p.65.

<sup>252</sup> *Ibid*, pp.54, 65. As Kent mentions, the fuel oil supply contract of the Admiralty was kept so confidential until 1960s. Kent's work gives the first time actual figures.

<sup>253</sup> Henry Longhurst, *Adventure in Oil The Story of British Petroleum*, (London: Sidgwick and Jackson, 1959), p.52.

<sup>254</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.151.

Ordinary Shares . . . . .	£2,000,000
Preference Shares . . . . .	<u>£1,000</u>
Total share capital to be held by Government . . . . .	£2,001,000
First Debentures ranking <i>pari passu</i>	
with existing debentures . . . . .	<u>£199,000</u>
Total Government subscription . . . . .	<u>£2,200,000</u>

In return they were to be allowed to appoint two *ex officio* directors with powers of veto over the company's decisions (Article 7). The circumstances in which their veto would be used were further specified in the added letter – called as the Bradbury Letter- (Appendix K) in a detailed manner. According to his, the veto of the these *ex officio* directors would be exercised in any matters affecting the Admiralty and its contracts, foreign or military policy, protection of Government interests in the company or the independence of the Company, but not in any commercial matters and the conduct of its ordinary business. For details of *ex-officio* directors see listed in Appendix K.

As part of this agreement, a long-term Navy Oil Fuel Contract with the APOC naval fuel made the Company agree to supply some 6,000,000 tons of oil to the Admiralty over the next twenty years, at a price of 30 per ton. In this time period, the quantities would rise from 50,000-70,000 tons in 1914-15 to 300,000-350,000 tons for 1917-8 and thereafter increase up to 500,000 tons a year. "There was fix price of 30s.a ton, but from this a rebate would be granted up to a maximum of 10s.a ton in proportion to the surplus profits of the Company after interest on debentures and preference shares and dividend of 10 percent on ordinary shares had been paid".<sup>255</sup> The Admiralty proposed to carry the oil from Abadan to in its own or chartered tankers. The Admiralty was not providing in this contract for any oil other than naval

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<sup>255</sup> Kent, *Moguls and Mandarins*, p.54.

requirements. However, "it reserved the power to sell for Indian or other services, if required, any temporary surpluses".<sup>256</sup>

It would be necessary to open more discussion on the Admiralty's decision making and agreement-approval process. Churchill's lobbying arguments in the House of Commons and Parliament on June 17, 1914 on behalf of the agreement by referring to the Navy estimates for 1914-15 were striking. Shwadran narrates as: His major argument was that the Admiralty must have direct access to the oil for crucial oil-burning part of the Royal Navy. Churchill claimed that if the Government could obtain oil at a good price from the Persian fields, it would also reduce the price of oil charged by private companies operating in other fields. He maintained that the price of the Government paid for the shares in the Anglo-Persian Oil Company was reasonable and that the Government stood to gain a great deal from the agreement.<sup>257</sup>

As a strong advocate, Winston Churchill later wrote in his work *The World Crisis 1911-1918* that the government's investment in APOC:

"Has not only secured to the Navy a very substantial proportion of its oil supply, but has led to the acquisition by the government of a controlling share in oil properties and interests which are at present valued at scores of millions sterling, and also to very considerable economics, which are still continuing, in the purchase price of Admiralty oil".<sup>258</sup>

Churchill's such enthusiasm and campaign for securing oil supply has been discussed in Yergin's testimony on oil diplomacy as:

"Energy security has recurrently been an issue since the rise of industrial society more than a century ago. The precise beginnings may well have been when Winston Churchill as First Lord of the Admiralty, converted the Royal Navy from coal to oil on the eve of the First World War. As a result, the Royal Navy moved from Welsh coal as the source of its propulsion to

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<sup>256</sup> *Ibid*, p.54.

<sup>257</sup> Shwadran, p.23.

<sup>258</sup> Winston S Churchill, *The World Crisis 1911-1918*, p.94.

Persian-Iranian--oil. Confronted by this new risk, Churchill articulated a principle of energy security that is no less apt in the first decade of the twenty-first century: "Safety and certainty in oil lie in variety and variety alone".<sup>259</sup>

Without doubt, there were opposition and criticisms against agreement during and after parliamentary debates (throughout the relationship between the Government and APOC). Hoopes observes that the opposition included member of the Parliament, the press, and abroad. The main fears in Britain concerned the investment of a large sum of public money in a remote and turbulent area that was difficult to protect in peace as well as in war. Since the region was unstable in terms of great power rivalry, the Government did not need to take any risk that would antagonize Russia as well as Germany. The area was likely to result in unfortunate political consequences with Russia. The Government of India and the India Office did not find the Admiralty's method to give the Company financial assistance right. There was also some opponent from the economists looking naval expenditures critically. They claimed that the agreement was threatening the British coal industry. Members of mining constituencies and oil executives also objected since the agreement was a national interrupt upon their monopolies. There were also those who objected to the reallocation of a naval budget surplus to finance the investment, and the avoidance of proper parliamentary debate. Furthermore, there was a general concern whether there really was much oil as was hoped for. Abroad, it excited apprehension in Germany, irritation in Sweden and considerable resentment in Russia. All these arguments, however, did not affect the final decision.<sup>260</sup>

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<sup>259</sup> House Committee on International Relations, Hearings on "Oil Diplomacy" Testimony of Dr. Daniel Yergin, Chariman, Cambridge Energy Research Associates, June 20, 2002 (revised) <http://jec.senate.gov/files/yergintestimony.pdf>

<sup>260</sup> Hoopes, p.15.

## CHAPTER V

### CONCLUSION

Just before the World War I, Britain was in rivalry with the powers which achieved naval innovation with fuel oil in their navies such as the United States, Italy and Germany. Big trusts in the US and Europe had already dominated the world oil reserves and productions before the oil fueled naval modernization began in Britain. Indeed, the United States Navy was the authority that suggested the state's entrance into oil business as an oil producer. Since the second part of the nineteenth century, Britain relied upon her colonial and seaborne commercial monopoly by the corporations operated in coal industry. As the world overseas economy became internationalized, British corporations especially the oil companies began to experience certain difficulties. The oil companies such as Marcus Samuel's Shell Transport and Trading Company at the turn of the century began to demand state financial support and even state control in their affairs. Samuel, for instance, suggested Admiral Fisher to be appointed to the Shell board for getting the state support. Mexican Eagle Oil Company, operating in Egypt, asked for a loan of £5,000,000 from the Royal Commission of Fuel and Engines and in return offered the state control over its affairs.<sup>261</sup> However, among them the APOC played the leading role in persuading the British government.

It is in this sense that we should consider the British Admiralty's Agreement with APOC as a significant place in history of British oil policy before 1914. Hitherto, the government had resisted the companies seeking close or exclusive relationships with the state. Thus, as an example of British government control, the APOC agreement was unique. The state financial participation in a private enterprise subjected to the agreement was also an evidence of the deviation from the principle of *laissez faire*,

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<sup>261</sup> Jones, "The British Government and the Oil Companies 1912-1924", pp.648.

the liberal economic policies of the government. APOC was an 'exceptional' company which came close to the government in achieving all its goals. Indeed, the phrase 'exceptional' was used several times by Admiralty officials to describe the state's relations with APOC. The Director of Contracts in his Memorandum in 1920 referred to the "exceptional relationship with APOC through the big Government holding". The memorandum by the Deputy Director of Contracts in 1935 stated "[t]he relationship of the Anglo-Iranian Oil Company to H.M.G.[His Majesty's Government] is so exceptional . . ."<sup>262</sup>

It should be emphasized that a naval factor in the APOC case exercised a great influence on the structure and character of the relations with a specific industrial corporation. In terms of contract type for instance, annual contracts with the companies had been hitherto the only type that the Admiralty followed. However, procedures of the naval contracts changed with the APOC agreement in 1914. The agreement was particularly important because it led to the modification of the Admiralty's oil contract policy.

Moreover, the Admiralty possessed a material stake in remote and foreign territories whose strategic position was vital for the containment of those vital great powers, Russia and Germany, whose expansionist aims appeared to threaten Britain's India. Political dimensions of oil interests in Mesopotamia reached a new scene in the secret Sykes-Picot agreement signed between Britain, and France during World War I. The secret agreement was designed the hinterland territories of Eastern Mediterranean and Persian Gulf to be partitioned after the war. According to the arrangement, the Baghdad and Basra provinces became under the British control and "zone of influence", and the Mosul region and some portion of Syria were assigned to the French as the "zone of influence." Thus, the ruins of the Ottoman Empire

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<sup>262</sup> Jones, *The State and the Emergence of the British Oil Industry*, p.175 c.f.ADM 116 2318B; ADM 116 3999, no.02927\35.



during and after the war enabled Britain found an easy access to the oil potential of the region.

Yet also, the government obtained a financial interest in APOC and a controlling voice in its affairs. Vice-Admiral Sir Edmond Slade, chairman of the Admiralty commission which had investigated the Persian oilfields in 1913, for instance, became one of the two *ex officio* directors on the board of APOC in 1914. At the same time the government secured direct control over one of its fuel oil for the Royal Navy for many decades. Therefore, the Admiralty formed a long-term and harmonious association between the Government and the company for many decades to supply secure fuel oil for the Navy: post World War I led to Anglo Persian Oil's emergence by the late 1920s as one of the world's largest oil companies, matching Royal Dutch-Shell and Standard Oil of New Jersey in stature. During the 1920s the company made a major expansion in marketing, establishing subsidiaries in many European countries and even in Africa and Asia. APOC was renamed Anglo Iranian Oil Company in 1935 due to nationalist processes in Iran and, then it was renamed British Petroleum Company in 1954 and continued to increase production and output, and enlarged its oil discoveries in areas such in Iraq, Kuwait, Aden, North Africa, Australia, Alaska, and Canada till 1980s. Thus, the Government's investment in APOC which became British Petroleum continued till to the mid-1980s.

The Admiralty's oil policies and campaign, and the subsequent World War I modified the government's attitude considerably. The need for consolidation fuel oil security for the naval purposes, and its importance in a mechanized warfare prompted a reassessment of attitudes towards oil companies, and led the government coordinate the oil policies. It extended its direction to other oil companies. The Admiralty and APOC was a beginning that the government then took a more active role in supporting the British and British affiliated firms such as Royal Dutch Shell in their worldwide struggle for both market share and oilfields. Moreover, oil administration was reorganized. Various petroleum committees were formed into a

more centralized administrative system under a new government department H.M. Petroleum Executive under the general task of ex-Royal Navy officers. The Executive enabled the position of all petroleum products to be formulated, a long term oil strategy for Britain to be formed, and establish relationship with the large oil companies.

As discussed in the Testimony of Yergin, the touchstone of British imperialism, we must comprehend the network of naval processes and administrative relations by which overseas expansionist demands were fed into the British political system of the imperialist naval power. In this frame, this thesis emphasized the Admiralty as a channel of political demand in the processes of British imperial expansion from 1870s to 1914 in general, and in the processes of beginning of consolidation of fuel oil security from 1909 to 1914 in particular. But it should be emphasized that Churchill was a very influential actor that his oil minded policy practices raised the Admiralty as an effective agency in oil diplomacy. In this way, the Admiralty formed a linkage between the industrial dynamics and external spheres of British politics through a persisting lobbying; created energy security concern; and provided some insights and clarification for the debates on the importance of use of oil, and supply problem. Thus, we can claim that Admiralty's exceptional relations with the company in the hinterlands of Persian Gulf as well as Eastern Mediterranean formed a new era in British oil policy and energy security.

This thesis also emphasized that there was a close relationship between sea power and oil power. This relationship can clearly be seen in the pre and post World War I circumstances. There was an oil supply dilemma that occupied the Admiralty during the formation of oil policy in this period. The fallacy dilemma actually oriented both the Admiralty and the government to the reality that command of oil production was essential for command of the seas. In this sense, geopolitics and Mahan's imperial testimony were framing the picture of the Admiralty's oil diplomacy. Oil emerged as an important factor in the geopolitics of Britain, and as a strategic commodity for her

national/imperial security through the means of naval imperatives. Thus, the broader significance in the Admiralty's agreement with the APOC can be seen in new imperialist expansion. Trade in the region provided the essential foundation for the British political dominance. It also ensured the security of Britain's strategic routes to India and the East, both by water, via the Suez Canal, and by land and sea, through Mesopotamia to the Persian Gulf'. Although the imperialistic reasoning of Indian protection was not directly focus in the agreement, the Admiralty's attempts and mediation to consolidate British oil policy in the hinterlands of Eastern Mediterranean formed long-term outlook to Britain in the region.

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## APPENDICIES

### APPENDIX A.

**Kruger Telegram: Kaiser Wilhelm II to Stephanus Johannes Paulus Kruger,  
president of the Transvaal  
3 January 1896<sup>263</sup>**

I express to you my sincere congratulations that you and your people, without appealing to the help of friendly powers, have succeeded, by your own energetic action against the armed bands which invaded your country as disturbers of the peace, in restoring peace and in maintaining the independence of the country against attack from without.<sup>1</sup>

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<sup>263</sup> [http://en.wikipedia.org/wiki/Kruger\\_telegram](http://en.wikipedia.org/wiki/Kruger_telegram)

## APPENDIX B.

### Kruger Telegram: The Queen Victoria's Letter to Kaiser William II

5 January 1896

(*Letters of Queen Victoria, 3<sup>rd</sup> ser, III, 8*)<sup>264</sup>

Osborne, 5 January 1896, My dear William . . . As your Grandmother to whom you have always show so much affection and of whose example you have always spoken with much respect, I feel I cannot refrain from expressing my deep regret at the telegram you sent President Kruger. It is considered very unfriendly towards this country, which I am sure it is not intended to be, and has, I grieve to say, made a very painful impression here. The action of Dr. Jameson was of course very wrong and totally unwarranted; but considering the very peculiar position in which the Transvaal stands towards great wish has always been to keep on the best fat better to have said nothing. Our great wish has always been to keep on the best of terms with Germany, trying to act together, but I fear your agents in the Colonies do the very reserve, which deeply grieves us. Let me hope that you will try and check this . . .

I hope you will take my remarks in good part, as they are entirely dictated by my desire for your good. Victoria R.I.

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<sup>264</sup> W.D. Hancock(Ed.) *English Historical Documents 1874 – 1914*, (London: Routledge, 1996),p.47

APPENDIX C.

6 April 1889 dated *İrade* (Order) of Sultan Abdulhamid II concerning the  
Concession of Oil Exploration and Operation in Mosul Vilayet.

بدرالدین  
باشکات داری

موصی ولایتی و اضلعه بولنامه اعلان مخصوصه جناب البلاطی در دوشنبه کزنه  
بیزول غازی مصغری ظهور ایتمکه اوله بنی عموم موصی ولایتی و اضلعه  
کون اعلان سینه در دوشنبه دکرک ساز قورلمده یزول غازی موصی  
تحریس و ایستلمه سی امتیازینک منقولاً خزینة هاشمیه نامنه و یردین  
علی الاصول ایجاب ایدره نرنامه عالیله تصدیق و اعطاسی خزینة خاصه نطقیه  
صیله بنک تنکره موصی سی اوزرینه شرفضاد اوله اراده سینه جناب  
بادشاهی اتقای عالیسنده بولنامه اوله ایله ابرو نرنامه حضرتنا اوله کرکه  
سه جاده اوله نرنامه کارینه ایتمک  
سکایه  
سکایه

Musul Vilayeti'nde bulunan petrol gazının arama ve işletme imtiyazının Hazine-i Hassa'ya verilmesi hususunda Sultan Abdülhamid tarafından 6 Nisan 1889 tarihinde onaylanan irade.

**Source:**

Volkan Ediger, *Osmanlı'da Neft ve Petrol*, (Ankara: ODTÜ Yayıncılık 2005), p.401.

APPENDIX D.

21 September 1889 dated *Irade* of Sultan Abdulhamid II for Transfer of Oil Concessions in Vilayets of Mosul and Baghdad to the *Hazine-i Hassa*

بسم الله الرحمن الرحيم  
بان كائنات ١٢٨٥ هـ  
٥٧٤٧  
مرصده رديت ه برتانه نفت و سوزل مده نفتك تركه و استكشاف ايتاركي باقر ماريه مده  
خبره خاصه تشكرو و نصيحه بقرار و دعوتك راهنده ده نفتك سوزل معادار النفطه ايتاركيه  
ديكيتيه نفتك و نفتك راهنده ك معادريك ايتاركيه نفتك سوزل مده نفتك استكشاف هلك  
ارابه هنده بقرار و دعوتك راهنده سوزل نفتك معادريك نفتك سوزل مده نفتك استكشاف هلك  
خاصه استكشاف نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك  
سوزل مده نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك نفتك  
١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ ١٢٨٥ هـ

Musul ve Bağdat Vilayetleri dahilindeki petrol imtiyazlarının Hazine-i Hassa'ya verilmesi için Sultan Abdülhamid tarafından çıkarılan 21 Eylül 1898 tarihli irade.

Source:  
Volkan Ediger, *Osmanlı'da Neft ve Petrol*, (Ankara: ODTÜ Yayıncılık 2005), p.402.

APPENDIX E.

16 December 1902 dated *irade* covering only Vilayet of Mosul

بسم الله الرحمن الرحيم  
باسم كتابه العزيز  
٦٠٧٤

موصی و نوابی راهبندہ کی بتوں سے مندرجہ ذیل امتیازی حقینہ خا صرتا ہا زب اعلا  
بیو رسد جن معاملہ عد زمر تک ایفاسی سہ فسد در پور پلاہ ارادہ سینہ جناب صدوقی  
ایجاب عالیہندہ اور طفا اولیا ہندہ اور و ظاہر حقیرتہ وی الان کتبہ  
باسمہ شہ اسماء علیہ السلام  
سرکار محترم  
مست

Sadece Musul Vilayeti'ni kapsayan 16 Aralık 1902 tarihli padişah iradesi.

**Source:**  
Volkan Ediger, *Osmanlı'da Neft ve Petrol*, (Ankara: ODTÜ Yayıncılık 2005),  
p.403.



APPENDIX F.

THE WILLIAM KNOX D' ARCY OIL CONCESSION IN PERSIA

29 May 1901<sup>265</sup>

Between the Government of His Imperial Majesty the Shah of Persia, of the one part, and William Knox d'Arcy, of independent means, residing in London at No. 42, Grosvenor Square (hereinafter called "the Concessionaire"), of the other part; The following has by these presents been agreed on and arranged-viz. :

ART. 1. The Government of His Imperial Majesty the Shah grants to the concessionaire by these presents a special and exclusive privilege to search for, obtain, exploit, develop, render suitable for trade, carry away and sell natural gas petroleum, asphalt and ozokerite throughout the whole extent of the Persian Empire for a term of sixty years as from the date of these presents.

ART. 2. This privilege shall comprise the exclusive right of laying the pipelines necessary from the deposits where there may be found one or several of the said products up to the Persian Gulf, as also the necessary distributing branches. It shall also comprise the right of constructing and maintaining all and any wells; reservoirs, stations and pump services, accumulation services and distribution services, factories and other works and arrangements that may be deemed necessary.

ART. 3. The Imperial Persian Government grants gratuitously to the concessionaire all uncultivated lands belonging to the State which the concessionaire's engineers may deem necessary for the construction of the whole or

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<sup>265</sup> Hurewitz, J.C., *The Middle East and North Africa in World Politics A Documented Record, Volume I European Expansion 1535-1914*, (New Haven: Yale University Press, 1975), p.482-484, c.f. League of Nations, *Official Journal*, 13 (December 1932), pp.2305-81.

any part of the abovementioned works. As for cultivated lands belonging to the State, the concessionaire must purchase them at the fair and current price of the province.

The Government also grants to the concessionaire the right of acquiring all and any other lands or buildings necessary for the said purpose, with the consent of the proprietors, on such conditions as may be arranged between him and them without their being allowed to make demands of a nature to surcharge the prices ordinarily current for lands situate in their respective localities.

Holy places with all their dependencies within a radius of 200 Persian archines are formally excluded.

ART. 4. As three petroleum mines situate at Schouster, Kassre-Chirine, in the Province of Kermanschah, and Daleki, near Bouchir, are at present let to private persons and produce an annual revenue of two thousand tomans for the benefit of the Government, it has been agreed that the three aforesaid mines shall be comprised in the Deed of Concession in conformity with Article 1, on condition that, over and above the 6 per cent mentioned in Article 10, the concessionaire shall pay every year the fixed sum of 2,000 (two thousand) tomans to the Imperial Government.

ART. 5. The course of the pipe-lines shall be fixed by the concessionaire and his engineers.

ART. 6. Notwithstanding what is above set forth, the privilege granted by these presents shall not extend to the provinces of Azerbadjan, Ghilan, Mazendaran, Asdrabad and Khorassan, but on the express condition that the Persian Imperial Government shall not grant to any other person the right of constructing a pipe-line to the southern rivers or to the South Coast of Persia.

ART. 7. All lands granted by these presents to the concessionaire or that may be acquired by him in the manner provided for in Articles 3 and 4 of these presents,

as also all products exported, shall be free of all imposts and taxes during the term of the present concession. All material and apparatuses necessary for the exploration, working and development of the deposits, and for the construction and development of the pipe-lines, shall enter Persia free of all taxes and Custom-House duties.

ART. 8. The concessionaire shall immediately send out to Persia and at his own cost one or several experts with a view to the ir exploring the region in which there exist, as he believes, the said products, and, in the event of the report of the expert being in the opinion of the concessionaire of a satisfactory nature, the latter shall immediately send to Persia and at his own cost all the technical staff necessary, with the working plant and machinery required for boring and sinking wells and ascertaining the value of the property.

ART. 9. The Imperial Persian Government authorizes the concessionaire to found one or several companies for the working of the concession.

The names, "statutes" and capital of the said companies shall be fixed by the concessionaire, and the directors shall be chosen by him on the express condition that, on the formation of each company, the concessionaire shall give official notice of such formation to the Imperial Government, through the medium of the Imperial Commissioner, and shall forward the "statutes", with information as to the places at which such company is to operate. Such company or companies shall enjoy all the rights and privileges granted to the concessionaire, but they must assume all his engagements and responsibilities.

ART. 10. it shall be stipulated in the contract between the concessionaire, of the one part, and the company, of the other part, that the latter is, within the term of one month as from the date of the formation of the first exploitation company, to pay the Imperial Persian Government the sum of £20,000 sterling in cash, and an additional sum of £20,000 sterling in paid-up shares of the first company founded by

virtue of the foregoing article. it shall also pay the said Government annually a sum equal to 16 per cent of the annual net profits of any company or companies that may be formed in accordance with the said article.

ART. 11. The said Government shall be free to appoint an Imperial Commissioner, who shall be consulted by the concessionaire and the directors of the companies to be formed. He shall supply all and any useful information at his disposal, and he shall inform them of the best course to be adopted in the interest of the undertaking. He shall establish, by agreement with the concessionaire, such supervision as he may deem expedient to safeguard the interests of the Imperial Government

The aforesaid powers of the Imperial Commissioner shall be set forth in the "statutes" of the companies to be created.

The concessionaire shall pay the Commissioner thus appointed an annual sum of £1,000 sterling for his services as from the date of the formation of the first company.

ART. 12. The workmen employed in the service of the company shall be subject to His Imperial Majesty the Shah, except the technical staff, such as the managers, engineers, borers and foremen.

ART. 13. At any place in which it may be proved that the inhabitants of the country now obtain petroleum for their own use, the company must supply them gratuitously with the quantity of petroleum that they themselves got previously. Such quantity shall be fixed according to their own declarations, subject to the supervision of the local authority.

ART. 14. The Imperial Government binds itself to take all and any necessary measures to secure the safety and the carrying out of the object of this concession of the plant and of the apparatuses, of which mention is made, for the purposes of the

undertaking of the company, and to protect the representatives, agents and servants of the company. The Imperial Government having thus fulfilled its engagements, the concessionaire and the companies created by him shall not have power, under any pretext whatever, to claim damages from the Persian Government.

ART. 15. On the expiration of the term of the present concession, all materials, buildings and apparatuses then used by the company for the exploitation of its industry shall become the property of the said Government, and the company shall have no right to any indemnity in this connection.

ART. 16. If within the term of two years as from the present date the concessionaire shall not have established the first of the said companies authorized by Article 9 of the present agreement, the present concession shall become null and void.

ART. 17. In the event of there arising between the parties to the present concession any dispute or difference in respect of its interpretation or the rights or responsibilities of one or the other of the parties there from resulting, such dispute or difference shall be submitted to two arbitrators at Teheran, one of whom shall be named by each of the parties, and to an umpire who shall be appointed by the arbitrators before they proceed to arbitrate. The decision of the arbitrators or, in the event of the latter disagreeing, that of the umpire shall be final.

ART. 18. This Act of Concession, made in duplicate, is written in the French language and translated into Persian with the same meaning.

But, in the event of there being any dispute in relation to such meaning, the French text shall alone prevail.

APPENDIX G.  
The Letter from the Foreign Office  
reporting the striking of oil in Persia.

18770  
June 2, 1908

Dear Sir,

I am directed by Secretary Sir Edward Grey to inform you that he has received a telegram from the Persian Ministry of Affairs at Tehran reporting that the operations of your Syndicate have struck oil at a depth of two hundred feet which rises intermittently to a height of 150 feet above the level of the ground.

Mr. Hamilton's telegram is founded on a telegraphic report dated the 25th ultimo from His Majesty's Consul General at Shiraz.

Yours most obedient,  
Herbert Asquith

J. R. Proce, Esq., C.M.G.,  
1, St. James' Place, S.W.

Source:  
J.R.L. Anderson, *East of Suez: A Study of Britain's Greatest Trading Enterprise*,  
(London: Hodder and Stoughton Ltd, 1969), p.129.

APPENDIX H.  
THE KUWAYTI SHAIHKH'S PLEDGE TO BRITAIN ON OIL  
27 October 1913<sup>266</sup>

With the hand of friendship we received your esteemed letter dated the 26th Zu-al Kada 1331, and in it you stated that with reference to the conversation which passed between us yesterday if we saw no objection therein it would be desirable for Your Honour to inform the British Government that we were agreeable to the arrival of His Excellency the Admiral. We are agreeable to everything which you regard advantageous and if the Admiral honours our (side) country we will associate with him one of our sons to be in his service, to show the place of oil bitumen in Burgan and elsewhere and if in their view there seems hope of obtaining oil therefrom we shall never give a concession in this matter to any one except a person appoint from the British Government.

This is what was necessary and I pray for the continuance of your high regard and may you be preserved.

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<sup>266</sup> "The Kuwayti Shaykh's Pledge to Great Britain on Oil, 27 October 1913" Hurewitz, J.C., *The Middle East and North Africa in World Politics A Documented Record, Volume I European Expansion 1535-1914*, (New Haven: Yale University Press, 1975), pp.570-1, c.f. Aitchison, *Collection of Treaties . . . relating to India*, 11:246-65.

APPENDIX I.  
AGREEMENT OF THE BRITISH TREASURY AND ADMIRALTY WITH  
THE ANGLO-PERSIAN OIL COMPANY  
20 MAY 1914<sup>267</sup>

Whereas the Company has an authorized share Capital of £2,000,000 divided into (1) £1,000,000 Ordinary Shares of £1 each all of which have been issued and are fully paid up and (2) £1,000,000 Participating Preference Shares of £1 each of which 999,000 have been issued and are fully paid up.

And whereas the Company has issued £600,000 First Debenture Stock secured by a Trust Deed dated the 25<sup>th</sup> day of May 1909 and made between the Company of the one part of and the Duke of Sutherland and the Earl of Litchfield of the other part.

And whereas the Company is interested in and is working various petroleum or oil bearing lands in Persia and is possessed of a refinery at Abadan Island and various pipelines and other plant.

And whereas the oil products which the Company produces include oil fuel.

And whereas the Company is desirous of obtaining further Capital for the development of its undertaking and more particularly in order that it may be enabled adequately to perform any Agreement which it may enter into with the Admiralty for the supply of oil fuel to the Admiralty.

And whereas the Company has proposed to the Treasury that such further Capital shall be provided by the Treasury upon the terms and subject to the conditions herein contained and the Treasury are willing to accede to such proposal.

Now it is hereby agreed between the parties, hereto to follows:-

1. This Agreement is conditional upon: -

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<sup>267</sup> Hurewitz, J.C., *The Middle East and North Africa in World Politics A Documented Record, Volume I European Expansion 1535-1914*, (New Haven: Yale University Press, 1975), pp.576-579 c.f Great Britain, Parliamentary Papers, 1914, vol, 54, Cd.7419.



- (a) The Company's Ordinary Share Capital being increased as hereinafter mentioned.
- (b) The Company's Articles of Association being altered as hereinafter provided.
- (c) The necessary monies for enabling the Treasury to carry out the provisions of Clause 3 hereof being duly provided by Parliament.
- (d) An Agreement satisfactory to the Admiralty being entered into between the Company and the Admiralty for the supply of oil fuel by the Company to the Admiralty.

2. The Company shall forthwith obtain the necessary powers to increase its Ordinary Shares Capital by the issue of 2,000,000 additional Ordinary Shares of £1 each ranking in all respects *pari passu* with the 1,000,000 Ordinary Shares already issued.

3. The Treasury shall upon the conditions mentioned in Clause 1 hereof being duly fulfilled subscribe at par for 2,000,000 Ordinary Shares of the Company of £1 each and shall also subscribe at par for the 1,000 Preference Shares of the Company of £1 each which still remain unissued. The monies to be paid in respect of the said respective Shares shall be payable as follows:-

- (1) One-fourth on the date of the application for the same.
- (2) The remaining three-fourths as and when required by the Company (but subject always to not less than one calendar month's notice in writing of such requirement being given by the Company to the Treasury).

The said Shares shall be allotted to such persons as shall be appointed by the Treasury in such amounts as shall be directed by the instrument of appointment. The respective allottees shall upon payment in respect of the Shares allotted to them respectively of the monies mentioned under Heading

(1) of this Clause be forthwith registered as the holders of such Shares and shall thereupon be entitled to full voting powers in respect thereof.

4. For the purpose of conferring on the Treasury the right of being at all times represented by two *ex officio* Directors on the Board of Directors of the Company and of defining the powers of such *ex officio* Directors and of making provision for other matters which it is hereby agreed shall be provided for, the Article of Association of the Company shall forthwith be altered by Special Resolution in the terms set forth in the Schedule hereto.

5. The Company shall in regard to the First Exploitation Company Limited, the Bakhtiari Oil Company Limited and any other subsidiary Company in which the Company (party hereto) shall have a sufficient controlling interest (each of which Companies is hereinafter called a subsidiary Company) forthwith.

(a) Procure the appointment on the Board of each subsidiary Company of two *ex officio* Director to represent the Treasury and to have the same powers and to be subject to the same provisions as to appointment, tenure of office and otherwise as will by the Article of Association of the Company (party hereto) when altered in accordance with the Special Resolution in the preceding Clause mentioned be conferred on and made applicable to the *ex officio* Directors of the Company (part hereto).

(b) Procure such alternations to be made in the Articles of Association of each subsidiary Company as may be required for enabling such appointment powers and provisions to be respectively effected conferred and made applicable.

(c) Procure [the necessary alternations so] that the Treasury and the Admiralty shall respectively have such other rights, powers, and privileges in regard to each subsidiary Company as it is by Clause 7

hereof agreed that the Treasury and the Admiralty shall respectively have in regard to the Company (party hereto).

6. The Company shall not enter into or be party to any Trust or Combine but shall always be and remain an independent British Company.
  
7. The Treasury and the Admiralty shall respectively be at liberty from time to time to appoint such person or persons as the Appointing Department (which expression shall mean the Department – that is to say the Treasury or the Admiralty as the case may be – making the appointment) may think proper, with such powers as the Appointing Department may consider necessary or expedient, for the purpose of visiting and inspecting and of reporting to the Appointing Department upon the undertaking wells and works of the Company (including any wells or works which may be for the time being under construction) and the plant machinery and stores belonging thereto and/ or for the purpose of investigating the accounts and affairs of the Company, whether in the United Kingdom or in Persia, and the Company shall afford every person so appointed all facilities (including such facilities as are given to the Accountants or Auditors of the Company) for the purpose of enabling him to perform the duties entrusted to him by the Appointing Department. Provided always that the powers and privileges which are by this Clause given to the Treasury and the Admiralty respectively are independent powers and privileges and are also independent of such powers as may from time to time be vested in or exercisable by the *ex officio* Directors of the Company or by persons for the time being holding Shares as nominees of the Treasury or by any Department of His Majesty's Government through the medium of such last mentioned persons.

8. The Treasury shall as and when required by the Company (but subject always to not less than one calendar month's notice in writing of such requirement being given by the Company to the Treasury) take up at par Debenture Stock of the Company not exceeding in the aggregate the sum of £199,000 Debenture Stock which stock shall be issued to such nominee or nominees of the Treasury shall appoint. Such stock shall be part of and rank *pari passu* with the First Debenture Stock secured by the said Trust Deed of the 25<sup>th</sup> day of May 1909 and the Company shall from time to time do all such acts and things as may be necessary for the purpose of creating and issuing the same. Save as aforesaid no Debentures of Debenture Stock shall without the consent in writing of the Treasury be created or issued by the Company to rank *pari passu* with the First Debenture Stock secured by the said Trust Deed.
  
9. The Company (if required by the Treasury by notice in writing given to the Company not later than the 31<sup>st</sup> day of January 1920) shall on the 31<sup>st</sup> day of December 1920 redeem the whole of the present issue of £6,000,000 First Debenture Stock in accordance with the liberty in that behalf which is conferred on the Company under or by virtue of the said Trust Deed of the 25<sup>th</sup> day of May 1909 and shall reissue such stock when so redeemed to the nominees of the Treasury at the redemption price of £105 per cent and shall do all such acts and things as may be necessary for the above purposes.
  
10. In view of the provisions contained in the House of Commons (Disqualification) Acts 1782 and 1801 no member of the House of Commons shall be admitted to any share or part of this Agreement or to any benefit to arise therefrom.

11. The Company shall at all times carry on its business in a proper manner and shall comply with the terms of any concession of lands or rights in Persia which it may hold or in which it may be interested, and shall do all such acts and things as may from time to time be necessary to prevent the same from being forfeited, and shall not do or suffer any act or thing or commit any default which may lead to a forfeiture of any such concession or which may render the security constituted by the said Trust Deed of the 25<sup>th</sup> day of May 1909 enforceable or which may give rise to any right on the part of trustees of such deed to take possession or appoint a Receiver of the Company's undertaking or property or any part thereof.
12. The Company shall have at all times its registered and head office in England.
13. So soon as the Capital of the Company shall have been increased as aforesaid and the Special Resolution hereinbefore referred to shall have been confirmed, the Company shall forthwith execute and do all such instruments, acts and things as may be necessary or proper for giving full effect to this Agreement, and in particular if necessary or proper of if required so to do by the Treasury or the Admiralty shall cause the Seal of the Company to be reaffixed hereto or to be affixed to a supplementary document confirming this Agreement.
14. The Schedule to this Agreement shall be deemed to be part of this Agreement in all respects as if the same had been incorporated therein . . .

APPENDIX J.  
THE BRADBURY LETTER<sup>268</sup>

Treasury, Whitehall, S.W.

20<sup>TH</sup> May, 1914

Gentleman,

With reference to the Financial Agreement which has been duly settled on behalf of His Majesty's Government and sent to your company for signature, I am directed by the Lords Commissioners of His Majesty's Treasury to offer the following observations regarding the provisions of the amendments proposed to your Articles of Association:

1. By the Article 91A it is provided that an ex officio director shall have the right to negative any resolution which may be proposed at a board or committee meeting, but that the other directors, or a majority of them, shall have the right to appeal there from to His Majesty's Government, which, for the purpose of the Article, is defined as meaning the Treasury and Admiralty. His Majesty's Government are of opinion that it would not be prudent, or, indeed, practicable, to qualify the generality of the right to veto. On the other hand, it is felt that the ordinary directors (meaning by that expression the directors other than the ex officio directors), and incidentally the members of the company, should have some safeguard in the matter. It is thought that the right which is to be given by the new Article to the ordinary directors of appealing to the two Departments will afford the requisite safeguard. The

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<sup>268</sup>Hoopes, Stephanie M., *Oil Privatization, Public Choice and International Forces*, (London: Macmillan Press, 1997), pp.194 -195, c.f. Hansard, House of Commons 1928-29, 26 March 1929, Vol.226, col.2263-4).

ordinary directors will, by appealing to the Departments, be in position to ensure in regard to any particular question that the right of veto is not exercised until the question has been considered and adjudicated upon by the Departments.

I am to add that His Majesty's Government do not propose to make use of the right of veto except in regard to matters of general policy, such as –

- (1) The supervision of the activities of the company as they may affect questions of foreign, naval or military policy;
- (2) Any proposed sale of the company's undertaking or proposed change of the company's status;
- (3) The control of the new exploitation, sites of wells, etc.
- (4) Sales of crude or fuel oil to foreigners, or such exceptional sales to other persons on long contracts as might endanger the due fulfillment of current Admiralty contracts;

and that their interference (if any) in the ordinary administration of the company as a commercial concern will be strictly limited to the minimum necessary to secure these objects. Further, in the case of any such interference, due regard will be paid to the financial interest of the company in which, under the proposed arrangements the Government have themselves so large a stake.

While His Majesty's Government are not prepared to enter into any binding agreement in regard to the exercise of the veto, you are at liberty to treat the above as an assurance as to the general lines upon which they will act in the matter, not only in regard to the Anglo-Persian Company, Limited, but also in regard to the subsidiary companies.

2. By the word added to Article 96 it is provided that the ex officio directors shall be members of every committee of the board. His Majesty's Government do not, however, contemplate that both the ex officio directors should always be present at committee meetings. Occasions may arise when it may be desirable that both the ex officio directors should be present, but as a general rule the presence of only one of them would be necessary. Indeed, at some meetings it may not be necessary that either of them should be present.
  
3. You are at liberty to make such use of this letter as you may think fit at the proposed meetings of the shareholders.

I am Gentlemen,  
Your obedient Servant,  
(signed) John Bradbury

Messrs. The Anglo-Persian Oil Company, Limited  
Winchester House, Old Broad Street, London E.C.



**APPENDIX K.**  
**Directors of the Anglo Persian Oil Company 1911-1920<sup>1</sup>**

<i>Year</i>	<i>APOC</i>	
1911	Donald Alexander Smith, Lord Strathcona <sup>ii</sup> : chairman Charles William Wallace <sup>iii</sup> Charles Greenway <sup>iv</sup> : managing director Sir Hugh Shakespear Barnes <sup>v</sup> John Trail Cargill <sup>vi</sup> William Knox D'Arcy William Garson James Hamilton <sup>vii</sup>	
1912	Sir Campbell Kirman Finlay <sup>viii</sup>	joined
1913	No change	
1914	Strathcona Garson Duncan Garrow <sup>ix</sup> James Lyle MacKay, Lord Inchcape <sup>x</sup> of Strathnaver Vice-Admiral Sir Edmond John Warre Slade <sup>xi</sup> Greenway became chairman and managing director	deceased resigned joined  joined ( <i>ex officio</i> )  joined ( <i>ex officio</i> )
1915	Wallace Herbert Edward Nichols <sup>xii</sup> Col. Sir Trevredyn Rashleigh Wynne <sup>xiii</sup>	resigned joined joined
1916	No change	
1917	D'Arcy Frederick William Lund <sup>xiv</sup> Frank Cyril Tiarks	deceased joined joined
1918	Finlay Robert Irving Watson <sup>xv</sup> Francis John Stephen Hopwood, Lord Southborough <sup>xvi</sup>	resigned joined joined
1919	John Buck Lloyd <sup>xvii</sup> Sir Frederick William Black <sup>xviii</sup>	joined joined
1920	Hamilton John Douglas Steward <sup>xix</sup> Sir Edward Hussey Packe <sup>xx</sup> (to replace Slade)	resigned joined joined ( <i>ex officio</i> )

#### NOTES ON TABLE 4.1.

<sup>i</sup> Compiled from the "Table 1. Directors of the Anglo-Persian Oil Company and the Shell Transport and Trading Company 1911-1928" in Kent, Marian, *Oil and Empire: British Oil Policy 1900-1920*, (London: The Macmillan Press Ltd, 1976), pp.190-195.

<sup>ii</sup> *Lord Strathcona and Mount Royal*: In 1911 aged 93 (6 Aug. 1918-21 Jan 1914). Various positions and directorships in Canada, including governorship of the Hudson's Bay Co., director of the Canadian Pacific Railway, and honorary president of the Bank Montréal.

<sup>iii</sup> *C.W.Wallace*: Director of the Burmah Oil Co.

<sup>iv</sup> *C.Greenway*: Originally agent in India of the Burmah Oil Co. Senior partner in the firms of Shaw, Wallace and Co., India and Ceylon, and R.G.Shaw and Co., London; prominent in banking and commerce in Britain; managing director and (from 1914) chairman of the APOC; also director of its subsidiary companies and the Turkish Petroleum Company; Grand Officer of the Lion and Sun, Persia.

<sup>v</sup> *H.S.Barnes*: Entered the Indian Civil Service in 1874; Foreign Secretary to the Government of India 1900-3; Lt.Governor of Burma 1903-5, member of the Government of India Council 1905-1913. director of various companies, including the Imperial companies (the Bakhtiyari Oil Co., the British Tanker Co., the First Exploitation Co. the D'Arcy Exploitation Co.), the Burmah Oil Co., the Burmah Corporation, Burmah Ruby Mines, United British Refineries and the Anglo-Malay Rubber Co.

<sup>vi</sup> *J.T.Cargill*: Chairman, Burmah Oil Co., and director of concessions Syndicate Ltd.

<sup>vii</sup> *J.Hamilton*: Director of the Burmah Oil Co., and a number of APOC companies.

<sup>viii</sup> *C.K.Finlay*: Member of the Legislative Council, Burma. Director of the Burmah Oil Co.

<sup>ix</sup> *D.Garrow*: Director of the First Exploitation Co., D'Arcy Exploitation Co., and other companies.

<sup>\*</sup> *Lord Inchape*: Member of the Indian Legislative Council 1891-3; member of the Government of India Council 1897-1911; also on many wartime committees, including the Imperial Defense Committee 1917, and the Commercial Intelligence Committee 1919. Member of the council of the Corporation of Foreign Bondholders; senior partner in many companies based in India, Australia, London, etc.; director of a great many companies, including – besides APOC subsidiaries – banking,

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insurance, telegraph, trading and shipping companies; vice president of the Suez Canal; and the Government director of the APOC, the First Exploitation Co., and other companies.

<sup>xi</sup> *Admiral Slade*: Commander-in-Chief, East Indies, 1909-1912; headed Admiralty Oil Commission to Persia 1913-14; Rear Admiral 1908, Vice Admiral April 1914, retired from Navy 1917. Director of First Exploitation Co. and vice-chairman of APOC.

<sup>xii</sup> *H.E.Nichols*: Director of a great many companies, including all APOC subsidiaries – the British Tanker Co., Broxburn Oil Co., Homelight Oil Co., National Oil Refineries, Oakbank Oil Co., Pumpherson Oil Co., Scottish Oil Agency, Scottish Oils, and Tanker Insurance Co.; became managing director of the Turkish Petroleum Company.

<sup>xiii</sup> *Sir T.R.Wynee*: Member of the Railway Board of India 1905-14, and president 1908-14; member of the Indian Legislative Council 1908-1914; government director of Indian railway companies, 1914-15; director of the Burmah Corporation, and director (managing director from 1915, and chairman from 1930) of the Bengal Nagpur Railway Co.

<sup>xiv</sup> *F.W.Lund*: Shipowner, Director of the Petroleum Steamship Co. British Tanker Co., Societe Generale des Huiles du Petrole.

<sup>xv</sup> *R.I.Watson*: Director of the D'Arcy Exploration Co., First Exploitation Co, and other companies.

<sup>xvi</sup> *Hopwood, Lord Southborough*: Permanent Secretary to the Board of Trade 1901-7; Permanent Under-Secretary for the Colonies 1907-11; Additional Civil Lord of the Admiralty, 1912-17; member of various Government committees and royal commissions, including, during the war, chairman of the Grand Committee on War Trade, Created First Baron Southborough in 1917. Director of several companies, including Armstrong, Whitworth and Co., and the National Provincial and Union Bank of England.

<sup>xvii</sup> *J.B.Llyod*: Director of a vast number of oil companies within and outside the APOC orbit.

<sup>xviii</sup> *Sir F.W.Black*: Director of Naval Stores 1903-6; Director of Naval Contracts 1906-19; Director-General of Munitions Supply from 1915, and sent to India to assist Indian Government on Munitions Service, 1917; acting chairman of the British War Mission, USA, 1917-18, resigned from Admiralty 1919. President of the Institute of Petroleum Technologists and managing director of the First Exploitation

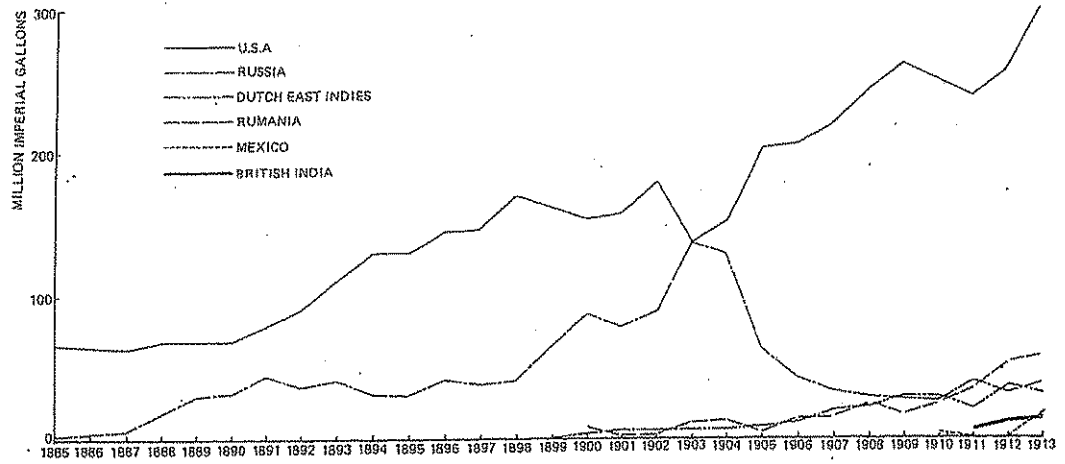
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Co., and other companies, including the Steaua Romania oil companies (British and Romanian).

<sup>xix</sup> *J.D.Steward*: Shipbroker, director of many companies, including the British Oil Bunkering Co., British Tanker Co., National Oil Refineries, Broxburn Oil Co., Oakbank Oil Co., Pumpherson Oil Co., Scottish Oil Agency, Scottish Oils, Tanker Insurance Co., and D'Arcy Exploration Co.

<sup>xx</sup> *Sir E.H.Packe*: Assistant Private Secretary to the Marquis of Landsowne at the War Office, 1900; to the Earl of Selborne at the Admiralty, 1901-5; to Lord Cawdor, 1915; to Balfour, 1916; to Sir Eric Carson, 1916-17. Private Secretary to Sir Eric Geddes, 1917-19, and to Walter Long, 1919. Attached to the Admiralty Staff 1914-19. Government director of the APOC and the First Exploitation Co.

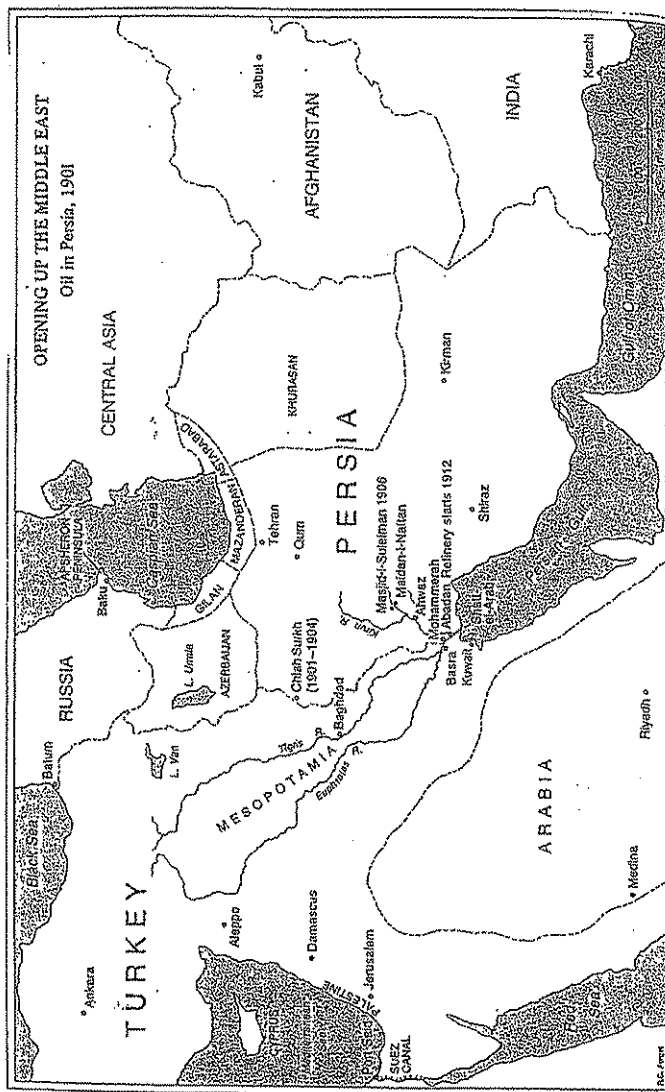
APPENDIX L.  
Sources of British Empire Oil Imports 1885-1913



Source:

G.G.Jones, *The State and the Emergence of the British Oil Industry*, (London: The Macmillan Press Ltd., 1981), p.34.

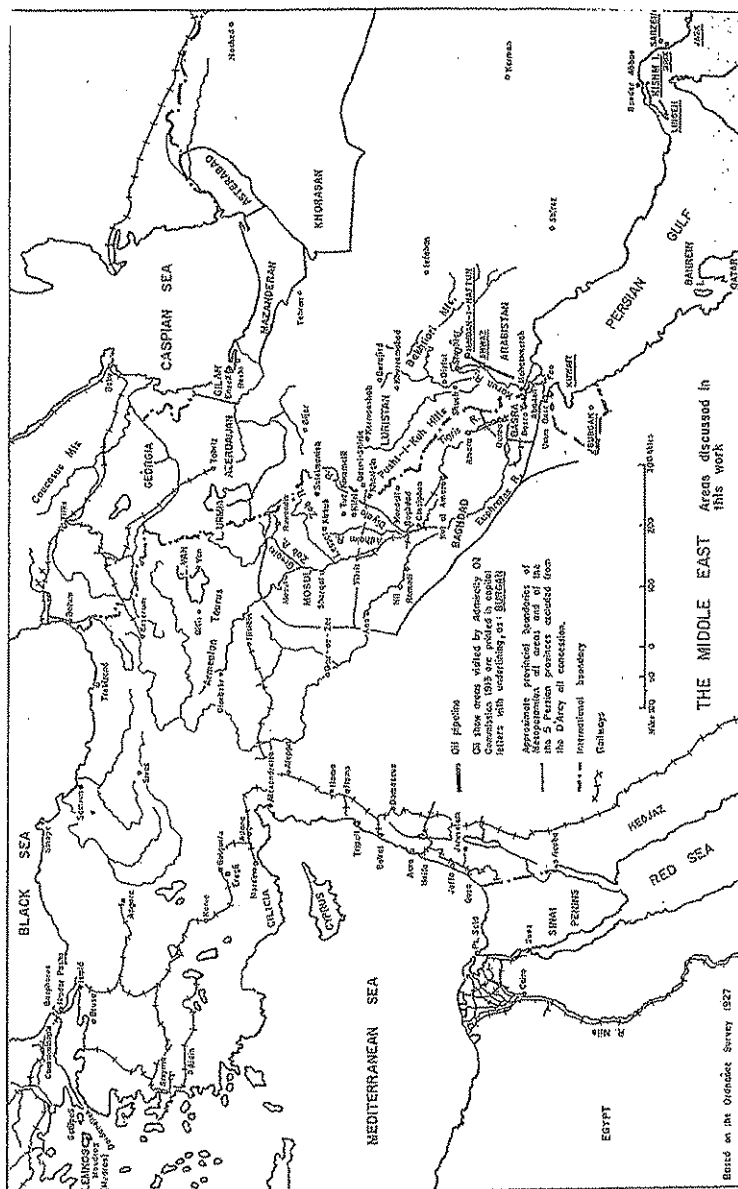
APPENDIX M.  
Map of Persia 1914



**Source:**  
Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, (New York. Simon&Schuster, 1990), p.144.

APPENDIX N.

Oil Areas visited by the Admiralty Slade Commission, 1913



Source:

Marian Kent, *Oil and Empire: British Oil Policy 1900-1920*, (London: The Macmillan Press Ltd., 1976), Appendix IX.