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Public Interest, Private Profits: Multinationals, Governments, and the Coming of the First Oil Crisis

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The oil industry offers a unique take on the relations between public powers and private enterprise. For almost thirty years after the end of the Second World War, advanced capitalist countries delegated management of an increasingly relevant part of their energy supply to big oil multinationals. The companies not only took care of the production and commercial aspects of the industry, but also played a major role in dealing with producer governments, as quasi-sovereign entities. This paper focuses on the relationship between oil multinationals and governments in major oil consuming nations in a moment of change. After the Libyan revolution in 1969, the OPEC countries opened a cycle of negotiations with oil companies on oil prices that culminated in the Tehran and Tripoli agreements of spring 1971. The companies were in charge of these negotiations. Relations with consuming governments came under a severe strain. The public in oil consuming nations, fearful of being ignored by firms more interested in protecting their profits, became increasingly wary of companies' guardianship of their welfare, and many voices were raised to demand that governments step forward to defend the public interest. This paper will evaluate how much and in which sense the crisis of the early 1970s changed consumers-companies relations.

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Introduction: The Oil Industry between State Control and Free Enterprise

The oil industry offers a unique perspective on the relations between public powers and private enterprise. Since the dissolution of the Rockefeller trust, decreed by the U.S. Supreme Court in 1911, the tension between public interest and private ownership has defined the industry. In the first phase, public interest was seen essentially in terms of market competition and consumer protection. Then, with the increased dependence of industrial societies on oil and the expansion of the international dimension of the oil industry, public interest took on a national security dimension as well. The fundamental question underlying the relation between public and private in the industry became: to what extent do the interests of private companies coincide with national interests?

Sometime the answer was found in the direct participation of the state in industrial operations. This point is best illustrated by the decision of the British government to take on a majority shareholding in the Anglo-Persian Oil Company (later to become Anglo-Iranian Oil Company and then British Petroleum (BP)) in 1914, in order to secure the supply of oil to the Royal Navy.[1] Similarly, ten years later, in view of French participation in the international consortium created to exploit Iraqi oil, the French government promoted the establishment of the Compagnie Française des Pétroles (CFP), in which it possessed a 35 percent capital stake.[2]

But most of the time, the activities of private entities were deemed sufficient to guarantee the pursuit of public interests. Thus, in spite of the entry of public capital, the sector was dominated by private companies. Even companies in which governments had invested (like BP and CFP) operated in practice as purely private concerns.[3] This did not mean that the functioning of the oil market was left to the unbending laws of competition. In the 1920s, to avoid the recurring disastrous slumps in prices that had characterised the industry, the major companies gave birth to a complex, and secretive, cartelized system of governance.[4] However, the cartel could not prevent the collapse in the price of crude oil during the Great Crisis. This and the first signs of the difficulties of private companies operating abroad when

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[1] In 1912 the Admiralty decided, under Winston Churchill, to build the new *Queen Elizabeth*-class battleships to burn only oil (Erik J. Dahl, *Naval Innovation. From Coal to Oil*, in "Joint Forces Quarterly", Winter 2000-01, pp. 50-56). On British oil policy in these years see: G. Gareth Jones, *The British Government and the Oil Companies 1912-1924: The Search for an Oil Policy*, in "The Historical Journal", n. 3, 1977, pp. 647-672.

[2] On the history of the oil industry in France see André Nouschi, *La France et le pétrole de 1924 à nos jours* (Paris: 2001).

[3] The letter from the Treasury to the Anglo-Persian Oil Company of May 1914, the so-called Bradbury's letter, that governed the relationship between the British Government and BP, explicitly stated that the government would avoid interference in the day-to-day commercial activities of the company. The text of the letter is in Ronald W. Ferrier, *The History of the British Petroleum Company, Vol. 1: The Developing Years, 1901-1932* (Cambridge, 1982), pp. 645-646. The substance of the letter was confirmed, in the midst of the Iranian crisis, by the Bridges' letter of April 1951, whose text is at: http://hansard.millbanksystems.com/written_answers/1977/feb/16/british-petroleum. Similarly, the CFP retained "the character of a private company, enjoying no monopoly and subject to competitive market rules" (Samir Salut, *Politique nationale du pétrole, sociétés nationales et «pétrole franc»*, in "Revue Historique", n. 2, 2006, pp. 355-388, p. 356).

[4] For a description of the cartel agreement (known as the "As-Is Agreement") see: John Blair, *The Control of Oil* (New York: 1976), pp. 54–63.

confronted with nationalism,[5] brought to the fore the issue of public intervention in the sector. Then, the Second World War demonstrated, with unprecedented force, the strategic role of oil as "the lifeblood of the modern military machine."[6] Given this, it is hardly surprising that, in the midst of the conflict, factions inside the Roosevelt administration pushed for direct federal participation in the oil industry. As stated by Secretary of the Navy Frank Knox in a May 1943 letter to Secretary of State Cordell Hull, the United States could "no longer safely leave its foreign oil security solely to the initiatives and resources of private enterprise."[7] However, the interventionist policy supported by Knox and by Secretary of the Interior Harold Ickes, was opposed by private corporations which, as David Painter writes, were "ideologically and pragmatically opposed to government involvement in corporate affairs, [and] vigorously opposed the plan, forcing its abandonment."[8]

After the end of the war and the demise of the interventionist projects of the Roosevelt administration, the major oil companies (the Seven Sisters as they came to be known[9]) found themselves back at the helm as world oil consumption skyrocketed,. They revived the cartelized system of the 1920s: they were the managers of a complex network of production and distribution that went from oil wells to filling stations and they were entrusted by Western governments with the ultimate responsibility for ensuring the operation of the increasingly affluent, car-based, plastic-consuming, capitalist societies. With the shifting of the centre of gravity of oil production outside the US towards the Middle East and the parallel process of the independence of the former colonial world, relations with producing countries acquired greater prominence. This added another dimension to the dialectics between state and private enterprise. The concessionary system, whereby the oil multinationals were granted the right to exploit the oil resources of a developing country in exchange for a share of profits, became the standard formula employed by the oil companies and the governments of producing countries.[10] This formula typically involved 50-50 profit sharing[11] and the complete surrender by governments of their sovereignty rights over oil wealth. As for the governments of the consuming countries, in practice they delegated their dealings with producers to the big oil multinationals. As long as the concessionary system assured them a stable and cheap supply of oil, they saw few problems in deferring their energy policy to the majors.

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[5] In 1938 Mexico nationalized the US and British companies operating within its borders. A year before Bolivia had proceeded to nationalize the holdings of Standard Oil of Bolivia. During the war, Venezuela exploited the Allies' need for its oil to negotiate more favourable terms with the companies.

[6] David S. Painter, *Oil*, in Alexander DeConde et al. (eds), *Encyclopaedia of American Foreign Policy* (New York: 2002), pp. 1-21, p. 4.

[7] Quoted in David S. Painter, *Oil and the American Century. The Political Economy of Foreign Oil Policy 1941-1954* (Baltimore: 1986), p. 39.

[8] Painter, *Oil*, p. 8.

[9] Three of the "Seven Sisters" (the term is attributed to Enrico Mattei, president of the Italian national oil company ENI) were offspring of the dissolution of the Rockefeller trust: Standard Oil of New Jersey (later Exxon, during the period under consideration here the biggest of them); Standard Oil of California (SoCal); Standard Oil of New York (Mobil). Two other were American too: Gulf (owned by the Mellon family of Pittsburgh) and Texaco, and two European: Royal Dutch-Shell (whose ownership was 60% Dutch, 40% British) and BP.

[10] Francisco Parra, *Oil Politics. A Modern History of Petroleum* (London: 2004), Chapter 1.

[11] The "fifty-fifty" formula was based on an equal sharing of operating profits – i.e., the company's gross profit less all costs and depreciation but before taxes.

The parent governments of the majors had even fewer problems with this arrangement and tended to view the defence of the companies' roles in producing countries as relevant to their national interests. Unlike other consumers, they had direct access to the companies' heads and this was a further reassurance in terms of national interests. In Britain, as we have seen, in spite of the government's majority participation in BP, the company enjoyed total freedom of movement in commercial matters. But the British government, less hindered by anti-trust preoccupations than the American government, had traditionally held informal consultations with the British majors (BP and Shell). In 1958 these consultations between the executive and the companies were formalized in periodic get-togethers that came to be known as "oil tea parties."[12] In Anthony Sampson's words, here was: "[a] kind of meeting between government and industry that would leave trust-busters from Washington gasping."[13] In this system the chairman of BP "could always get in to see the Prime Minister when he wants."[14] In the US, given the restrictions imposed by antitrust concerns, cooperation between the government and companies was more informal. However, the "revolving door" between the public and private sectors and the strong influence exercised by the oil lobby, assured a voice for oil companies inside the executive branch and Congress.

The intertwining of foreign policy and private interests in oil matters in the post-World War Two era is best illustrated by the US response to Saudi Arabia's demand for the fifty-fifty profit-sharing system, which had been already granted to Venezuelan, due to its pre-existing contract with American companies. The latter were reluctant to accede to Saudi requests and the State Department became increasingly worried about the consequences of the companies' position for US-Saudi relations. The solution came through the intercession of the Assistant Secretary of State George McGhee, a Texan who had made a fortune in oil. McGhee mediated between the companies and the Treasury Department, convincing the latter to make all payments to host governments tax deductible for US oil companies.[15] On this basis, in late 1950, Saudi Arabia was granted a "fifty-fifty" concession, which was soon extended to all other Arab oil producers. The solution reconciled the foreign policy goal of consolidating American hegemony over the most oil-rich countries in the Middle East (a vital issue for the energy supply of Western Europe) with defence to the profitability of the oil corporations, at the expense of domestic taxpayers. It was, as Maugeri has written, "a major foreign policy decision in disguise. Over the following decades, it would cost the U.S. government hundreds of billions of dollars."[16]

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[12] After 1968 the meetings format was enlarged to comprise a lunch. The name, however, remained the same. (UK National Archives, Kew (NA), FCO67-286, Ellingworth to Baker, 3/12/1969).

[13] Anthony Sampson, *The Seven Sisters. The Great Oil Companies and the World They Made* (Sevenoaks: 1985), p. 212. Sampson's book is still the best primer for the history of the oil industry.

[14] *Ibid.*, p. 213.

[15] Sampson, *The Seven Sisters*, p. 124; Painter, *Oil and the American Century*, pp. 165-171. See also McGhee's testimony in 93rd Congress, United States Senate, Committee on Foreign Relations, *Multinational Corporations and United States Foreign Policy*, Hearings Before the Subcommittee on Multinational Corporations (Washington: 1974) (*Hearings*), Part 4, pp. 83-99.

[16] Leonardo Maugeri*, The Age of Oil: the mythology, history, and future of the world's most controversial resource* (Westport: 2006), p. 58. In 1955 a similar concession was made by the UK government (Bamberg, *British Petroleum*, p. 38)

The contradictions inherent in this intermingling of public policy and private interests emerged with the Iranian nationalization of the Anglo-Iranian Oil Company (later BP) in 1951. The company's unbending position toward Iranian requests for a revision in the concessionary terms, led to nationalization. The British government, previously excluded from the negotiations, found itself defending the interests of its company, until the US-UK-orchestrated coup that ousted the legitimate Iranian government, opening the way to a new agreement that confirmed Western ascendancy in the country. As noted by the leading authority on BP history, James Bamberg, the crisis exposed "the fundamental contradictions in the arrangement whereby the government as majority shareholder denied itself the right to interfere in the normal affairs of the company when, with or without the shareholding, the company's decisions could be of close concern to the government"[17].

Despite the revelation of the fundamental weaknesses of the state-companies *modus vivendi*, the crisis ended with a renewed understanding of the coinciding needs of the public good and the oil industries in the Middle East, in the name of the containment of Communism and the defence of Western consumers. As acknowledged by the US National Security Council Directive 138/1 of January 1953:

> American and British oil companies thus play a vital role in supplying one of the free world's most essential commodities. The maintenance of, and avoiding harmful interference with, an activity so crucial to the well-being and security of the United States and the rest of the free world must be a major objective of the United States Government policy.[18]

However, even in the halcyon days of Seven Sisters' dominance, the relations between companies and consumer governments were sometimes fraught. There were attempts, though quite isolated and on a rather small scale, at creating an alternative to the majors' supply network, for example, with Italy's establishment of national oil company ENI. Even in their home countries, the oil majors' role was questioned. In Britain, the Foreign Office was often at odds with what they deemed the restricted views of a group of technicians with no understanding of the subtleties of high diplomacy, to whom, however, the country had delegated much of their economic and political relations with the producing countries. On the other hand, the oil men liked to mock politicians and functionaries for their incompetence in oil matters. As the chairman of BP put it, speaking to reporters: "to give them their due, they did *try* to understand the problem."[19] In the United States, the anti-trust authorities kept a watchful eye on the activities of the oil cartel. In 1949, in the wake of the public outcry resulting from the revelation that oil companies engaged in pricing discrimination to the detriment of the US market, the Federal Trade Commission (an organ of the Department of Justice) initiated an inquiry whose final result was the report published in November 1951, entitled *The International Petroleum Cartel*. This constituted, in Maugeri's words, "the most damning portrait yet of the secret inner workings of the largest oil corporations."[20] Eventually, the criminal case built against the oil international cartel was downgraded to a less harmful civil case by the

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[17] Bamberg, *British Petroleum*, p. 39.
[18] Cf. Foreign Relations of the United States, 1952–1954 Volume I, Part 2, General: Economic and Political Matters, Document 159, NSC 138/1, *National Security Problems Concerning Free World Petroleum Demands and Potential Supplies*, Top Secret, Washington, January 6, 1953, pp. 1317-1336, p. 1321.
[19] Quote from Sampson, *The Seven Sisters*, p. 213.
[20] Maugeri, *The Age of Oil*, p. 72.

outgoing Truman administration, with a decision confirmed by the incoming Eisenhower presidency, in a significant show of bipartisanship. It was later shelved altogether to permit consultation among the majors for the establishment of the Iranian consortium.[21] Some years later, under the Kennedy administration, the president's advisor on arms control and disarmament, John J. McCloy, who happened also to be a counsel to all the oil majors,[22] asked the US Attorney General to give an antitrust waiver for the creation of a Seven Sisters consultation group. Constituted in 1962 and meeting twice a year, the group had, as its original aim, discussions over the implications of Soviet oil exports. However, by the mid-1960s, the Middle East situation became the focus of its debates.[23] In fact, nationalism was gathering force, putting in jeopardy the oil companies' interests in the region and putting strain on relations between producers and the majors.

In sum, during what has been defined "the Golden Age of oil" (1950s-1960s), a delicate triangular equilibrium was established on the international oil markets: the oil majors extracted great profits from their concessions abroad; the consuming countries were assured a stable, abundant and cheap supply of a vital resource; and the producing countries contented themselves with a small slice of the oil wealth that, for the most part, went to sate the appetites of governing elites. But this equilibrium was bound to end with the 1960s. As we shall see, the inefficiency, at least in the eyes of the consumers, of companies' response to the demands of producers for a greater portion of oil wealth and for the recovery of sovereignty over natural resources, led to a serious crisis between the majors and the consumer governments.

The rest of this paper investigates the role of the eight oil majors[24] in the events leading up to the 1973 energy crisis and their influence over Western government policy. The paper concludes with some reflections on the significance of the crisis of the early 1970s for relations between consuming states and multinational oil companies. The majors were largely successful in defending their profitability, at the price, though, of losing their absolute supremacy in the management of the international oil trade. However, this did not mean increased public intervention in the energy markets. Actually, in the long run the consequence of the crisis was a post-colonial reshaping of state-business relations.

The Oil Crisis of 1973: A Transnational View

My research assumption is that the crisis was the outcome of a process set in motion some years earlier. The 1969 military coup in Libya could be identified as the starting point of a triangular dialectic, which involved oil companies, producing countries, and consuming countries. This dialectic resulted in the demise of the concessionary system, as well as in the drastic increase of price remembered today. In this critical

[21] Sampson, *The Seven Sisters*, pp. 140-144.

[22] John J. McCloy was partner in the law firm Milbank, Tweed, Hadley and McCloy of New York. He had served as Assistant Secretary of War; President of the World Bank; US military Governor and High Commissioner for Germany. (On McCloy see: Kai Bird, *The Chairman: John J. McCloy, The Making of the American Establishment* (New York: 1992).

[23] Bamberg, *British Petroleum*, p. 178. On the birth of the McCloy Group see also Bennett H. Wall, *Growth in a Changing Environment. A History of Standard Oil Company (New Jersey) 1950-1972 and Exxon Corporation 1972-1975* (New York: 1988), pp. 342-344.

[24] They are defined as the multinational oil companies that, through an intricate system of consortia and participations, controlled the Middle East oil production. In practice they were the "Seven Sisters" plus the CFP.

phase the companies were in direct charge of the negotiations with the producing countries, while the consumer governments were in the backseat. Two consequences followed on from this. First, in order to understand 1973 one cannot start from the October War of that year, but, rather, it is necessary to look beyond. Second, this period has to be studied not only from the point of view of governments, but also, and perhaps especially, from that of the companies, which were, together with OPEC members, the true protagonists.

This part of the paper focuses on the events between summer 1970, when the Libyan government demanded a revision of the concessionary terms, and February 1971, when a group of thirteen companies and the six OPEC members bordering the Persian Gulf signed the Tehran agreement. Indeed, very few works have analyzed in detail the events narrated here. The only one written from the companies' point of view is not the work of a historian, but the report drawn up by Henry Schuler, executive of an "independent"[25] US company who had a direct role in the negotiations, for the hearings on multinational corporations held by the US Senate in 1974.[26]

In general, as regards the companies' role in the first oil crisis, the existing literature oscillates between two alternative poles. On the one side, the oil majors are depicted as all powerful entities that controlled every aspect of the oil markets, and mastered the necessarily intricate relations with consumer and producing countries. In its extreme form this picture is stretched to the point of seeing the rise of oil prices as the result of a plot orchestrated by the companies in conjunction with the US government and with financial circles in New York and London.[27] On the other side, we have the companies as passive agents. They are portrayed as being powerless in the face of the radicalization of the producing countries. The companies were – we are told – fundamentally weak because of their unpopularity amongst consumers and the lack of support by their parent governments, and they had little to do other than to surrender.[28]

Even the authors who are most critical towards big business tend to portray a similar passive picture of the companies, emphasizing their inadequacy in the face of decolonization and of a changing oil market.[29] While this picture contains elements of truth, I think there is a need to stress the agency of the companies; they had at their disposal means, knowledge, and a world-wide network of relations without equal in the business world. At the same time, I am convinced that the documentary

[25] This term indicates any company other than the majors.
[26] *Statement by George H. M. Schuler, Chief London Policy Group Representative for the Bunker Hunt Oil Co.*, in *Hearings*, Part 6, pp. 1-59. It is a very useful source, full of insightful remarks but vitiated by the acrimony between majors and independents. Even more useful are the 163 pages in the appendix with documents regarding the negotiations.
[27] This view was widely circulating in the French debate at the time. See for example Jean-Marie Chevalier, *Le nouvel enjeu pétrolier*, Paris, Calman-Lévy, 1973. More recently a similar line has been adopted by Éric Laurent, *La face cachée du pétrole* (Paris: 2006); William Engdahl, *A Century of War. Anglo-American Oil Politics and the New World Order* (London: 2004).
[28] Not surprisingly this point is widely shared, with different nuances, by the companies' official histories. See Bamberg, *British Petroleum*; Wall, *Growth in a Changing Environment*; Keetie Sluyterman, *A History of Royal Dutch Shell: Vol. 3: Keeping Competitive in Turbulent Markets, 1973-2007* (New York: 2007). This is also the point of view adopted by the most famous history of the oil industry, Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: 1991).
[29] See for example Sampson, *The Seven Sisters*.

evidence does not lend support to theories of an intrigue in which the producers were mere puppets in the hands of the multinationals and the US government. What I intend to argue here is simply that the oil companies, once they realized that the era of the oil concessions had come to an end, tried, and largely succeeded in riding the wave and restoring their profit margins, which in the preceding years had declined in the Eastern Hemisphere, in the key area of world oil production.

A Crisis of Profitability

As Joe Stork has written, the years between 1948 and 1960 proved a "bonanza" for the oil industry.[30] The constant increase in demand coupled with a fine-tuned system of market control by the majors, which prevented the price slumps that had hitherto characterised the oil market, assured unprecedented profits. The Middle East became the area of major expansion for oil production, since the costs of extraction were particularly low. According to Morris A. Adelman, in 1960, with a market price of $1.63 per barrel (/b), the total production cost of Persian Gulf crude amounted to $0.18[31], compared to more than one dollar in Venezuela and $1.30 for Texan oil.[32] These extraordinarily cheap resources were developed by the majors through an intricate system of joint ventures in the principal producing countries: Iran, Iraq, Saudi Arabia, Abu Dhabi, and Kuwait.

The founding of OPEC in 1960, the entry into the market of new producers, and the resurgence of significant Soviet oil production did not seem to prevent the oil industry from squaring the circle, at least in a manner of speaking: high profits for the companies and low prices and stable supply for the consumers (at the expense, of course, of the exporting countries). Yet, actually, the price of crude tended to decline: between 1954 and 1970 the Arabian Light, Freight on Board (FOB) from the Persian Gulf, passed from $1.90/b to $1.25/b.[33] This price reduction was determined by oversupply on the global oil markets, in spite of the steady growth in demand. Between 1950 and 1970 the world oil demand grew more than fourfold.[34] But supply grew even more rapidly. The combined production of the Persian Gulf countries passed from 1.8 million barrels per day (mbd) in 1950 to 14 mbd in 1970.[35] In the same period Soviet production grew from 750,000 bd to 7 mbd. Even in the USA, the world's most exploited oil region, crude production almost doubled. As scholar and former senior manager at ENI Leonardo Maugeri noted: "Indeed, overproduction was the hallmark of the Golden Age of Oil."[36]

The majors avoided a disastrous slump in prices by containing the oil surplus through the careful management of production, and by limiting the development of new producing fields in the Middle East. Thus, they achieved a "gently declining price."[37] However, this was done at the cost of provoking the producer countries who were most threatened by this policy (especially Iraq and Iran), and, more disturbingly for companies, this did not, in any case, prevent the profit per barrel from falling. According to Stork's calculation, in 1963 the total gross profits earned

[30] Joe Stork, *Middle East Oil and the Energy Crisis* (New York: 1975), p. 56.
[31] Morris A. Adelman, *Genie Out of the Bottle. World Oil Since 1970* (Cambridge (MA): 1995), p. 56.
[32] Maugeri, *The Age of Oil*, p. 80.
[33] Parra, *Oil Politics*, p. 74.
[34] *Ibid.*, p. 41.
[35] Adelman, *Genie Out of the Bottle*, p. 43.
[36] Maugeri, *The Age of Oil*, p. 80.
[37] Parra, *Oil Politics*, p. 73.

by the oil companies in the Middle East (Iran, Iraq, Saudi Arabia, Kuwait, Abu Dhabi, and Qatar) came to $1.7 billion. In 1969 total profits fell just slightly, to $1.6 billion. But this stability in profits was only made possible by the doubling of output; that is by the halving of profits per barrel. As Stork points out, "the most prominent and notable trend in these figures is the sharply declining rate of return per barrel."[38]

This predicament was acknowledged by the companies themselves. According to BP, "through much of the decade [the 1960s] the rates of return of the seven major oil companies declined by comparison with those of the US manufacturing industry."[39] According to a Shell report published in April 1971, the revenues of the seven majors passed, in the Eastern Hemisphere, from $0.565/b in 1960 to $0.327/b in 1970.[40] Furthermore, a growing proportion of oil revenues was going to the "independents"; the smaller companies, outside the circle of the big multinationals, which, since the mid 1950s, had begun to enter into the more profitable areas of production in the Middle East and North Africa.

Last but not least, the companies' position was jeopardised by the oil exporting countries' attempt at pulling bigger revenues from natural resources. After the creation of OPEC, the producer countries succeeded in getting a small but significant increase in the fiscal revenue they received from the concessionary companies.[41] According to Shell, between 1960 and 1970 the government take in the Eastern Hemisphere grew from $0.708/b to $0.860/b.[42] As reported by Adelman, in the 1960s the profits of the oil industry in the Persian Gulf fell by some 24 percent, while the payments to governments grew by 15 percent; so, in 1970, the government take came to count for nearly 70 percent of profits.[43] In sum, according to Dillard Spriggs, an expert on the financial aspects of the oil industry: "most of the companies experienced declining rates of return on investment during this period [1967-1971]. It was a period of considerable pressure on profit margins world-wide."[44]

Revolution in Libya

Then, in September 1969, came the military coup in Libya. During the 1960s Libya had become the new oil El Dorado, thanks to the discovery of vast reserves of high quality crude and its proximity to Europe. In contrast to the Persian Gulf, the main

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[38] Stork, *Middle East Oil*, p. 120.

[39] British Petroleum Archive, University of Warwick, Coventry (BPA), BP 57665, Strategy Planning Committee, Note: *Energy Policy*, 28/3/1973.

[40] Archivio Storico ENI, Pomezia (Roma) (AENI), BB.III.1, 442, Direzione Estera, fasc. Organismi nazionali internazionali, Shell Briefing Service, *Financial Needs of the Oil Industry in the 1970s*, April 1971, Italian translation of 7/7/1971. For similar data see: Archive de la CFP, Paris (ACFP), SC 89/15, *Le choc pétrolier de 1973 et ses conséquences sur l'économie de l'énergie*, 1973, p. 16.

[41] In 1964 the "Royalty Expensing" agreement abolished the detraction of the royalties paid by companies from the calculation of the 50 percent taxation of profits. Robert Mabro, *On Oil Price Concepts*, Oxford Institute for Energy Studies, WPM 3, 1984, pp. 7-8; Bamberg, *British Petroleum and Global Oil*, pp. 151-161.

[42] AENI, Shell Briefing Service, *Financial Needs of the Oil Industry in the 1970s*, loc. cit.

[43] Out of a profit of $1.334/b, defined as the posted price minus the royalty, various discounts and accounting cost, the government take, that is the royalty plus the income tax at 50 percent, amounted to $0.892 (M.A. Adelman, *The First Price Explosion 1971-1974*, MIT Center for Energy and Environmental Policy Research – 90-013WP, 1990, p. 5, http://dspace.mit.edu/bitstream/handle/1721.1/50146/28596081.pdf?sequence=1).

[44] Prepared Statement of Dillard P. Spriggs, Executive vice president, Baker Weeks Co., Inc., *Shift in profitability of international oil operations*, in *Hearings*, Part 4, p. 77.

beneficiaries of the oil bonanza in Libya were not the majors but the smaller independent companies which extracted nearly 70 percent of Libyan crude and then sold it to Western Europe. The main objective of the new Libyan government, as far as oil was concerned, was to maximize the revenue per barrel thus allowing preservation without lowering the government take. Beginning in early 1970, the Libyan government demanded that companies increase the posted price (that is the reference price for tax purposes) and that they make retroactive payments from 1965 in order to redress what they perceived as the undervaluation of Libyan crude in the preceding years. Initially the companies categorically refused to acquiesce to Libyan demands, stating that even the smallest rise would be disastrous for them.[45] In response, the Libyans imposed drastic production cuts. The US independent, Occidental Petroleum, was the first and the worst hit: it was the most vulnerable of the companies, having no other alternative sources of crude to sustain its refineries in Europe. In July 1970 its CEO, Armand Hammer, went to see Ken Jamieson, chairman of Exxon, to ask for help in the form of a supply of crude at cost. Jamieson responded that he was disposed to sell Occidental oil, but only at the normal price for third parties, without any discount.[46] After Jamieson refused Hammer's request, Occidental accepted the Libyan demand on 4 September. A spokesman for the company declared that the company's profits would not fall because the European price of refined products would increase as there were escalation clauses in Occidental's contracts with its customers.[47] The Occidental agreement was soon followed by that of the independents of the Oasis group.

The majors were faced with a difficult choice. Given the extension of their interests, they feared the worldwide implications of any cave-in, especially on retroactivity. As the chairmen of BP and Shell, Eric Drake and David Barran, explained to the then UK Foreign Secretary, Alec Douglas-Home, they intended to stand firm, "at whatever cost locally, against Libyan demands. It would be disastrous to them to concede the principle of host governments decreeing posted price, especially retroactively, in view of their world wide interests."[48] This point is well illustrated by the words of the representative of Shell in Libya: "To answer yes would be to demonstrate to the world that governments could not only dictate present and future tax reference prices, which is in itself bad enough, but could also dictate what they should have been in the past and this cannot be anything but disastrous."[49] Thus BP and Shell announced that they intended to stand firm, "at whatever cost locally", against Libyan demands. Four of the five US majors (the exception was Gulf) were operating in Libya and these held similar views. A meeting of the Seven Sisters was arranged in New York for 25 September to create a common front against Libyan demands. But the companies encountered the objections of the US State Department, worried about Europe's fate should the Libyan government shut down oil production on its territory in retaliation, something that it was quite capable of doing. Furthermore, as the State Department pointed out, in the case of a major shut down in Libyan production, it was all the more likely that the Europeans would attempt to reach bilateral deals with the Libyans, bypassing the majors altogether. In this situation, the danger of nationalization of the companies, not only in Libya but

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[45] NA, FCO67-432, British Embassy in Libya, *Posted price negotiations*, 5/3/1970.
[46] For an account of the "historic meeting between the two opposite sides of the oil business," see A. Sampson, *The Seven Sisters*, p. 225.
[47] *Hearings*, Part 4, p. 170.
[48] NA, FCO 67-435, Douglas-Home to UK Embassy in Washington, 23/9/1970.
[49] NA, FCO67-435, Carlisle (Shell) to Bell (Shell), 21/9/1970.

also in Europe, might well arise. In fact, if, the State Department argued, the majors reacted, as they intended to do, by refusing to run the oil sold through bilateral deals in their refineries, the European governments concerned might, as a last resort, take over the refineries.[50]

The US authorities were under no illusion about the consequences of giving in to Libyan requests. As explained by Peter Flanigan, the President's Assistant in international economic affairs, "If a settlement were made, the result would obviously be that all producing countries would demand the same deal"; but:

> The increased cost would be passed on to consumers in Europe and Japan and, to the extent the U.S. imports oil of and from Canada to U.S. consumers. Since this increase would affect 100% of European and Japanese petroleum supplies and only a small per cent of U.S. petroleum supplies, the result would be a competitive benefit to the United States.[51]

Faced with opposition from the State Department, but somewhat relieved, having been given the easy way out of passing on the increased costs to consumers (something that they proceeded to do in December), the US majors quickly softened their resistance. By 30 September SoCal and Texaco, both oil industry hardliners, had signed agreements with the Libyan government. They were followed by Esso, Mobil and BP.[52] Shell, whose Libyan production had been totally shut down by the government, was the last, surrendering 16 October.[53]

By mid-October the posted price had increased by 30 cents per barrel and a new higher tax rate had been established. The twenty-year-old 50 percent tax rate was replaced by new tax rates that ranged from 54 percent to 58 percent, depending on the company. The new rates were conceived as a substitute for retroactivity, allowing the companies to spread the cost into the future instead of making a massive lump sum payment. This was a very short-sighted decision on the part of the companies. As pointed out by Ian Skeet, in his excellent history of OPEC[54], it was a financially efficient method for the companies, both because foreign taxes were an allowable expense in computing home tax payments and because of the cash-flow implications, "but in terms of public relations and of precedent it was a disaster."[55] Immediately, in spite of the companies' efforts to explain that the extra 5 percent was only a mechanism for making retroactive payments, the Libyan agreements were read as a new breakthrough that all the other producing countries wanted to adopt.

As was expected, the Libyan example led to similar concessions for the Persian Gulf producers which obtained, by the end of the year, a 55-percent tax rate, instead of the twenty-year-old 50-50 rate. At this point, what became known as the "ratchet effect" or "leapfrogging" was set in motion. In December, the Venezuelan government raised the tax on oil companies to 60 percent. In early January, the

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[50] This was the point suggested by Walter Levy, one of the world most prominent oil consultant, to US Undersecretary of State Alexis Johnson, who called him in the morning of 25 September asking advice for the meeting with the companies (NA, FCO67-435, British Embassy in Washington, *Libyan Oil*, 23/10/1970.

[51] Foreign Relations of the United States, 1969-1976, vol. XXXVI, Energy Crisis 1969-1974 (FRUS), Doc.57, Memorandum for the Files by the President's Assistant for International Economic Affairs (Flanigan), RE Libyan Oil Washington, September 29, 1970, p. 131.

[52] Also two independents, the German Gelsenberg and Bunker Hunt, signed in this period.

[53] *Hearings*, Part 4, p. 171.

[54] In the 1970s Skeet was a member of the office for OPEC affairs of Shell.

[55] Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics* (Cambridge: 1988), p. 61.

Libyan Government summoned the companies operating in Libya and confronted them with demands for a further tax increases and a further premium on Libyan short-haul crude. The companies' bewilderment is best illustrated by Henry Schuler, the chief negotiator of Nelson Bunker Hunt in Libya: "We suddenly found demands coming back to us. Now, the Libyans said, if the standard rate is 55 percent for everybody, we didn't get anything special last September, so we have to have what you gave us last September on top of the new standard. Well, it had obvious implications[.] [T]his ratchet would go on interminably." [56]

Battle in Tehran

Leapfrogging seemed to come out of the OPEC Caracas meeting of December 1970 whose main demands were the generalization of the 55 percent tax rate and the establishment of "uniform general increases" of the posted prices in all member countries. The companies were now determined to present a unitary position. As summed up by John McCloy, the legal advisor of the US majors, "Unified action by the governments required unified action by the companies."[57] An essential condition for this to work was the involvement of the independents.

On 11 January 1971, independents and majors met in New York, where they devised a common position along two lines. First, they drew up a common message to OPEC in which they proposed a five-year agreement with an upwards revision of posted prices.[58] The companies' main concern was not low posted prices *per se*, but a stable frame of reference that would permit them to guarantee the flow of their product to markets. Bigger producing governments' takes would be passed on to consumers in the form of higher prices and fiscal allowances. To avoid leapfrogging, the companies' message specified, as an essential condition, that the negotiations had to be unitary. The message was signed by all the majors plus sixteen independents.[59] Subsequently another eleven companies associated themselves with the message. [60] On 13 January the Department of Justice gave an anti-trust waiver to the message and to the companies' common front. Second, fifteen companies signed the "Libyan Producers Agreement," valid for three years, which created a safety net for companies operating in Libya. Ironically, this would assure the independents the support that Jamieson had refused to give to Hammer a few months earlier.[61]

A negotiating team was then created, headed by George Piercy, from Exxon, and Lord Strathalmond of BP. To back up the team's work, the companies forged a two-prong structure with a decisional centre in New York, where the chief executives met to decide the overall strategy, and another in London, the London Policy Group, charged with following the day-to-day evolution of the negotiations.[62] On the surface

[56] *Testimony of Harry M. Schuler*, in *Hearings*, Part 5, p. 80.

[57] John J. McCloy's to Richard W. McLaren (Assistant Attorney General, Antitrust Division, US DOJ), 23/7/1971, in *Hearings*, part 6, pp. 231-245, p. 234.

[58] Text in *Hearings*, Part 6, pp. 223-224.

[59] The latter were Amerada Hess, Continental, Marathon, Bunker Hunt and Occidental; all had production in Libya.

[60] There were also from some consumer countries, such as the German Gelsenberg, the Japanese Arabian Oil, the Belgian Petrofina, and the Spanish Hispanoil. Notable for its absence was ENI, which had not been invited to the New York talks and thus decided to stay aloof from the companies' front, and ELF/ERAP.

[61] Text in *Hearings*, Part 6, pp. 224-228.

[62] On the genesis and organization of the companies' common front see John J. McCloy's to Richard W. McLaren (Assistant Attorney General, Antitrust Division, US DOJ), 23/7/1971, in *Hearings*, Part 6, pp. 231-245.

it appeared that the companies had created a formidable unitary front, but it was soon revealed to be a paper tiger.

We cannot enter here into the details of the month-long negotiations. To sum up, though, it can be said that the negotiations amounted to a piece-by-piece dismantling, of the companies' initial position. In fact, the unitary negotiation was rejected from the beginning by the "moderate" producers. Both Saudi Arabia and Iran promised no leapfrogging and assured supplies, provided that they were not associated with radical Libya. As Yamani explained to US undersecretary of State John Irwin, "no one should expect the moderates to be able to influence the radicals."[63] Conversely, if the companies dealt with the Gulf separately, there would be "stability and assured supplies from the region,"[64] and – as the Shah assured Irwin – "Persian Gulf countries would agree to abide by [a] five-year agreement even if oil companies caved in to [the] higher demands of Libya, Algeria, and Venezuela."[65] The request drove a wedge into the companies' united front. While the majors, whose production was for the most part in the Gulf, were inclined to accept it, the independents operating in Libya suspected that they were being sold out to the "radicals." [66] The companies tried to work out a compromise (and to save face) with the formula of "separate (but necessarily connected) discussions." [67] The negotiations split off into two halves and the companies' team split off into two. Afterwards, the Libyan negotiations stalled while everybody waited for the outcome of the Tehran talks.

To preserve the overall approach, or at least a semblance of that approach, the companies relied on the so-called "hinge" effect, that is on the demand that the Gulf negotiations would fix, too, the East Mediterranean posted prices (since part of Saudi and Iraqi oil reached the East Med through pipelines) thus ensuring the "necessary connection" between the Gulf and Libya. It soon became evident, however, that the Gulf producers had no intention of negotiating the Mediterranean price. At the end of January, even the Libyan independents appeared resigned to the definitive dismissal of the global approach and they put their hopes in the Safety Net Agreement, and, as the majors did, in the possibility of passing on the extra costs to consumers. In sum, the companies did not achieve a global approach, there were no separate-but-necessarily-connected negotiations, and there was no hinge. In Schuler's opinion, "we met a little resistance and we backed off, and were seen to back off and off and off and off, and later developments showed we constantly moved back." [68]

To measure the scope of the companies' retreat I will cite only three figures about the posted-prices negotiations. The original OPEC demand was for an increase of 54 cents. In their letter of mid-January the companies had offered 15 cents. At the end of the negotiations, the Tehran agreement provided an increase in the posted price of almost 49 cents for Iranian light crude. As the UK Department of Trade and Industry

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[63] FRUS, 1969-1976, vol. XXXVI, Energy Crisis 1969-1974, Doc. 75, *Telegram From the Under Secretary of State (Irwin) to the Department of State*, 19/1/1971, pp. 189-190. In Yamani's opinion the radicals in Libya were "young officers ignorant on oil issues who were killing [the] goose that laid the golden eggs."

[64] *Ibid.*

[65] FRUS, Doc. 74, *Telegram From the Under Secretary of State (Irwin) to the Department of State*, 18/1/1971, p. 187.

[66] National Archives, RG 59, Central Files 1970–73, Pol 33 Persian Gulf, *Telegram 621 from London*, 25/1/1971, quoted in FRUS, Doc. 81, *Editorial Note*, p. 204.

[67] *Statement by George H. M. Schuler*, in *Hearings*, Part 6, p. 15.

[68] *Hearings*, Part 5, p. 122.

noted: "The financial terms of the agreement were very close to those tabled by the OPEC countries on 2 February and were slightly better for the companies than the original OPEC demands."[69]

In terms of stability and assurances against leapfrogging, the points that were of the most interest and concern to the companies, they got little: a five-year guarantee on the agreement; tax rates at 55 percent (as had already been agreed to in most countries before the beginning of negotiations); and no retroactivity. However, the companies were unable to obtain assurances on pipeline supplies in the event of Libyan troubles and on East Mediterranean prices and tax rates in relation to a Libyan settlement.

Conclusion

Three years after the signing of the Tehran agreement, Schuler declared to the US Senate subcommittee on multinational corporations that the agreement had been an "unmitigated disaster" for the companies. Conversely, Skeet, a former Shell executive, writes, in his history of OPEC, that the Tehran agreement was "by no means disastrous" for the companies.[70] Both statements contain a kernel of truth. On the one hand, one can agree with Schuler: the companies had failed to present a united front; they had divided into big and small groups and along national lines. The events between September 1970 and February 1971, with the constant retreat in the face of producers' demands, destroyed the credibility of the companies in the eyes of both consumers and producers and set in motion a chain of events that led to the crisis of 1973. On the other hand, while losing a position of absolute supremacy in the governance of oil markets (a position nearing its end in the post-colonial world), the majors managed to survive the storm. They survived both financially, passing on the extra costs to consumers, but also in terms of global influence, albeit, as we shall see, with a different kind of influence.

As far as the financial aspects are concerned, one could ask, why should the companies have strenuously defend low posted prices during the negotiations as they had in the previous decades? In the 1950s and 1960s the international oil glut made it essential for the companies to defend low posted prices, and thus make credible their claim of being the best defenders of consumer interests. In the early 1970s, when the balance between supply and demand had reversed and the market entered a phase of instability, the rise of posted prices became entirely acceptable for the companies, provided the extra take from producing governments could be passed on to consumers. As declared by the chairman of Shell, David Barran, as early as 1968: "Pressure from the producing governments on costs is something that we can live with provided we are not at the same time denied freedom to move prices in the market so as to maintain a commercial margin of profit." [71]

And, indeed, this freedom was not denied to the companies: in fact, the final result of the Tehran and Tripoli agreements for the European consumers was a rise in the prices of the refined products in a range between 50 and 100 percent.[72] When

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[69] NA, FCO51-242, Research Department Memorandum, *The Tehran Oil Agreement*, 13/11/1972, p. 23.

[70] Skeet, *OPEC*, p. 68.

[71] Quoted in Paul H. Frankel, *The Current State of World Oil*, in "Middle East Economic Survey", 6/9/1968.

[72] AENI, BB.III.1, 442, *La crise pétrolière de 1970/71 et ses conséquences politiques*, Paris, 7/2/1972, text of a press conference given by Pierre Desprairies (ELF/ERAP) at the French Chamber of Commerce in Brussels, 2/2/1972.

the united front was shattered by its own contradictions, the companies proceeded to prepare the ground for the price raise.[73] It has to be noted that the producers made an attempt to prevent such a development, when the Shah proposed that the agreement include a linking of the posted price to the price of refined products.[74] As an alarmed Piercy pointed out to Yamani, this would represent "an attempt by consuming countries to freeze the companies' margin at the very depressed 1969 and up levels."[75]

The moral of the story was aptly summed up by the world-renowned oil consultant Walter Levy, who in a talk with Kissinger, in August 1973, said: "[T]he oil companies will agree to most price increases as long as they are sure they can pass them on to the customers." [76] Or, more colourfully, in Kissinger's words: "I've become convinced that the oil companies are politically irresponsible and, in fact, idiots. They are concerned only with profits, to get along with the producer-countries, and they, therefore, pass along price increases. . . . The overriding concern then as now is not to rock the boat, to maintain their access to oil at almost any price."[77]

However, yielding to the producers' demands was not a foregone conclusion. The negotiations represented a difficult balancing act for the companies. The consumer countries were resigned to accepting higher prices in exchange for stability of supply, but the companies could not afford to give the impression of selling out their customers lest those same customers should organize and bypass their services. After the dismal experience of the companies' dealing with the producers, the consuming countries considered a radical change in their approach to oil affairs. In fact, as stated by the British embassy in Tehran, considering "the industry's virtually total capitulation to the producing governments, many consuming countries started to ponder alternatives to the dependence from the majors, even in the parent countries."[78] The industry was well aware of this danger. As we can read in a BP internal memo:

> in the aftermath of the recent Tehran and Tripoli settlements, criticisms have been made of the terms accepted by the oil companies…and their role in existing arrangements for the supply of oil on an international scale has been questioned. Proposals for alternative arrangements are not always clearly defined but appear to imply a substantial reduction, if not elimination, of the international companies' role. In its place it seems to be suggested that trade

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[73] Parra dedicates three pages of quotes to the grim forecasts on the oil supply that were commonplace in the early 1970s. Significantly, all these quotes but one came from sources directly or indirectly linked to the industry. Parra, *Oil Politics*, pp. 115-117. On the social construction of oil estimates see Timothy Mitchell, *Carbon Democracy: Political Power in the Age of Oil* (London: 2011), pp. 189-190.

[74] FRUS, Doc. 74, cit., p. 186. As indicated by the Shah, the statistics "showed company price increases already put into effect more than covered the increases Iran had in mind. Therefore, if companies tried to increase prices as [a] result of [the] agreement reached in forthcoming negotiations, producers would have to benefit accordingly."

[75] Piercy to New York, 20/1/71, *Hearings*, Part 6, p. 70. In response to Piercy's apprehension, "Yamani conceded returns were too low. He indicated some sympathy and thought something might be done about the negotiations."

[76] FRUS, Doc. 190, *Memorandum of Conversation*, 8/8/1973, p. 504.

[77] FRUS, Doc. 191, *Memorandum of Conversation*, 10/8/1973, p. 510.

[78] NA, POWE63-771, British Embassy in Tehran, *The Oil Battle in Tehran*, 23/2/1971.

> in oil should be conducted through bilateral arrangements involving state intervention and government owned or sponsored organizations.[79]

The criticisms against the majors came even from their home countries. In Britain, in January 1972, the Conservative MP Sir John Foster wrote to the Prime Minister suggesting that governments, rather than oil companies, should, in future, lead negotiations with the producing countries.[80] Victor Rothschild, the head of the Central Policy Review Staff, the planning unit set up within the Cabinet office by the then Prime Minister Ted Heath, declared his support to Foster's position:

> Although unpopular with the oil companies and, perhaps, in some parts of Whitehall, I have no doubt that the time has come when Governments must participate in discussions with the oil-producing countries, as Sir John Foster suggests. [81]

If this was the climate inside the UK executive, one can easily imagine the prevailing mood in other consuming countries' governments, which did not enjoy direct access to the top tier of the majors and had been thus virtually excluded from the negotiations with the producers. In particular, in France and Italy the events of early 1971 encouraged moves to free themselves from dependence on foreign companies. As stated in a memo of the French *Commissariat général au plan*: "A policy of diversification cannot rely solely on the initiative of international groups, it remains essential for European countries that their oil supply is, to a great extent, provided by groups under their authority."[82] These tendencies concretized, first and foremost, in an inordinate rush to direct bilateral deals with producing countries, in an attempt to bypass the production and distribution chain of the majors.[83] They came out, second, in projects for the establishment of a common EEC energy policy, which, despite their timid and contrasted character, were seen by companies as an attack on their autonomy:

> It is known that the Commission, though not as yet all the member governments, consider there is a need at least to 'supervise' the Community's oil supply and investment programmes.... Thus a big step would have been taken towards establishing a common energy policy of a restrictive and interventionist nature.[84]

Lastly, at the industry level, on the initiative of the international oil consultant Paul H. Frankel, in January 1972, a few oil companies from Western consuming

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[79] BPA, BP 36967, Economic Relations Department, *The Role of the International Oil Companies*, 26/7/1971, p. 1.
[80] See Foster's Note, *Oil Negotiations with OPEC Countries*, 21/12/1971, in NA, PREM15-1090.
[81] NA, PREM15-1090, Lord Rothschild to C. W. Roberts, 13/1/1972, confidential.
[82]. CHAN, 5AG2/200, fasc. Conseil restreint du 29/7/71 consacré à la politique énergétiques, s. fasc. Securité d'approvisionnement, Commissariat général au plan d'équipement et de la productivité, *Note sur la sécurité des approvisionnements en énergie*, January 1971.
[83] On the Western European reaction to the oil crisis cf. Giuliano Garavini, Francesco Petrini, *Continuity or Change? The 1973 Oil Crisis Reconsidered*, in A. Varsori, G. Migani (eds), *Europe in the International Arena during the 1970s. Entering a Different World* (Brussels: 2011), pp. 211-230, esp. pp. 224-227.
[84] BPA, BP 65629, Economic Relations Department, "Common Market Newsletter", n. 1, 1971, 16/3/1971.

countries established a forum of consultation that became known as the "Zurich Group."[85] The aim of the organization was to make the voice of Western Europe and Japan heard in international oil affairs, gaining access "to the Commanding Heights of the international oil industry system,"[86] as the Zurich Group's founding document read. The document explicitly cited the Tehran and Tripoli agreements as the fundamental reason behind the establishment of the forum:

> The Teheran and Tripoli deals of 1971 actually amounted to classical Commodity Agreements (such as the ones for wheat, coffee, sugar and tin), with the exception that, unlike these other cases, the oil consumers, or rather the consumer countries, who were in the end to pay the price, were not in the negotiations. There have been revolutions in the past to make sure there was No Taxation Without Representation.[87]

In fact, despite the bold reference to the American War of Independence, there was very little that was revolutionary in the claims of the Zurich Group. They focused on entrance into the cartel that exploited Middle Eastern resources, on the model of the Iranian settlement, which in the mid-1950s, after the *coup d'état*, had put an end to the British monopoly and which had benefitted US and French companies. In other words, there was no real opening to the demands of the producing countries, the only step that would indeed constitute a serious blow to the oligopoly of the majors.

At the intergovernmental level, the February 1974 Washington Conference, while largely the result of Kissinger's desire to stop the centrifugal movement of the Western bloc set in motion by the energy crisis,[88] also represented a clear sign of the companies' difficulties. For the first time in years the consuming countries' governments were taking the lead, or at least trying to take the lead, in their relations with the producing countries.

Despite all the limitations of the consumers' attempts to devise an alternative to their dependence on the majors, in general terms one can see the years following the 1973 crisis as marking the lowest point in the oil majors' ascendancy, though as we have noted, not of their profitability. Conversely, it marked the beginning of public powers' greater involvement in oil and energy affairs that was to culminate with the Carter "Crisis of confidence" speech. In his speech Carter proposed a drastic change in US energy policy, and increased state intervention in the energy field.[89] These ideas were soon to be shelved, or, more precisely, to find a very different application. In late 1979, the Thatcher government sold 5% of its BP shares, reducing the government's ownership for the first time under the 50% threshold (to 46%).[90] By

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[85] Initially the Group was composed of four companies: the West German Deminex, Hispanoil, Japan Petroleum Development Corporation and Oesterreischische Mineraloelverwaltung.
[86] ACFP, 2 SG/1 Frankel, *Definition of principles*, Zurich, January 1972.
[87] *Ibid*.
[88] On the Washington Energy Conference from a Diplomatic History perspective: Daniel Möckli, *European Foreign Policy during the Cold War. Heath, Brandt, Pompidou and the Dream of Political Unity* (London: 2009), chapter 6.
[89] The text of Carter's speech can be retrieved at: http://www.pbs.org/wgbh/americanexperience/features/primary-resources/carter-crisis/.
[90] On Thatcher's "denationalization" (as she preferred to term it) in the oil sector, see David Parker, *The Official History of Privatization - Vol. I: The formative years, 1970-1987* (London: 2009), chapter 4.

1987 government ownership in BP had fallen to zero, while other governmental participation in the energy sector was on the decline. For its part, the Reagan administration's stance could not be more distant from the interventionist mood of Carter's proposals.[91] However, in subsequent years the intermingling between state power and private corporations that had characterized the history of the industry, continued with even greater intensity. The events of the early 1970s had shown that the concessionary system was a relic of the colonial past that could not be revived. As a consequence, the oil multinationals lost their function as a unique intermediary between consumers and producers. A few of them succumbed to the ups and downs of markets and the survivors found themselves in a very different international oil market, where they had to compete with a host of new players.[92] However, they survived, with formidable financial power and political clout, and in the neo-liberal era found an environment well-suited to them. As has been noted, "in the actual pragmatics of neoliberalization" state intervention, far from disappearing, has been a crucial instrument for the unleashing of the animal spirits of capitalism.[93] In the oil sector, too, now that the private companies were confronted by sovereign states, national oil companies and organizations that were no longer the weak entities of the colonial era or its immediate aftermath, the parent governments played a decisive role in the continuation of the supremacy of the majors, by a plurality of means, which included legislative measures, geo-strategic and energy policies and even war. As had often been the case in the past, parent governments and oil majors have mutually benefited from their collaboration:

> While it would be wrong to simply equate US and UK energy interests with those of their corporations, they do overlap. After all if those corporations were to gain contracts entitling them to extract more oil, that would help to provide the secure, increased supplies their governments seek.[94]

What these benefits cost and in what measure they accrue to the ordinary citizens is, of course, another question altogether.

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[91] The main creature of Carter's energy policy, the congressionally chartered United States Synthetic Fuels Corporation (SFC), which was originally conceived as an instrument for a federal energy policy to influence and engage in the private sector, was closed under Reagan in 1986. See Harvey A. Priddy, *United States Synthetic Fuels Corporation: Its Rise and Demise* (PhD dissertation, Austin: 2013).

[92] As Parra writes: "The industry now included a substantial number of sizable independents, the huge, newly born or greatly enlarged national oil companies (NOCs) of the OPEC and other exporting countries, and much larger state oil companies in importing countries (many soon to be privatized)." (Parra, *Oil Politics*, p. 314.)

[93] The quote is form David Harvey; *A Brief History of Neoliberalism* (Oxford: 2005), p. 21; on the contradiction between theory and practice in the operating of the neoliberal State see pp. 70-81.

[94] Greg Muttitt, *Fuel on the Fire. Oil and Politics in occupied Iraq* (London: 2012), p. xxx.