

CHAPTER 3

The Problem of Middle Eastern Oil

Even a very cursory examination of the Middle East and its role in world affairs since World War I shows conclusively that water and oil are not the only incompatible elements in the area. Most recent studies of this trouble spot indicate that Middle Eastern oil is one of the fundamental issues at the root of the problems that prevail there. Thus, an eminent Middle East analyst, Benjamin Shwadran, in a recently published work (see Bibliography) put the matter in strikingly clear-cut alternatives: the Middle East "must be held by the West as a vital strategic base and as an invaluable source of petroleum with which to oil a possible future war; conversely, it must not be allowed to fall into the hands of the enemy." Let us, therefore, first present the oil statistics and then proceed to an evaluation of the political problems arising therefrom.

Two-thirds of the world's proved oil reserves are in the Middle East. As a comparison, it may be noted that whereas America has some 31.3 billion barrels of proved oil reserves, the Middle East has no less than 144.8 billion barrels. In 1955, Britain and the Western powers used 75 per cent of the area's total output. In 1956, up to the time of the sabotaging of the Iraqi pipelines and the closing of the Suez Canal, Europe and North Africa were receiving over three million barrels of oil *a day* from the Middle East. This marked a sixfold expansion since 1945. Barring further political complications, there is a bright promise for a continued high rate of expansion. The sources of this flow are oil concessions almost entirely in American, British, French, and Dutch hands. The total gross investment in all aspects of the oil industry in the Middle East is probably in excess of \$2.5 billion. The usual arrangements call for something like a fifty-fifty division between the oil companies and the governments involved. Suggestive of the great financial returns in this area is the fact that net profits of the American oil companies alone in the Persian Gulf were approximately \$900 million for the year 1955. It is expected that in 1958 the oil companies and the producing states will split a profit of more

than \$2.5 billion. This marks a trebling of the 1951 figure which in itself constituted an increase from about \$115 million in 1947. The following list shows the expected oil returns in 1958 for these countries:

Kuwait (approx.)	\$375 million
Saudi Arabia	300 million
Iraq	260 million
Iran	275 million
Qatar	50 million

Further indirect revenues, which when added up amount to very substantial sums (estimated as high as half of the direct payments), result from wages paid to native labor and from other expenditures by foreign companies and their employees. A country-by-country breakdown presents the following picture of concession arrangements:

Kuwait

This tiny sheikdom, a British protectorate, is now the largest single oil producer in the Middle East, supplying one and one-half million barrels a day. The concession, owned jointly by the British Oil Company and the Gulf Oil Corporation, is contracted for until the year 2026.

Saudi Arabia

Here the concession, which runs to the years 1999-2005, is held by the famous combine known as Aramco, the Arabian American Oil Company, which consists of the Standard Oil Company of California, Standard Oil Company of New Jersey, Socony Vacuum Oil Company, and the Texas Company. Crude oil production prior to the Suez crisis ran around one million barrels a day. This has now increased by approximately 50,000 barrels per day.

Saudi Arabia is the country most often cited by the critics of "oil diplomacy" as a dramatic manifestation of all that the term implies. They point to Aramco, for example, as being responsible for securing for Ibn Saud some \$100 million in direct and indirect lend-lease aid in the years 1940-1947 despite the fact that his kingdom was not directly involved in the Second World War.

Iraq

The concessions in Iraq, running till the year 2000, are owned almost in their entirety, by a combined British, French, Dutch, and American group. Approximately 750,000 barrels are produced daily.

Of particular significance to the West was the announcement by the new premier and revolutionary leader, Abdel Kerim el-Kassem, that he will continue to honor the nation's lucrative oil contracts with the West.

Iran

The original concession was granted in 1909 to the Anglo-Persian Oil Company, now known as the British Petroleum Company. Controlling stock in the company was purchased by the British government at the start of World War I. These were the assets which were so dramatically nationalized by the Iranian government in 1951 (see Doc. 14). This seizure marked the first successful attempt by any segment of the new Arab nationalism to nationalize vast holdings of a former imperial power in that area. It thus has served as a continual impetus for further similar action throughout the Middle East. Three years later, after lengthy negotiations, the Iranian government came to terms with a "consortium" of companies representing private British, American, French, and Dutch interests and provision was made for short-term (25-40 years) operation by this group of oil installations formerly held by the Anglo-Iranian Oil Company. Iran's current oil production is reportedly 850,000 barrels a day.

In addition to these major concessions, there is a combined production of approximately 200,000 barrels daily in the sheikdom of Qatar, the island of Bahrain and the so-called neutral zone between Saudi Arabia and Kuwait.

Turning now to some of the political considerations, we can start by presenting the unavoidable dilemma which plagues Western policy makers. The West feels that it must have Arab good will and knows that it must have Arabian oil, but neither can be purchased in the future by the same means as used in the past. The wave of nationalistic outbursts which have so characterized this area in the last decade has made it abundantly clear that, despite the fantastic revenues accruing to the oil concessions, the gap between Arab social and political demands and Western ability to fulfill these demands continues to grow. To put it in the simplest terms, the profit demand of Western oil companies and the political demands of the Arab nationalists do not and cannot in the foreseeable future coincide. Furthermore, the situation is one in which the Western bargaining position must become progressively worse. The continued dependence of Western European nations in general and Great Britain in particular on the uninterrupted flow of Middle East oil has made of them nervous hostages of Arab good will. This dependence has become symbolic of the West's

apparent helplessness and diplomatic weakness in regard to the Middle East. It also helps account for the French-British gamble upon a military *coup de force* in 1956. Contrariwise, the same juxtaposition of circumstances has led to everincreasing aggressiveness on the part of Arab diplomacy, thus further crystallizing the dilemma.

To complicate the matter further, we should consider the effect of the USSR'S new role as a major participant in Middle East affairs. For some time prior to the Western debacle at Suez, the Soviet leadership had shown evidence of great interest in the oil situation. As elsewhere, in their approach to the Middle East they adopted an initial position of altruistic and disinterested onlookers. They, their argument ran, had no need for Middle East oil; they were only concerned about Western exploitation of the Arabs. Thus, in a portion of his speech at the momentous Twentieth Party Congress, Anastas Mikoyan, a leading figure in the new Soviet hierarchy, had the following to say: "In the Middle East in 1955, the United States and British monopolies took out 150 million tons of oil at a cost of \$240 million. This is fabulously cheap. The net profit they made on this oil amounted to \$1.9 billion—one year's return covered the entire capital investment in that area If all the income earned from oil were to remain with its legitimate owners, the Arab and other peoples of the Middle East, how speedily might not these peoples abolish poverty and go forward with their economic and cultural development, which has been retarded for years by the ruthless exploitation of the foreign capitalists."

The point here is not the inaccuracy of Mr. Mikoyan's figures, though we have already noted above that there is at least an element of truth in them. What is of greater immediate consequence is the fact that this theme of imperialist exploitation was constant in the Soviet propaganda bombardment of the Middle East for at least six months preceding the war in Suez. Excerpts from only one of many Egyptian radio broadcasts echoing the theme give ample evidence of the degree of skillful influence exercised by the men in the Kremlin. The Cairo radio on March 6, 1956, announced:

The Arab rulers granted the exploiting imperialist companies a host of rights and concessions at the expense of the people struggling against them. The Arabs allow the crude oil to go to the countries of their enemies and colonizers. We do not want United States dollars, British pounds, French francs, or Dutch guilders . . . Oh Arabs, our oil is plundered by aliens, it is seized by your enemies Remember oil—it is our last wealth! Oil is for the Arabs!

An ever present element of the Soviet "line" is the implied promise (sometimes made explicit) that should the West make difficulties, the USSR is

ready to move in from the sidelines and provide all the aid necessary—including the purchase of Arab oil.

It is this combination of factors which leads so many “realistic” commentators to dismiss as childish naiveté the criticism of those who refer to any diplomacy in the Middle East as “simply” oil diplomacy. Such observers particularly abhor the attachment of the value-judgment “evil,” for their contention is, obviously, that all things considered the West, particularly Western Europe, has no alternative but to deal for Arab oil on whatever terms it can.

One more factor must be considered. Since the Iranian nationalization, it has become an inescapable conclusion that Arab nationalism, whatever its particular form, has marked off the heretofore privileged position of the Western oil companies as a primary target for elimination. The limited success of the Iranians, and later the Egyptians (albeit with the aid of foreigners), in handling the intricacies of a technical operation long considered beyond their ability has further encouraged the extremists in all of these countries. As a result of this heightened impatience, the emergent Soviet-Arab alliance becomes even more significant.