

Oil Corporations and Public Policy: A US-UK Comparison, 1900-1975

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When comparing the interactions of oil corporations and governments in the US and in Britain between 1900 and 1975, the following general question needs to be asked at the outset: what is the economic function of the public sector, or state? According to theorists, the state exists either as a completer or a corrector of the market mechanism [7, p. 5]. In the former case, where market failure has occurred, so that (say) the economic system is not bringing forward the appropriate quantity of goods and services, the state may create agencies for producing the resources or indirectly encourage supply through subsidies. In the case of oil, both the US and British authorities have from time to time taken positive measures designed to increase or safeguard supplies. In the latter case, structural distortions of the market may be corrected by, for instance, outlawing or restricting activities of trusts deemed to be acting against the public interest, as in the case of the enforced dismantling of Standard Oil in 1911.

To follow through these "completing" and "correcting" functions, the present survey begins in 1900, when oil was becoming an object of major public concern through the fundamental changes then taking place in its economic role. Until then, it was demanded mainly as an illuminant, and to a lesser degree for lubrication purposes, with the lighter fractions regarded as having little value. Public authorities were chiefly concerned with regulating safety, both in the oilfields and during transportation and storage. The twentieth century can be described as the era of energy, in which oil products have increasingly been needed as fuel for land, sea, and air transport, as power for industry, and as a means of space heating in private dwellings [17]. Oil has thus become a key economic resource, of strategic importance and consequently involving a number of governmental agencies in both countries concerned with foreign as well as domestic affairs [15, pp. 1-13].

This paper will investigate some of the similarities and differences in the methods whereby successive US and British governments have sought to correct or complete the market for oil. The experience of the United States and that of Britain will be considered in turn.

United States

Whereas Britain has a broadly unitary governmental system, in the US authority is shared between the federal government and the states, while the separation of powers may give strong and determined corporations, such as the oil giants, scope to play off one branch of government against another. Here the actions of the federal authorities will be mainly studied.

Although US oil corporations often opposed government measures, authors of standard works on this topic have stressed a broad mutual harmony of interest. After a learning period to about 1917, it has been claimed that there grew up "an increasing number of cooperative relationships" between corporations and government "that created a consensus concerning their respective roles" [8, p. 2]. Indeed, by the 1940s and 1950s,

a symbiosis developed between public and private interests that safeguarded and advanced the private interests of the oil companies while furthering US efforts to control world oil reserves, combat economic nationalism, and contain the Soviet Union...The result was a public-private partnership in oil that achieved US political, strategic and economic goals, accommodated the desires of the various private interests, conformed to US ideological precepts, and palliated congressional critics [9, p. 1].

At the same time, within these evolving symbiotic relationships, there were inevitably struggles and disagreements between the two sides. These can be illustrated by examining three crucial questions: the activities of Standard Oil, interstate pipelines, and the federal oil-bearing lands.

In 1906, when a report of the Bureau of Corporations disclosed the full extent of Standard's grip on the oil industry, the federal government began anti-trust proceedings against the corporation, under the Sherman act of 1890. Predictably, Standard vigorously resisted; not until 1911 did the case reach the Supreme Court, which ordered it to be broken up into over thirty separately managed companies, more or less confined to their own geographical areas. This break-up led to a limited amount of inter-unit competition in some states, chiefly on the marketing side. Less expectedly, Jersey Standard, left short of crude oil, feared attracting further unwelcome anti-trust intervention should it attempt to obtain supplies from US sources; it therefore actively looked to Latin America [5, pp. 1-29; 11, pp. 8, 35-40]. Whether intentionally or not, Washington later encouraged overseas prospecting by, for instance, allowing companies to write off against profits intangible costs, whether incurred at home or abroad (1916) and introducing a tax allowance for oil depletion, again applicable anywhere in the world (1918).

Standard's dominance of the US petroleum scene arose not from a stranglehold on production, but from its ownership of some three-quarters of refining capacity and an even higher proportion of the oil pipelines. Also in 1906, Congress legislated to place pipelines crossing state boundaries under

the control of the Interstate Commerce Commission (ICC). The object was to convert the pipelines into common carriers subject to federal regulations. However, the ICC was then preoccupied with railroad issues, and for some decades failed to give small oil producers and refiners fairer access to their outlets through pipelines. Official investigations of the 1920s, such as the La Follette report of 1923 and that of a Federal Trade Commission of 1927, were not translated into action, partly because conservation had by then become the dominant issue. Not until the New Deal era, in 1934, did the federal authorities succeed in negotiating voluntary reductions in pipeline rates. An ICC enquiry of that year led, in 1940-41, to anti-trust suits and directives laying down maximum rates of return for pipeline operators. National defence interests were now paramount. While a strong case had been built up for divesting the parent oil corporations of their pipelines, officials argued that, on the contrary, both the industry and the public interest alike benefitted from preserving integrated companies [17, pp. 104ff., 361ff, 596ff].

Two key public issues interacted over the oil-bearing lands held by the government: those of defence and of conservation. In 1904 the Navy Fuel Board recommended that US warships should be converted from coal to oil, a change which was fully implemented for battleships and destroyers, within ten years. To safeguard the considerable supplies required, from 1912 onwards a number of reserve territories in California were set aside for the navy. In 1919 these reserves could not meet all naval needs; at a time when oil prices were soaring, the Secretary of the Navy threatened to take the oil needed by force and even to nationalize all US oil resources on strategic grounds. His threat was enough to bring forward the necessary quantities on reasonable terms. As to conservation, the federal government was so alarmed at the wasteful way in which oil was being raised that the Mineral Leasing Act of 1929 laid down regulations for operating leased territories in the public domain so as to reduce this waste. The Federal Oil Conservation Board, set up in 1924 and including four cabinet members, is regarded as having made an important contribution to formulating a national oil policy on behalf of both government and business. Yet the conservation problem persisted until the New Deal measures helped to cut through the legal complexities, most notably the fear that the Department of Justice would veto any nation-wide corporate collaboration over this issue as infringing the anti-trust laws [8, pp. 44-45, 72, 87].

From 1914 onwards, the US oil industry strove hard to meet the oil requirements of allied governments and neutrals alike, while simultaneously maintaining supplies to the American armed services and to the home civilian market [8, pp. 23-48]. As a result of wartime demands and the post-war boom, the US for the first time became a net oil importer, so that most of its major oil corporations were forced to look abroad for crude supplies. The explorations in Latin America and the quarrels over oil with European nations, including Britain, in the 1920s have been well narrated [4, pp. 854-76; 6, pp. 187-205]. Undoubtedly, without the active cooperation of the State Department and other government agencies, the oil corporations would not have been as successful as they were in gaining footholds in the Middle East,

at first in Mesopotamia (now Iraq) and subsequently in Saudi Arabia, Bahrain, and Kuwait.

The second world war brought government controls over every aspect of the industry's operations [9, pp. 11ff; 10, pp. 249-66]. Even before 1941, the government provided Britain, especially hard-pressed in the Battle of the Atlantic, with tankers as well as oil products, some being supplied under Lend-Lease. After Harold Ickes' appointment as Petroleum Coordinator, a Petroleum Industry War Council was set up in November 1941. In the war against Germany, on logistical grounds western hemisphere oil was used rather than that from the Middle East. Gasoline was rationed in 1942. By then joint committees with other allied powers had been set up to oversee all oil matters. Although no combined US-UK Oil Board was ever established, high-level liaison was maintained through the British Petroleum mission in Washington.

After 1945 the US administration remained distrustful of Britain and other European countries for two reasons. First, notwithstanding American corporations' extensive involvements in Middle Eastern oil, the Europeans were believed to be hoarding vast oil reserves in the area, at a time when the US once again (in 1947) moved into oil deficit at home. Second, while US corporations were bound by stringent anti-trust laws, despite the New Deal relaxations, those in Europe were heavily cartelized, as revealed in the Federal Trade Commission's staff report of 1952 [14]. Washington's primary concern was over the mounting US imports of oil, most notably from the Middle East, where supplies were becoming even cheaper in real terms. Between 1955 and 1958 the administration attempted to impose a system of voluntary import curbs, replacing them in 1959 by mandatory controls, enforced through import quotas. To encourage badly needed additional production at home, it increased three-fold the permitted acreage in the reserve lands, and placed under federal jurisdiction the outer continental shelf for offshore operations.

For the first time under peace conditions in the US the Suez episode of 1956 raised the spectre of national security over oil supplies. Yet for the next seventeen years, the federal response was one of vacillation. The import controls of 1959 were highly unpopular, in affording considerable subsidies to the oil corporations rather than effectively guaranteeing security of oil supplies. When in 1969 government and producers jointly discussed the setting up of a strategic oil reserve, at a cost of \$700 to \$800 million a year, the industry argued for maintaining the current quota system, and the government dropped the matter. Nor was the quota all that effective; by 1973 no less than 35 per cent of the oil used in the US was imported, nearly twice the percentage of ten years earlier. For unexplained reasons, the government delayed approval of new offshore oil leases and of the Alaska pipeline, not begun until 1974.

Although OPEC had been set up in 1960, Washington remained unconcerned because of the net surplus of oil in Latin America. In 1971, when the beleaguered oil corporations at Teheran attempted to put together a global agreement for oil, the State Department was lukewarm, and withdrew support when the Shah proved to be hostile to the plan. That year OPEC took the initiative for a progressive financial squeeze on the oil consuming

nations. Even so, federal price curbs at home precluded the large price increases which might have dampened the inexorable growth in US demand for oil products. The successive devaluations of the dollar in 1971 and in 1973 only encouraged the OPEC countries to press for compensating price increases. Environmental initiatives in the US, such as the Clean Air Act of 1970, precipitated a wholesale shift from coal to oil use, while a series of problems dogged producers of alternative fuels such as gas and nuclear power. Canada, an increasingly valuable source of supply to the US, was in 1970-71 subjected to restrictions on its oil exports to the US and to other trade curbs, actions branded by an authoritative commentator as "one of the most mindless acts of economic policy on record" [16, pp. 75-76, 80].

By 1973 problems affecting oil strategy were so numerous and complex that clear direction from the top was vital. Yet President Nixon, already preoccupied with Watergate, failed to give the required lead. That April, after the world oil price had moved above the domestic producing price, the administration abolished the mandatory import quotas but did nothing to reduce demand. Energy policy in the US from then on was described as "confused and ineffective" [16, pp. 81-82]. When the Arab embargo and price rises followed the outbreak of the Yom Kippur war in October, the initial lack of cooperation between the US and other western powers precipitated a general scramble for available supplies rather than the creation of a common front against OPEC. Not until February 1974 did the Organization for Economic Cooperation and Development meet in Washington; and not until the following November did the OECD set up an International Energy Agency to plan the future allocation of oil supplies, should a further embargo ever be imposed.

To cope with domestic problems, a Federal Energy Office was established. This attempted to allocate gasoline supplies between different states and localities and to grapple with problems caused by price controls. The FEO has, rightly or wrongly, been accused of having done more harm than good. Meanwhile, public opinion blamed the oil corporations for the oil crisis, and especially for profiteering by increasing retail prices well beyond those warranted by OPEC actions. Yet, notwithstanding the often contradictory official regulations, companies made a reasonably efficient job of sharing out such supplies as they were allocated. Despite the inconveniences and inequities that resulted, a general breakdown of the distribution market was avoided and the symbiotic links between public and private interests held [16, pp.86, 186].

Britain¹

Although Britain's unitary structure of government gave the executive strong powers, its overall oil policy was not noticeably more interventionist nor more consistent than that of the US. However, it did have the serious handicap of possessing virtually no indigenous supplies of mineral oil, until

¹This section is based on [3, pp. 161-80].

North Sea oil came on stream in the 1970s. With a plentiful endowment of coal deposits, official attempts to devise a strategy for oil were constantly over-shadowed by the need to keep its coal industry alive, despite the relative disadvantages of coal.

During the era of illumination before 1900, the market satisfactorily provided the quantities of kerosene and lubricants required, at first wholly from the US and later also from Russia. As in the US, it was the Admiralty's decision to convert the navy to oil which prompted official initiatives to safeguard essential fuel oil supplies. There were few oil deposits anywhere in the British empire, except in Burma, and a fuel oil agreement had been signed with the Burmah Oil Company in 1905. It was Burmah Oil which pioneered prospecting in oil-rich Iran, and in 1914 the British government acquired a majority shareholding in the Anglo-Persian Oil Company, later British Petroleum [1, pp. 95-111, 128-45, 181-98]. The Iranian deposits were in the British sphere of influence. Should they at any time be unable to satisfy all the royal navy's fuel requirements, the availability of Iranian oil was a check on any bid by rivals to overcharge for supplies. To Britain, the creation of a government-controlled oil company was as crucial to its naval defence needs as was the earmarking of federal oil lands to the US.

Since oil from Iran took time to come on stream, it was Jersey Standard and Shell (60 per cent Dutch) which provided most of the oil products that Britain needed in the first world war. A semi-official attempt to create an all-British oil combine, as a match for the US giants, failed. Instead, the authorities rapidly dismantled wartime controls after 1918 and refused to adopt *dirigiste* oil policies then being pursued, as in France. When, by the mid-1920s, global oil greatly exceeded the falling post-war demand and oil prices slumped, the majors strove to maintain an orderly market -- or artificially to keep up prices and hence profits -- through a series of restrictive international accords. The most famous (or infamous) was the Achnacarry agreement of 1928, which regulated market shares in most areas of the world. This did help to avoid damaging price wars and to minimize distribution costs by drawing supplies from sources nearest to customers. However, the unified pricing system, based on the Gulf of Mexico, kept product prices high in countries remote from the Gulf [2, pp. 9-45]. This agreement was acceptable to the British government, which in 1920-1 had taken no action when an official committee on profiteering had accused oil companies in Britain of overcharging for petrol. Further government enquiries into British petrol prices were held in 1964, 1978 and 1990 [3, pp. 179-80]. The implicit attitude of successive governments was that in peace time security of supply, through keeping the oil companies contented, was more important than seeking to offer British consumers the benefit of cheaper oil.

Once war was declared in 1939, government plans for price and other controls and petrol rationing were implemented. As shown in the previous section, wartime Britain was once again very largely dependent on the US for supplies of oil. For the best part of a decade after 1945, however, dollar shortages and problems of reconstructing its disrupted economy forced Britain, in contrast with the US, to maintain rationing and comparable restrictions. These curbs on rising demand for oil, in full-employment

conditions, were gradually eased by two factors. The government persuaded the oil companies to refine in Britain; before 1939, some 80 per cent of its imported oil was of refined products, but by 1960 that percentage had been reversed, with the bulk of its oil being imported in crude form. Second, increasing amounts of this oil were coming from soft-currency areas, notably the middle east, and the overseas incomes of (the future) British Petroleum and of Shell partly offset the oil burden on the balance of payments.

For Britain the 1950s decade was dominated by the first interruptions to its vital middle east supplies of oil. The Abadan crisis of 1951-54 almost led to outright war with Iran, not eased by the support in Washington of the militant Mossadeq regime (as a bulwark against communism) until Eisenhower reversed this stance in 1953. It proved a long-term blessing in disguise for British Petroleum, which began to diversify on a considerable scale with exploration and downstream activities elsewhere in the world.

The Suez episode of 1956 reminded the world that two-thirds of the canal's traffic comprised oil shipments. It was also a salutary warning to Britain that it could no longer exercise its great-power role. However, the military defeat convinced London of the need to maintain strategic oil stocks, preferably through international cooperation. The (later) Organization for Economic Cooperation and Development set up a Petroleum Energy Group, which pioneered the cooperation of member governments and oil companies. Only American corporations were compelled to stand aloof because of the anti-trust threat, which even hampered joint consultations on oil matters with the State Department [13, pp.52-55].

These international initiatives enabled the western oil consuming countries to weather the Arab-Israeli war of 1967, some temporary embargoes by middle eastern governments, and a further closure of the Suez canal. The formation of OPEC in 1960 was taken no more seriously by the British government and oil companies than in the US. Indeed, for the first time in its history, Britain could look forward to plentiful supplies of oil from domestic sources. In 1958 a United Nations convention had granted it rights over much of the continental shelf of the North Sea for prospecting offshore.

The broad harmony of interest between government and oil producers in Britain permitted a satisfactory allocation system of rights to prospect in the North Sea. The British Ministry of Power (since 1974 the Department of Energy) granted licences on a discretionary principle, to ensure strict control as well as an opportunity to allow UK-owned companies or consortia preferential treatment. However, not until after 1974 did the government adequately tax the corporate profits earned from this bonanza.

The OPEC-imposed rises and embargoes of the early 1970s caught the US and Britain facing radically different supply prospects for oil. Whereas the US had to import over a third of its oil needs, Britain was confidently planning for a North Sea oil surplus before the end of the decade. Even so, the ensuing OPEC crisis proved to be painful for both countries. Britain, then holding about eighty days' stocks, avoided having to ration petrol. Instead, the British motorist shared with Americans the discomfort of lengthy queues at the pumps.

During the OPEC embargo, Britain's prime minister, Edward Heath, unsuccessfully demanded of the European majors, BP, Royal Dutch and Shell, a preferential allocation of the available oil. He claimed first, that special treaty rights existed with Middle Eastern producing countries, which he was later unable to substantiate, and second, that BP, being government-controlled, should give priority to its own national customers. BP correctly replied that the British parliament had guaranteed it complete operational freedom, and that the honouring of existing contracts ranked higher than pandering to shareholders' interests. The Foreign Office attempted to arrange bilateral deals in the Middle East, to barter oil for industrial products, including arms. These manoeuvres were overtaken by OPEC's relaxation of the cutbacks and embargoes. The oil companies then reverted to their professional tasks of keeping product markets supplied, although at greatly enhanced prices.

The incoming Labour government of 1974 did for the first time properly tax oil companies' earnings in the North Sea. It also set up in 1976 the state-owned British National Oil Corporation: an integrated enterprise to compete with its private sector rivals and administer the 51 per cent participation introduced by the government. Although much resented by the oil industry, as imposing unfair competition and permitting less than adequate returns on often highly risky North Sea operations, cooperative efforts by both sides did on the whole allow this huge windfall of resources to be exploited to the mutual benefit of producers, consumers and the public sector as the arbiter.

Conclusion

In highlighting some of the main oil events in twentieth-century US and Britain, the foregoing account may help in testing our introductory theoretical questions. How successful have the two governments been in "completing" and "correcting" the market mechanism, so as to provide at acceptable prices the oil products on which their economies have become so critically dependent?

Government control can be either by direct participation or by indirect measures. Unlike, say, France or Italy, US administrations have relied on the latter; as a British Labour politician stated in 1975, "No other government outside the United States has thought it wise to be completely dependent on the oil companies." [12, p. 278]. To give it some leverage over the oil industry as a whole, Britain secured ownership of British Petroleum in 1914 and effective control of North Sea development through BNOC in 1976. Both these measures were taken by left-wing governments; then a rightward swing after 1979, leading to large-scale privatization, had by the mid-1980s reduced Britain to the same dependency on the market as in the US.

Even so, indirect control may still be of value, whether through the allocation of prospecting or production rights or through restrictions for environmental or conservation reasons. Questions of curbing product prices are more difficult. Oil companies are eager for generous profit margins, to plough back into further investment, but successive US governments at least

have not shrunk from price controls. To be sure, the latter have merely borne down on cost inflation at the expense of much needed additional domestic oil supplies. In normal times, Britain has not actively sought price curbs. Successive official enquiries since 1964, while absolving companies of overcharging, have acted as warnings of possible counter-measures should any accusation be substantiated.

Thus both governments seem to have acted leniently towards their oil companies; only the US Department of Justice has remorselessly pursued its anti-trust objectives. As long ago as 1901-09, the New Nationalism of Theodore Roosevelt had proclaimed "the need for government to cooperate with business and to assume the function of an arbiter in the new, highly industrialized society that was emerging in America". Through the process of collaboration and -- where necessary -- official direction, "the United States had undergone a silent revolution in adjusting its eighteenth-century political institutions to the exigencies of twentieth-century industrialism" [8, p. vi].

As to Britain, unhampered as it was by a written constitution and subject to abrupt shifts in government policy between intervention and *laissez-faire*, it had to live with expensive oil. Yet in return it achieved entrepreneurship of a high order in its oil corporations, which bucked the trend of corporate lethargy found in other British industries. Thus, while uncontrolled oil companies could soon become tyrants, their managerial and technical expertise is something which governments disregard or unduly constrain at their peril.

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