SERVANTS OF OIL:

HISTORY AND IMPLICATIONS OF AMERICAN OIL DEVELOPMENT

IN THE PERSIAN GULF, 1928 – 1960

by

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PREFACE

While growing up in the hills of Western Pennsylvania in the 1970s and 80s I never contemplated the history of the oil industry, a great irony considering it all started there with Colonel Drake's first well in 1859. Companies like Pennzoil and Quaker State, their hundreds of wells in towns like Titusville, Bradford and Oil City, and the miles of natural gas pipelines that snaked through Penn's woods simply existed as a part of the landscape like the trout streams, coal beds and hardwood forests. When I left the area in 1985 to study English literature at the College of William & Mary I didn't give another thought to the ancient hydrocarbons (or what remained of them) buried deep beneath the soil of my homeland. It wasn't until years later, specifically following the U.S. invasion of Iraq in 2003 that an interest in oil finally bubbled to the surface of my existence. Like many Americans, I wanted to know whether President George W. Bush's decision to invade Iraq had more to do with gaining access to that nation's abundant oil reserves than with Saddam Hussein's purported stockpiling of weapons of mass destruction.

A twenty-year hiatus between Bachelor and Master enrollment, coupled with my desire to study the Middle East, cemented my status as an unconventional graduate student in the History Department at Texas Christian University. Yet, Dr. Peter Worthing, Chair, and other faculty welcomed me with open arms. Some of those distinguished scholars merit special recognition like Dr. Clayton Brown who gave focus to my interest in oil by suggesting I write about the relationship between U.S. oil companies and developing countries for his Seminar in U.S. History, Post-1945. Dr. Brown also served as my Thesis Advisor and helped guide this work through to completion. Dr. Hanan Hammad kindly lent me numerous important works about Orientalism and Arab nationalism that helped shape this thesis. Dr. Ralph Carter of the TCU Political Science Department worked independently with me to study the relationship between U.S. oil companies and U.S. foreign policy, while Dr. Jodi Campbell introduced me to Fernand Braudel's masterpiece, *The Mediterranean and the Mediterranean World in the Age of Philip II*. I owe a special thanks to all of these professors whose classes and writing assignments helped me develop significant portions of this thesis.

I would especially like to thank Dr. Manochehr Dorraj of the TCU Political Science Department for his great friendship and mentorship during my years at the university. Dr. Dorraj graciously co-published a book chapter and two journal articles with me on China's energy relations in the Middle East. Those publications are priceless and for his wisdom and guidance I am eternally grateful.

My co-workers, John Singleton and Liz Branch, also deserve recognition for the many cups of coffee we shared while discussing all things international.

Finally, I owe a huge debt of gratitude to my family: my parents, Jean and Don English for their unwavering support; my brother, Don, who remains my link to the land; my wife, Krista, and our two wonderful children, Amelia and Graham, who allowed me to slip away on numerous occasions to work on this manuscript. Thank you.

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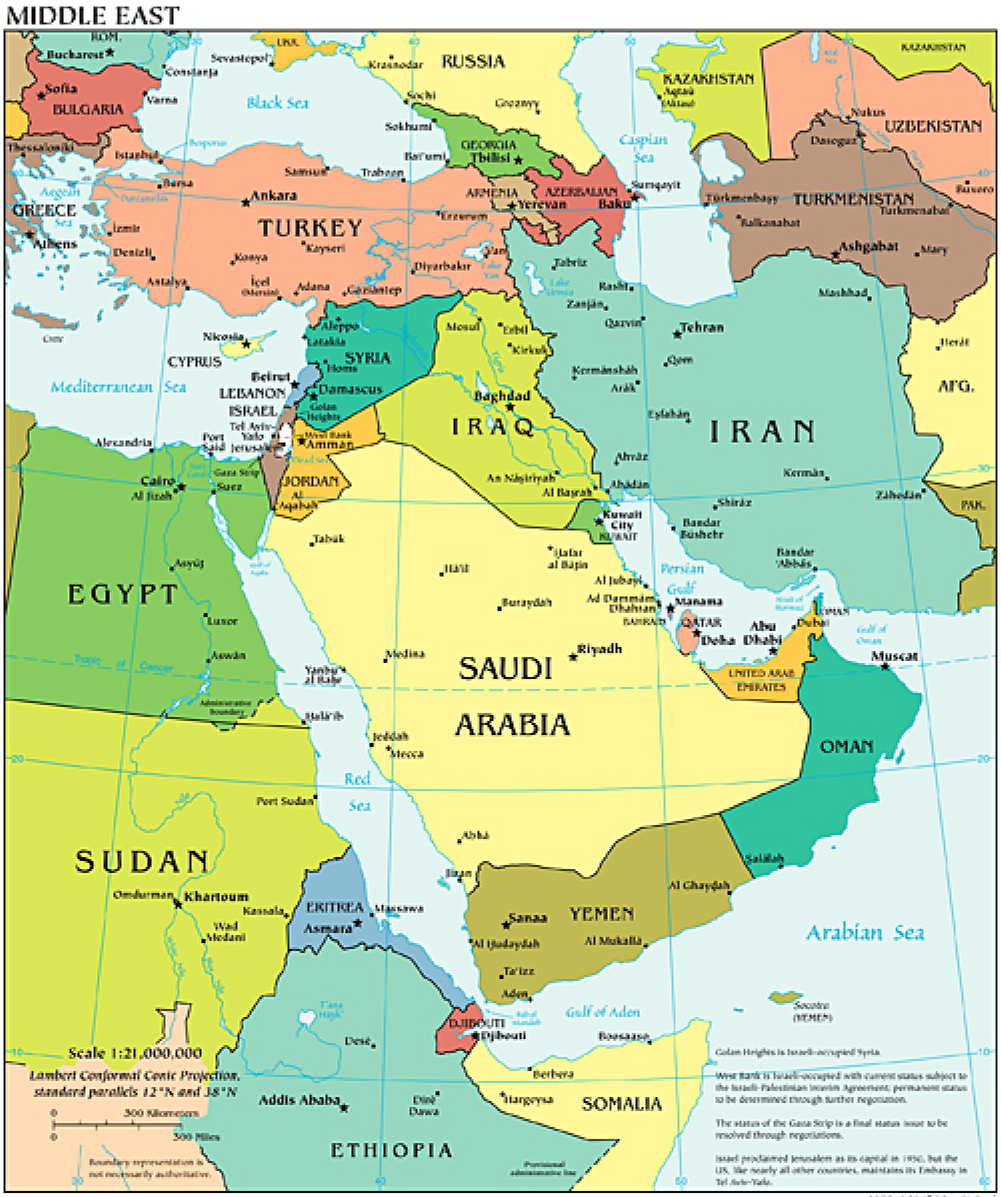

Map courtesy of the Central Intelligence Agency WORLD FACTBOOK

INTRODUCTION – *The Mosaic and The Sea*

> *Their concern is not the sea in all its complexity, but some minute piece of the mosaic, not the grand movement of Mediterranean life, but the actions of a few princes and rich men, the trivia of the past, bearing little relation to the slow and powerful march of history which is our subject.*[1]
>
> \- Fernand Braudel

When the first geologists from the United States traveled to the Persian Gulf in the late 1920s and early 1930s to survey oil concessions on the island of Bahrain and in the deserts of Eastern Arabia, they worked primarily in barren and sparsely populated areas. With little pre-existing geological data, some industry experts remained skeptical about the likelihood of finding oil in commercial quantities on the Arabian Peninsula. In 1924, Dr. Arnold Heim, a prominent Swiss geologist submitted a negative report on the likelihood of finding oil in El Hasa (Eastern Arabia) while "Anglo-Persian geologists" according to one source, "looked upon oil prospects 'south of Basra' [Iraq] as being very dim and did not justify a drilling programme."[2] The lack of infrastructure, the huge startup costs, and the considerable risks associated with working in these states likely deterred other companies and caused them to regard Venezuela and the Gulf of Mexico as better prospects for commercial oil. Despite these challenges, U.S. oil companies such as the Standard Oil Company of California (Socal) and Gulf Oil recognized the long-term potential of the region, where the lack of commercial development also represented a blank canvas upon which to create their vision of an oil-producing state.

[1] Fernand Braudel, *The Mediterranean and the Mediterranean World in the Age of Philip II, Volume I*, trans. Siân Reynolds (New York: Harper and Row, 1972), 18.
[2] Thomas E. Ward, *Negotiations for Oil Concessions in Bahrain, El Hasa (Saudi Arabia), The Neutral Zone, Qatar and Kuwait* (New York: Ardlee Service, Inc., 1965), 15.

Oil companies from the United States contributed tremendously to the physical development of several Persian Gulf States in the twentieth century through the construction of oilfields, communities, ports, pipelines, roads, refineries, schools, hospitals, and other vital infrastructure, all made possible by the combination of American capital and technical expertise. This thesis asks a fundamental question. Did American oil companies and their executives alter the landscape of the Persian Gulf to the extent that the history of the region continues to be shaped by the events of that initial three-decade period? Did these companies have an impact beyond the billions of barrels of oil they extracted from the ground and the billions of dollars in profits they earned from 1928 to 1960?

In 1950 International Bechtel, Inc. and the Williams Brothers Overseas Company completed construction of the Trans-Arabian Pipeline (Tapline), a 1,068 mile pipeline designed to transport Aramco's oil from Eastern Arabia through Jordan and Syria to the shores of the Mediterranean Sea in Sidon, Lebanon. While laying the pipe, the companies also constructed a road that paralleled the Tapline. Although the portion of the Tapline from Jordan to Lebanon closed in the early 1970s due to regional violence and the portion from Saudi Arabia to Jordan closed at the outset of the Gulf War, people throughout the region have continuously used that highway as a major transportation artery in the Middle East. The new pipeline also impacted Bedouin migration routes. Aramco periodically graded sand ramps over the line for Bedouins travelling on camels, who now had to cross at these locations.[3] This is one example of how oil operations changed the way people travelled throughout the region, including those with no direct connection to the oil industry.

Power stations and electrical grids built by the oil companies to support their operations acted as magnets, drawing ancillary businesses to those areas.[4] As such,

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[3] Saudi Aramco, *The Energy Within: A Photo History of the People of Saudi Arabia* (Dammam: Saudi Aramco, 2006), 57; Michael Sheldon Cheney, *Big Oilman from Arabia* (London: William Heinemann LTD, 1958), 130-35.
[4] Philip C. McConnell, *The Hundred Men* (Peterborough, NH: Currier Press, 1985), 155.

subsequent development formed around, and in support of the oil industry. Schools established by companies like Aramco and Bapco provided students with skills that would facilitate their future employment in the oil industry, gearing the population and the state even further toward oil production.[5] Just as Saudis relocated to Eastern Arabia for employment in the oil industry, thousands of Bahrainis relocated to Saudi Arabia and Kuwait to take jobs at refineries and in the oilfields, while thousands of Arabs from Oman and the Trucial Coast relocated to Bahrain to fill jobs left vacant by the departing Bahrainis.[6] Oil development impacted how people migrated throughout the region, where they settled, and the type of work and commerce they conducted.

Beyond the vast oil infrastructure they created, these American companies also impacted Persian Gulf societies in areas seemingly unrelated to oil, such as travel, recreation, education, healthcare, and real estate. The legacy of American oil development in the Persian Gulf from 1928 to 1960, therefore, was the establishment of an oil determinism that remained in place even after the departure of the U.S. companies and rendered these states servants of oil.

Following their entrée to the Persian Gulf in 1928, American oil companies quickly formed lucrative partnerships with Anglo-Persian (now BP), while the U.S. and British governments shared larger strategic objectives such as the promotion of democracy and the creation of an integrated global economy. It didn't take long for the American presence to resemble British colonialism through features such as the exploitation of natural resources, the insertion of U.S. culture and language into traditional Arab societies, and the heavy presence of U.S. security forces in the region. These factors, combined with American exceptionalism and, in some cases, racist attitudes, guaranteed an anti-Western response to

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[5] Angela Clarke, *Bahrain Oil and Development 1929-1989* (London: Immel Publishing, 1990), 212.
[6] Fuad I. Khuri, *Tribe and State in Bahrain: The Transformation of Social and Political Authority in an Arab State* (Chicago: The University of Chicago Press, 1980), 135-36.

Americans transforming the Persian Gulf in the pursuit of natural resources.

At the same time, the U.S. oil industry routinely turned to its own government for assistance resolving problems in the region. In the short term, support from the U.S. government proved helpful to the U.S. oil companies; however, over time, as the nation assumed a greater diplomatic and military presence in the Middle East, the industry became indelibly linked to an increasingly hegemonic and pro-Israeli U.S. foreign policy.

By creating petro-states whose economies depended almost exclusively on the production of oil, U.S. companies subjected these states to the effects of ‘the resource curse’ and further fueled anti-Western sentiment in the region. Nonetheless, by 1960 American oil companies had completed their creation of a modern energy industry upon the “blank canvas,” as inhabitants, communities and entire states transformed in response to commercial oil development.

As output increased throughout the Middle East, power shifted from Gamal Nasser’s Egypt to those countries with significant oil production like Saudi Arabia and Iraq, a development that effectively ended Arab nationalism and Nasser’s vision of a unified Arab world. With the formation of OPEC in 1960, oil-producing states reclaimed ownership of their natural resources and gained control over the production and pricing of crude; however, those states now controlled an industry that dominated their domestic economies and only really functioned within the Western system. The Oil Embargo of 1973 drove this reality home as the withholding of oil to the West destabilized the global economy and decreased demand, which severely diminished revenues to oil producing states. While oil provided regional leaders with economic and political power, it also locked them to the West in a symbiotic buyer-supplier relationship. These governments now understood the irony of their situation: attempting to pressure or harm the West by withholding oil ultimately harmed the oil-producing states. They had become servants of oil.

A unique aspect of this thesis is that it does not rely on newly-discovered or rare archival documents. Instead, I have focused on oil industry publications and memoirs by executives who worked for American oil companies in the Persian Gulf from 1928 to 1960. These primary sources reveal attitudes and perceptions among the industry and its executive and have great value as they chronicle technical achievements and development of states. This development served as a source of pride for the companies but has broader implications when examining the impact of the industry on the cultural and ideological transformation of the region.

Obviously oil companies and their executives used these publications to present a positive image of their industry. There is much to be learned from these works, particularly the photographs, as they verified the existence of numerous infrastructure projects, housing schemes, and educational programs sponsored by the companies. In their industry publications, the companies repeatedly presented this oil-related development to American audiences as a justification for the industry's presence in the region.

The industry executives whose books and memoirs this work is built upon were, in many respects, servants of oil, themselves. These men were sent by their employers to the Persian Gulf with the expectation that they would develop commercial oil and return a profit for their companies. Often separated from family for weeks or months at a time, working in some of the harshest conditions imaginable, these men contributed to what can only be described as a stunning technical achievement. As a consequence, many works pertaining to the early days of the U.S. oil industry in the region, particularly memoirs from industry executives, provided crucial details about the signing of these oil concessions, the technology and resources used to develop commercial oil in the Persian Gulf, and the state development and modernization oil revenues funded. Several of these primary sources greatly informed this work such as Thomas E. Ward's *Negotiations for Oil Concessions in Bahrain, El Hasa*

(Saudi Arabia), The Neutral Zone, Qatar and Kuwait. Ward was the American attorney who represented the Eastern and General Syndicate Limited in the sale and transfer of its Bahrain concession, which was initially offered to Gulf Oil and ultimately ended up going to the Standard Oil Company of California. Ward's book includes diary entries, copies of legal documents in his possession, and transcribed letters he exchanged with Major Frank Holmes of the Eastern and General Syndicate and senior executives of both Gulf Oil and Socal.[7]

Another work that greatly influenced this thesis was Charles Hamilton's *Americans and Oil in the Middle East*. In the 1940s and 50s, Hamilton served as Vice President of Gulf Oil Corporation, the American company that partnered with Anglo-Persian (now BP) on the exploitation of Kuwait's massive oil reserves. Hamilton's book proudly detailed much of the development and state building Gulf Oil undertook in Kuwait; however, what Hamilton more accurately described was the creation of a welfare state with a rentier economy, one susceptible to the effects of 'the resource curse' including corruption, conflict and a lack of economic diversity.

Thomas Barger's *Out in the Blue: Letters from Arabia – 1937 to 1940*, Michael Cheney's *Big Oil Man from Arabia*, and Philip McConnell's *The Hundred Men* were all books written by Americans who worked on the Arabian Peninsula in the 1940s and 50s and these works tended to focus on the exoticism of the region and the clash of cultures that occurred while establishing a multi-billion dollar industry in under developed Islamic states.

In addition to these primary sources, there existed a substantial body of secondary sources about the history of the U.S. oil industry and its early involvement in the Middle East. Books like Daniel Yergin's *The Prize*, Anthony Sampson's *The Seven Sisters*, and Bennett Wall and George Gibb's *Teagle* each provided important historical details related to the industry's early presence in the Persian Gulf.

[7] Ward, II, XIII, 1.

Numerous works critical of Aramco and the Saudi royal family emerged in response to the carefully crafted narratives sponsored by the industry. *A House Built on Sand* by Helen Lackner and *America's Kingdom: Mythmaking on the Saudi Oil Frontier* by Robert Vitalis questioned the 'special relationship' between the United States and Saudi Arabia. Unfortunately, I could find no literature in Western libraries that examined early American oil development in the Persian Gulf from the perspective of the Arab workers, who vastly outnumbered their Western co-workers on the oil rigs, in the camps, at the ports, and on the pipelines throughout the region. One source that helped balance the Western narrative was *Oil in the Arab States* by Muhammad Jawad Al-'Abbusi. This report, published by the Arab League in 1956 and translated into English two years later, reflected the Arab sentiment that American and British oil had aligned with a common goal of exploiting Middle Eastern resources for the benefit of Western powers.

An important work unrelated to oil that influenced the structure of my thesis was Fernand Braudel's *The Mediterranean and the Mediterranean World in the Age of Philip II*, in which Braudel criticized the shortsightedness of most historical works and chided historians for writing "the history of events" or what the author called "surface disturbances" and "crests of foam" of history; those brief episodes that break the flow of everyday life, but do not by themselves represent the story of a people or region.[8] Braudel argued that the physical landscape and not events influenced how people lived their lives and thus shaped history. If, as Braudel stated, the mountains, the plains, and the sea all determined how people traveled, settled, and conducted commerce in the Mediterranean world, then could the same not be said for the oilfields, pipelines, and shipping ports that transformed the landscape of the Persian Gulf in the twentieth century? Whether they intended to or not, American oil companies, their facilities, their technologies, and their employees contributed

[8] Braudel, 21.

to the physical, cultural and ideological transformation of the region, and that landscape continues to shape the history of the region.

CHAPTER I

From Competitors to Collaborators: American oil aligns with the British, 1928 - 1940

Ibn Saud, King of Saudi Arabia with Sir Percy Cox,
Britain's Adviser of Arabian Affairs – November 6, 1924

Photo Courtesy of the Library of Congress

> *I know from Ibn Saud himself and from his representative here [in Bahrain] that he has immense faith in Americans and is anxious to receive them and what they stand for on the oil business in his country … Notwithstanding this he has a remote fear that sooner or later he may become embroiled with the British and the independence of his country lessened.*[1]

– Major Frank Holmes of the Eastern and General Syndicate to
William T. Wallace of the Gulf Oil Company, February 19, 1928

[1] Thomas E. Ward, *Negotiations for Oil Concessions in Bahrain, El Hasa (Saudi Arabia), The Neutral Zone, Qatar and Kuwait* (New York: Ardlee Service, 1965), 48.

Not British

Prior to the arrival of American oil companies in the Persian Gulf in the 1920s, various European powers controlled the region for more than four hundred years. Although the Portuguese and the Dutch dominated the Persian Gulf in the sixteenth and seventeenth centuries, British ships regularly sailed these waters in the 1600s, and Britain emerged as the leading European power in the Gulf by 1765, when the Dutch withdrew from the region for financial reasons.[2] According to Jeffrey Macris and Saul Kelly, British "frigates and other warships sailed into the Gulf in the 1790s and early 1800s, sending redcoats ashore when needed to punish unrepentant Arabs … [and] the British penned a series of peace treaties with local Arab sheikhs … to prevent the encroachment there of other great powers."[3] In the early 1900s, Britain and Russia, the two dominant European powers of the day, competed to extend their respective spheres of influence throughout the region. For Britain, Persia (Iran) initially represented a buffer to protect her colony in India from Russian aggression; however, once William Knox D'Arcy's exploration company struck oil at Masjid-i-Suleiman in May 1908, the stakes increased significantly as Britain's interest in the region expanded to include the pursuit of energy.[4]

American companies seeking access to Persian Gulf oil in the 1920s had two options available to them, to seek partnerships on oil concessions held directly or jointly by British companies or to compete against the British for concessions of their own. American companies followed both routes to Persian Gulf oil simultaneously. Those choosing to partner with Anglo-Persian through the Turkish Petroleum Company accomplished their objective on July 31, 1928, while the Standard Oil Company of California, which chose to go it alone, obtained its concessions in Bahrain and Saudi Arabia on August 1, 1930 and May

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[2] Jeffrey R. Macris and Saul Kelly, *Imperial Crossroads: The Great Powers and the Persian Gulf* (Annapolis: Naval Institute Press, 2012), xi.
[3] Ibid., xii.
[4] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money & Power* (New York: Free Press, 2009), 130-31.

29, 1933, respectively.[5]

Initially, American oil companies appealed to regional leaders like the Sheikh of Bahrain and Ibn Saud by virtue of the fact that they were not British; however, U.S. companies, including those with concessions of their own, quickly aligned with their British and European rivals to share production costs and ensure adequate markets for these new supplies of oil.[6] Given the sheer volume of oil discovered in states like Saudi Arabia, Iraq and Kuwait, the costs for oil-related development extended into the hundreds of millions of dollars and required companies to develop such partnerships for the sake of increased capitalization and diminished risk. As such, American oil companies and their British rivals operating in the Persian Gulf soon transitioned from competitors to collaborators on the larger endeavor of creating of a Western-based global energy industry.

<u>The Red Line Agreement</u>

In 1912 the Turkish Petroleum Company (TPC) formed to exploit oil in the Ottoman territories. An Armenian businessman by the name of Calouste Gulbenkian arranged the company in which the Deutsche Bank and Royal Dutch Shell each owned 25 percent, while the Turkish National Bank controlled the remaining 50 percent of the venture. Gulbenkian owned 30 percent of the Turkish National Bank, which effectively gave him 15 percent ownership in the Turkish Petroleum Company. In 1914, the TPC restructured to incorporate the Anglo-Persian Group, which received 50 percent ownership of the consortium. Under the proposed restructuring, the Deutsche Bank and Royal Dutch Shell retained their 25 percent stakes; however, such an arrangement eliminated the Turkish National Bank and Calouste Gulbenkian. To avoid legal entanglement, the Deutsche Bank and Royal Dutch

[5] Ibid., 188. Ward, 3-4.
[6] Ward, 48. 73-4.

Shell agreed to give 2.5 percent of their shares to Gulbenkian, earning him the nickname "Mr. Five Percent." All shareholders agreed to the "self-denying clause" which stated that no partner in the TPC could independently pursue oil concessions in the Ottoman Empire. Each had to work jointly through the TPC.[7]

Although the reconstituted Turkish Petroleum Company was promised an oil concession in Mesopotamia by the Grand Vizier of the Ottoman Empire, the onset of the First World War prevented the execution of a formal agreement.[8] Even before the United States entered World War I in 1917, the British and the French had conspired to carve out spheres of influence in the Middle East through the Sykes-Picot Agreement of 1916, to ensure adequate access to the oil reserves of Persia and Mesopotamia. Following the Allied victory in the First World War, European powers assumed control of Ottoman territory through the San Remo Agreement (April 1920) and the Treaty of Sèvres (August 1920), which opened the door for France to purchase the German share in the TPC.[9] The League of Nations subsequently assigned Mesopotamia and Palestine to British control and Syria and Lebanon to French control through a series of mandates issued in the early 1920s. Even though Arabs had supported the Allies against the Ottoman Empire during World War I, the Treaty of Versailles did not grant independence and the right to self-determination to Arabs of the Middle East. Relations between the West and the Middle East thereby entered a new phase with the West clearly in a dominant position, poised to exploit the oil reserves of the

[7] Yergin, 168-72.
[8] Ibid., 172.
[9] Ibid., 172-74.

region.

One of the dominant persons of U.S. oil, Walter Teagle, Chairman of Jersey Standard, took up the battle to gain entrée to the Middle East for U.S. companies. In 1919 Teagle approached John Bassett Moore of the State Department because he feared U.S. oil companies might be shut out of the region following a rumored reorganization of the TPC: he even helped Moore draft a formal protest for the United States government.[10] Teagle dispatched company geologists to Iraq, but, they were "promptly ejected by British soldiers" as noted in one account.[11] To the major American oil companies of the day, it must have appeared that the door of opportunity in the Middle East was closing.

In response to the San Remo Agreement, the U.S. Congress passed the Mineral Leasing Act of 1920, which denied foreign interests the right to drill on public lands in the United States if U.S. companies were denied similar access by the governments of those foreign interests. The Act represented the U.S. government's use of domestic legislation in an effort to support its oil companies operating abroad, including those seeking access to oil in Persian Gulf states under Britain's control.[12]

In 1921 Teagle started receiving confidential State Department memos related to oil, which suggested a collaborative relationship was forming between the United States government and those American oil companies looking to expand operations abroad.[13] Still, the U.S. government could not exclusively support a single U.S. oil company in the Middle East. For this reason, five American companies – Jersey Standard, Socony, Gulf Oil, the Pan-American Petroleum and Transport Company and Atlantic Refining (later Arco) formed

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[10] Bennett H. Wall and George S. Gibb, *Teagle of Jersey Standard* (New Orleans: Tulane University, 1974), 212.
[11] Ibid.
[12] Yergin, 179.
[13] Wall and Gibb, 212.

the Near East Development Corporation (NEDC) to represent U.S. interests in the Turkish Petroleum Company.[14] The British and Gulbenkian finally agreed to some U.S. ownership of the TPC on the grounds it was better to have Americans inside the consortium than the U.S. government and its companies fighting the group from the outside. In the summer of 1922 Teagle was invited to London to begin negotiations with the TPC's partners.[15]

In the United States, under the presidency of Calvin Coolidge (1923-1929), whose Secretary of the Treasury was the great industrialist and former president of Gulf Oil, Andrew Mellon, U.S. oil companies enjoyed one of the most pro-business administrations of modern times because it featured low taxes, minimal government spending, balanced budgets and minimal regulations.[16] Herbert Hoover served as Secretary of Commerce from 1921 to 1928 and worked with the U.S. Department of State to ensure that Americans had equal access to overseas markets.[17] Under Hoover's leadership the Department of Commerce, as stated in one account, sought to "secure for the United States its equitable share of strategic materials abroad and to channel surplus American capital into profitable and nationally beneficial investments."[18] These objectives shaped U.S. governmental support of an "Open Door" for American oil companies to have unrestricted access to oil in the Middle East.[19]

Throughout the 1920s the United States' economy boomed and its oil consumption increased significantly from 1.03 million barrels per day in 1919 to 2.58 million barrels per day by 1929. During that period the number of registered motor vehicles in the country increased from 3.4 million in 1916 to 23.1 million in 1929.[20] U.S. oil companies recognized

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[14] U.S. Department of State, "The 1928 Red Line Agreement," Office of the Historian, http://history.state.gov/milestones/1921-1936/RedLine (accessed April 16, 2013).
[15] Yergin, 180-81.
[16] David Greenberg, *Calvin Coolidge* (New York: Henry Holt and Company, 2006), 70.
[17] Joseph Brandes, *Herbert Hoover and Economic Diplomacy* (Pittsburgh: University of Pittsburgh Press, 1962), 57. Hoover initially received his appointment as Secretary of Commerce from President Warren G. Harding in 1921. When Harding died in August of 1923, Calvin Coolidge assumed the Presidency and Hoover remained in his post.
[18] Ibid., 110.
[19] Yergin, 181.
[20] Ibid., 191.

that their domestic fields and existing foreign operations in countries like Mexico, Colombia and Venezuela might not be adequate to satisfy the nation's increasing demand for petroleum; therefore, they needed to identify new sources of crude to sustain the long-term growth of the U.S. economy and ensure the continuing profitability of their companies.

Teagle's negotiations with the TPC dragged on for six years, but finally, on July 31, 1928, after geologists discovered a huge oil field in Iraq, an agreement was signed, restructuring the TPC to include the Near East Development Corporation. In that contract, Royal Dutch Shell, Anglo-Persian, the French and the Near East Development Company each received 23.75 percent of the oil, while Gulbenkian received his 5 percent interest in oil with the option of immediately selling it at market prices to the French for cash. The new arrangement included the famous 'Red Line Agreement,' a reference to a red line Gulbenkian purportedly drew on a map of the Middle East for his fellow shareholders in the TPC – an area that included every major oil-producing state in the Middle East, except for Persia and Kuwait. The Red Line Agreement was a reconstitution of the 'self-denying' clause, which stated that no member of the group could independently pursue oil within the red line, only in conjunction with the TPC.[21]

Following years of sustained efforts by the State Department, five U.S. companies in the Near East Development Corporation gained a share of the Turkish Petroleum Company, an entity 50 percent owned and controlled by Anglo-Persian. The State Department supported this monopolistic enterprise that controlled production and pricing levels of Persian Gulf oil for decades on the grounds that it re-opened the door for American interests in the region. The Red Line Agreement laid the groundwork for a Western-based, multinational oil industry in the Middle East. Those companies bound to the agreement were linked together in their pursuit of oil, while those independent of the agreement were free to

[21] Ibid., 187-89.

pursue concessions on their own. This proved to be a significant factor in the awarding of the first exclusive U.S. concessions in the Persian Gulf region in Bahrain and Saudi Arabia. Those concessions were ultimately held by the Standard Oil Company of California, which chose their eventual partner, Texaco (originally Texas Company), on the basis that it was not a member of the TPC and not bound by the terms of the Red Line Agreement.[22] Walter Teagle of Jersey Standard later regretted his decision to join the TPC, which suggested that pursuing and developing oil concessions with a sizeable group of American and European companies proved more time-consuming and restrictive than going it alone.[23] Perhaps Teagle also recognized the political implications of collaborating with the British and the French given their colonial history in the Middle East. Still, the U.S. government and a handful of large American oil companies actively partnered with European powers on the exploitation of Persian Gulf oil, particularly in Iraq, through the Turkish Petroleum Company and acceptance of the Red Line Agreement.

<u>Bahrain</u>

Eastern Gulf Oil Company, a wholly owned subsidiary of the Gulf Oil Corporation, technically held the first U.S. concessions in the Middle East when, on November 30, 1927, it acquired from a British firm, the Eastern and General Syndicate, its concessions to explore for oil in Bahrain, El Hasa (Eastern Arabia), and the Neutral Zone between Saudi Arabia and Kuwait. The Bahrain concession ultimately ended up in the control of Socal, but not officially until August 1, 1930.[24] The El Hasa and Neutral Zone concessions originally offered by the Eastern and General Syndicate to the Gulf Oil Company expired before the parties could gain approval from the British Colonial Office for their transfer.

Major Frank Holmes, an engineer from New Zealand who served in the British Army

[22] Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Made* (New York: Viking Press, 1975), 91.
[23] Yergin, 188.
[24] Ward, 42, 175.

during the First World War, obtained the original El Hasa concession for the Eastern and General Syndicate on May 6, 1923 and the Neutral Zone concession on May 17, 1924.[25] King Ibn Saud of Saudi Arabia approved both of these agreements allegedly to prevent the concessions from going to the Anglo-Persian Oil Company, which the King regarded as too closely aligned with the British government. Holmes obtained the Bahrain concession for the Eastern and General Syndicate on December 2, 1925 after drilling sixteen successful water wells for the Sheikh of Bahrain and by offering Sheikh Hamad and Sheikh Abdullah each a 'Wolseley' motor car as part of the signing bonus for the lease.[26]

The entrée of U.S. oil companies in the Middle East never represented a foregone conclusion. The British government remained the dominant Western power in the region until the Second World War, and it held protectorates over several key Middle Eastern states including Kuwait and Bahrain. All commercial transactions in Bahrain at the time required approval from the British Political Resident in the Persian Gulf and, since American oil interests represented competition for British oil companies, that approval did not come easily. When the Eastern and General Syndicate attempted to finalize its November 30, 1927 sale and transfer of oil concessions to Gulf Oil, the British government's Colonial Office invoked the nationality clause in the Eastern and General Syndicate's concession agreement, namely that the company holding the Bahrain concession must be registered within the United Kingdom.[27] Gulf persevered, knowing that American oil companies represented an appealing alternative to the British, whose long history of colonial rule made regional leaders wary of signing agreements with Anglo-Persian, the major British oil company operating in the region. Major Frank Holmes of the Eastern and General Syndicate confirmed this advantage for Gulf executive William T. Wallace in his letter of May 6, 1928, which

[25] Ibid., 14.
[26] Ibid., 3, 25, 55.
[27] Ibid., 41-42.

discussed the syndicate's efforts at obtaining an oil concession in Kuwait on behalf of Gulf Oil:

> It is interesting to observe the greedy attitude the Shaikh of Kuwait exhibited when I hinted to him that the Company, I was representing, had an American tang about it. The Arab Rulers certainly suspect every move of the British, this suspicion is largely removed when America money is suggested, I cannot make too much of this fact openly.[28]

Ironically, Gulf eventually partnered with Anglo-Persian to obtain a concession in Kuwait in December 1934 after competing against the British firm for seven years in pursuit of a lease.[29]

Thomas Ward, a U.S. attorney representing the Eastern and General Syndicate in the transfer of its concessions, suggested to Gulf Oil that it could satisfy the nationality clause in the Syndicate's concession by registering a subsidiary company in Canada to hold the Bahrain concession. Ward based his strategy on the Balfour Declaration, which included Canada as one of the "autonomous communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown and freely associated as members of the British Commonwealth of Nations."[30] Ward also discovered that "the company laws of the Dominion of Canada permitted one hundred percent stock ownership by American citizens, a fact which strongly appealed to (Gulf Oil executives) Wallace and Greer."[31] Gulf agreed with Ward's strategy and registered a subsidiary, The Bahrain Petroleum Company, Limited in Ottawa to hold the concession.[32]

Ward's solution appeared to have solved the dilemma; however, Gulf met its own legal troubles because of its status as a shareholder in the Near East Development

[28] Ibid., 73-74.
[29] Ibid., 7.
[30] Ibid., 41. Thomas E. Ward cites the Balfour Declaration.
[31] Ibid., 42.
[32] Ibid., 41.

Corporation, a position which also made it a shareholder in the Turkish Petroleum Company and therefore bound Gulf to the Red Line Agreement of 1928. According to the terms of the Red Line Agreement, no shareholder of the TPC could develop oil independently within the area that primarily comprised the former Ottoman Empire.[33] Bahrain fell within the TPC's 'Red Line,' and wanting to avoid legal entanglement by violating the terms of the agreement, Gulf agreed on December 21, 1928 to assign the option on its Bahrain concession to the Standard Oil Company of California. The final cost to Standard for the Bahrain concession was $157,449, of which $100,000 went to the Eastern and General Syndicate and $57,449 to Eastern Gulf Oil Company, the amount it had spent to date in obtaining the concession from the Eastern and General Syndicate.[34]

The Standard Oil Company of California also intended to utilize Ward's Canadian solution to satisfy the nationality clause in its concession and registered The Bahrein Petroleum Corporation (Bapco) in Canada to handle its oil operations in Bahrain. By this time, however, the Anglo-Persian Oil Company recognized that an American breakthrough in Middle East oil was imminent and began applying pressure on the British Colonial Office to block the transfer. Further complicating the matter was the fact that during its entanglement with the Political Resident of the Persian Gulf and the Colonial Office, the Eastern and General Syndicate had not successfully renewed its Bahrain concession. When the British Colonial Office moved to block the transfer of Eastern and General Syndicate's concession to Socal, Francis B. Loomis of Socal dispatched a letter to Paul T. Culbertson of the U.S. State Department stating that "The Colonial Office is evidently not willing that an American company should engage in any activities in the matter of oil prospecting or production in the Island of Bahrein ... [and] that the Anglo-Persian Company is doubtless

[33] Angela Clarke, *Bahrain Oil and Development 1929-1989* (Boulder: The International Research Center for Energy and Economic Development, 1990), 50-51.
[34] Ibid., 119.

behind the action of the Colonial Office in this matter."[35]

At the request of both Gulf and Standard, the U.S. State Department eventually intervened in the dispute and applied steady pressure on the British government until it ordered the Colonial Office to acquiesce. The Syndicate's concession received an extension to December 2, 1930 and the transfer of the Bahrain concession to Socal's subsidiary, Bapco, was approved by the Sheik of Bahrain on June 12, 1930 with the final agreement transferring the Bahrain concession to Socal effective on August 1, 1930.[36] The United States finally had its first exclusive concession in the Persian Gulf.

In the same year that Socal finalized its Bahrain concession, a massive oil field was discovered in East Texas and depression-era drillers desperate for income had, according to H.W. Brands, "flooded the market and caused prices to collapse, making oil, at times, cheaper than water in the oil regions."[37] Upon taking office in 1933, President Franklin Delano Roosevelt identified oil as one of ten industries vital to the nation's economic recovery and to address the over-production issue Roosevelt's Secretary of the Interior, Harold Ickes, was authorized, through the National Recovery Act of 1933, to set output levels for oil producing states. Ickes immediately cut the nation's production by 300,000 barrels.[38] Roosevelt's willingness to impose government controls on oil production soon resulted in the price increasing from around ten cents per barrel to approximately one dollar per barrel and set a precedent for government intervention within the industry.[39]

Saudi Arabia

In 1933 Ibn Saud faced the daunting task of uniting various tribes and a vast territory into a single state under one government. As such, he had important political objectives to

[35] Ibid., 93-94. Clarke cites Loomis letter to Culbertson dated February 6, 1929.
[36] Ibid., 86, 111, 119. Ward, 128-30.
[37] H. W. Brands, *Traitor to His Class* (New York: Doubleday, 2008), 379-80.
[38] Ibid.
[39] Yergin, 230, 234.

consider besides the price of oil. Securing the United States as an ally was a priority for the Saudi ruler and the arrival of U.S. oil companies in the Persian Gulf represented an opportunity for Saud to begin developing his country with partners that were at least not British. American oil companies benefited greatly from this dynamic.

While Socal expressed an interest in obtaining a concession in Saudi Arabia from the Eastern and General Syndicate, the British firm had defaulted on the renewal of its El Hasa concession. This freed Socal to negotiate directly with Saud's representatives. The California company eventually obtained its concession directly from the Saudi state on May 29, 1933 with the assistance of Karl Twitchell, an American engineer providing pro-bono services to King Saud that were paid for by the U.S. philanthropist, Charles R. Crane.[40] Socal defeated its two rivals for the El Hasa concession, the Iraq Petroleum Company (formerly the Turkish Petroleum Company) and the Eastern and General Syndicate, by its willingness to make a down payment to Ibn Saud of 30,000 £ in gold sovereigns.[41] That Socal pursued its concession in Saudi Arabia at the height of the Great Depression when the United States struggled with excess oil production was a testament to the company's foresight and tolerance for risk-taking.

Socal started drilling in Eastern Arabia in the summer of 1934 and the company finally struck oil at its Dammam Number 7 well in March of 1938.[42] With the outbreak of World War II, the Axis powers increasingly targeted oil refineries and pipelines. Following an Italian bombing of oil operations in Eastern Arabia on October 19, 1940, the California-Arabian Standard Oil Company (Casoc) suspended most of its drilling and refining

[40] Karl S. Twitchell, *Saudi Arabia With an Account of the Development of Its Natural Resources* (Princeton: Princeton University Press, 1947), 35, 151.
[41] Ward 193-208.
[42] Yergin, 281-83.

operations and evacuated the majority of its American personnel.[43] The ramping up of oil operations in Saudi Arabia would have to wait until the conclusion of the Second World War.

Orientalism

British officials from the colonial era embraced Orientalism, which Douglas Little summarized as a European "self-serving view of Asians, Africans, and Arabs as decadent, alien, and inferior, a view … used to rationalize its own imperial ambitions from the Indian subcontinent to the banks of the Nile."[44] Although American oil companies in the Persian Gulf sought to distinguish their presence from British colonialism, the memoirs of American oil executives are filled with references to British Orientalists such as Bernard Lewis and Colonel H.R.P. Dickson. In the preface of his book, Thomas Ward acknowledged Brigadier Stephen Helmsley Longrigg's *Oil in the Middle East*, Harry St. John Philby's *Sa'udi Arabia*, and Colonel Dickson's *Kuwait and Her Neighbors*, while Hamilton included Dickson's "The Impact of the West, 1953" from *Kuwait and Her Neighbors* as Appendix II of his memoir. In that work, Dickson, who was Britain's designated Political Agent in Kuwait from 1929 to 1936 observed,

> There are probably few parts of the world where the old and new exist side by side, as they do in Arabia. In the deep desert today, life as it was in Abraham's time can be seen in all its details. The Badawin [sic] nomad still relives the scenes of the Old Testament. His thoughts too are much the same as in the days of Job. His arrogance, independence, pride and self-sufficiency have only been intensified by Islam, while his religious life has been molded into a rigid system of creed and formality.[45]

With little prior knowledge of the region, U.S. oilmen turned to the only English language sources available to them, those produced by the British, most of which would be described

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[43] Saudi Aramco, *The Energy Within: A Photo History of the People of Saudi Aramco* (Dhahran: Saudi Aramco, 2006), 37. Casoc was a subsidiary of Socal, which the company formed for its operations in Saudi Arabia.
[44] Douglas Little, *American Orientalism: The United States and the Middle East Since 1945(Chapel Hill: University of North Carolina Press, 2002), 10.*
[45] Charles W. Hamilton, *Americans and Oil in the Middle East* (Houston: Gulf Publishing Company, 1962), 192, 273.

by Edward Said as Orientalist in nature. According to Said, in European-Oriental relations "Europe was always in a position of strength … [and] many terms were used to express the relation … The Oriental is irrational, depraved (fallen), childlike, *different*; thus the European is rational, virtuous, mature, *normal*."[46] The oil industry, which was based on geology, engineering and logistics, represented the perfect vessel for Orientalist thought.

In his book *Big Oilman from Arabia,* Michael Sheldon Cheney attempted to explain the growing discontent among Aramco's Saudi workers in the early 1950s by suggesting the answer lie, at least in part,

> in the cloudy realms of the Saudi mind, a mind imbued with the *mores* of tribal society, impregnated with a desperate Arab pride, bound by the strictures of Wahhabi puritanism, and then thrown into close and constant association with a completely alien culture. The society of Americans, with their glittering possessions, technical skills, easy self-confidence and exciting freedom of thought and action, has had a shattering effect on the narrow, veiled mind of the peninsular Arab. It has driven him to question the very foundation of his tradition and faith. It has shaken his acceptance of the once unquestioned authority of the King and Koran. And it has bred in him a host of new wants and needs.[47]

Cheney's book, which was published in London, routinely offered his Western audience humor at the expense of Arabs through lines such as "Arabia's oil has given rise to what might be termed sagas of ragheads to riches."[48] If industry executives like Ward and Hamilton, who helped establish an American presence in the Persian Gulf during the first half of the twentieth century were influenced by Orientalist ideas then it might at least partly explain why U.S. and British oil companies operating in the region transitioned from competitors to collaborators so quickly.

One scholar influenced by Said was Douglas Little, who argued that when the United States emerged as the dominant global power in the second half of the twentieth century, a

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[46] Edward Said, *Orientalism* (New York: Vintage Books, 1978), 40.
[47] Michael Sheldon Cheney, *Big Oilman from Arabia* (London: William Heinemann LTD, 1958), 242.
[48] Ibid., 237.

new form of *American Orientalism* emerged in the Middle East. This new variation of Orientalism was characterized by a strong commitment to the Westernized State of Israel created in 1948, the pursuit of energy, Soviet containment policies, and U.S. efforts to modernize and reform traditional Muslim societies that American popular culture often stereotyped or demonized in magazines like *National Geographic* and in Hollywood films.[49] In the 1950s, some U.S. politicians believed economic growth and democratic reform could contain Arab nationalism by bringing stability to countries like Egypt and Iraq; however, modernization produced fervent nationalism and Islamic extremism instead.[50] Since then, the U.S. government has consistently offered military and economic assistance to pro-Western autocrats in exchange for the promise of political and social reforms.

Laleh Khalili argued that the United States inherited more than just Orientalist attitudes from the British. According to Khalili, many counter-insurgency techniques developed by the British in Palestine during the first half of the twentieth century such as "house demolitions, detention of all men of a certain age, and the targeting of civilian spaces and populations" transferred to subsequent Israeli operations against Palestinians living in the West Bank and Gaza and to U.S. operations in Iraq and Afghanistan.[51] This transfer occurred through what the author described as *horizontal circuits*, as British, Israeli and American bureaucrats, military leaders and private firms shared security techniques and occupational practices over time. According to Khalili, the Palestinian Territories served as a laboratory of sorts, for the continuation and refinement of colonial policing practices introduced by the British and honed by the Israelis, who are now regarded by the West as experts in controlling Arab populations.[52]

Like the British, the United States also had Protestant missionaries throughout the

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[49] Little, 11, 194.
[50] Little, 194.
[51] Laleh Khalili, "The Location of Palestine in Global Counterinsurgencies," *International Journal of Middle East Studies* 42, no. 3 (August, 2010): 413.
[52] Ibid., 413-14, 418-19

Persian Gulf in the years leading up to the entrée of the U.S. oil industry. In his book, *Americans and Oil in the Middle East*, Charles Hamilton highlighted the role of U.S. missionaries and educators in the region and pointed to events such as the creation of American Arabic and the translation of the Bible into Arabic as significant developments.[53] Hamilton suggested that American missionaries and their schools naturally led to U.S. faith-based institutions of higher education in the region like Bebek Seminary (later Robert College) in Turkey and the Syrian Protestant College (later the American University of Beirut).[54] According to Hamilton, "The establishment of Christian Mission schools in the Middle East was a new order of crusade" and "Education proved to be one of the most valuable tools which the American missionaries could have used to present Christianity to the Muslim."[55]

In linking the U.S. oil industry with American Protestant missionaries and institutions of higher education in the Middle East, Hamilton attempted to make the case that the oil industry represented a natural evolution of a process started by missionaries and educators. Hamilton portrayed the revenues and development provided by oil companies as a third facet of a holistic approach to development of the Middle East: Christian faith, Western education, and American industry. Hamilton suggested that missionaries and educators prepared Arabs for subsequent employment in the U.S. oil industry by teaching them the value of hard work. Thus, according to Hamilton, "shortly after the turn of the twentieth century, the Middle East was ready for the great economic impact of finding huge resources of petroleum beneath her stifling deserts and naked hills."[56] The former Gulf executive directly credited American missionaries for the success of U.S. oil companies operating in the region when he wrote, "Many persons feel that American commercial interests might not have had the opportunity

[53] Hamilton, 4-5.
[54] Ibid., 6-8.
[55] Ibid., 4, 10.
[56] Ibid., 17.

to participate in the development of the great oil fields of the Middle East had it not been for the splendid work of the Arabian mission."[57] The author may have taken this position for the sake of his middlebrow American readership, which would likely feel more comfortable with the concept of U.S. missionaries, educators and industrialists developing poor countries than U.S. companies exploiting distant lands for natural resources.

Global Allies Looking Beyond Regional Differences

Despite nearly 150 years of British domination of the Persian Gulf, by the end of 1930 five American oil companies of the Near East Development Corporation and the Standard Oil Company of California had gained access to oil in the region. Although U.S. oil companies and the British experienced differences of policy and opinion, like the territorial dispute over Buraymi (Eastern Arabia) and the restrictions on transferring British concessions to firms outside the United Kingdom, lucrative partnerships in Iraq and Kuwait and a common European Protestant heritage among the majority of its executives made it exceedingly difficult for American oil companies to establish their own identity in the Persian Gulf.[58]

While it is too simplistic to claim that the Americans simply became the British in the Middle East de facto, the British undoubtedly influenced American actions and perceptions in the region, and it didn't take long for the American presence to resemble British colonialism through features such as the exploitation of natural resources, the insertion of U.S. culture and language into traditional Arab societies, and the heavy presence of U.S. security forces in the region. Several authors have disputed the existence of a special relationship between U.S. companies and Saudi Arabia. Robert Vitalis observed that

[57] Ibid., 12.
[58] Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Saud, and the Making of U.S.-Saudi Relations* (Bloomington and Indianapolis: Indiana University Press, 2002), 19-37.

Aramco's American owners "accumulated decades of experience in dozens of locales … And they laid out each field and camp everywhere the same way, decade after decade, with the labor force divided, segregated, and paid different wages according to race" for the sake of holding down labor costs and preventing unionization within their companies.[59] These companies sought to maximize profits to the detriment of workers and, at times, their American personnel exhibited racial bias toward their Arab coworkers. Such factors contributed to an increasing anti-Westernism in response to Americans transforming the Persian Gulf in the pursuit of natural resources.

Aside from the presence of some missionaries and a handful of officials from American universities in the region, U.S. involvement in the Middle East prior to 1940 primarily featured the operations of these U.S. oil companies.[60] In fact, the U.S. government did not establish official diplomatic relations with Saudi Arabia until 1940 and with Bahrain until 1971, when the Bahrainis obtained their independence from the United Kingdom.[61] As such, U.S. foreign policy in the Middle East prior to the Second World War was largely shaped by the influence of U.S. oil executives seeking support for their corporate objectives through contact with the State Department.

The alliance between Britain and the United States during the First World War and their subsequent cooperation during the inter-war years, 1918 – 1939, represented a bond far stronger and deeper than any regional differences the Americans and British might have experienced while pursuing their selfish interests in the Middle East. For instance, in 1934 the U.S. Congress passed the Reciprocal Trade Act and soon thereafter, Secretary of the Treasury Henry Morgenthau, Jr. arranged the tripartite currency accord with France and

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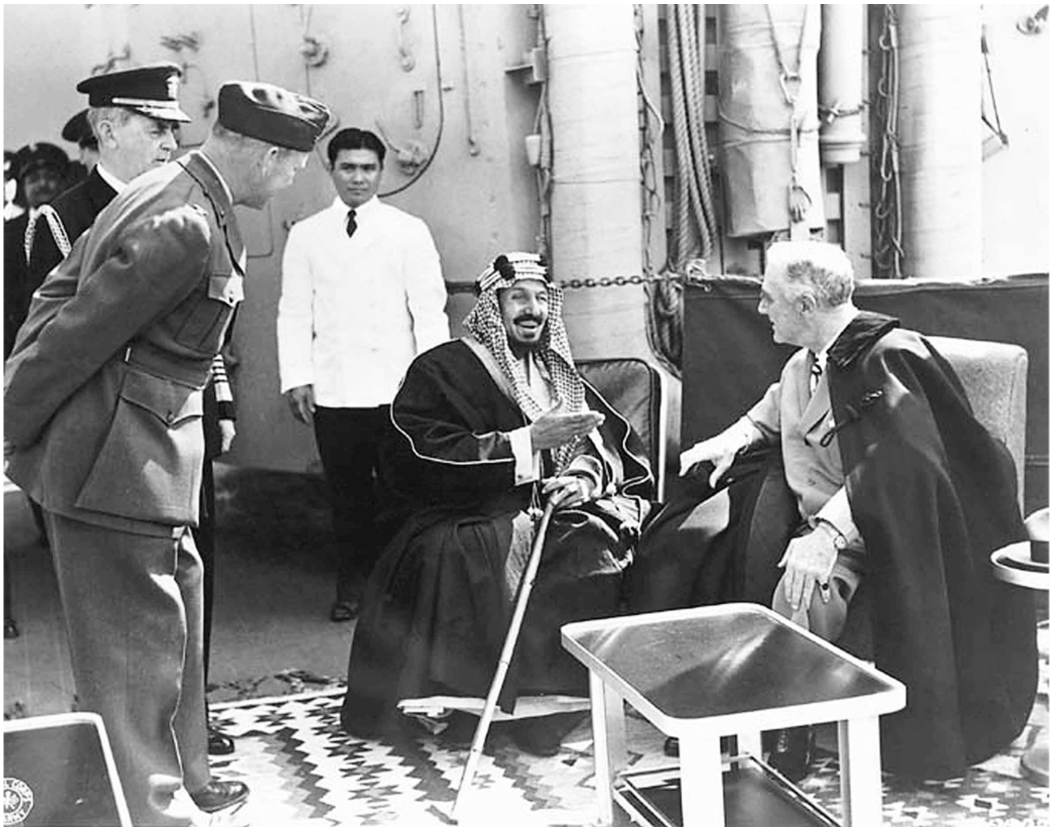
[59] Robert Vitalis, *America's Kingdom: Mythmaking on the Saudi Oil Frontier* (Stanford: Stanford University Press, 2007), 20-22.
[60] Hamilton, 4-17.
[61] U.S. Department of State, "U.S. Relations With Saudi Arabia," http://www.state.gov/r/pa/ei/bgn/3584.htm (accessed April 28, 2013); "U.S. Relations With Bahrain," http://www.state.gov/r/pa/ei/bgn/26414.htm (accessed April 28, 2013).

Britain, while Secretary of State Hull negotiated reciprocal trade agreements with European powers. During this period, the U.S. government created the Export-Import Bank to facilitate overseas development and supported policies that reduced trade barriers and enhanced currency convertibility for the sake of stabilizing and unifying the global economy.[62] Oil represented an important resource for the United States and Great Britain in their larger, shared objectives of creating economic growth and promoting international harmony; therefore, the exploitation of oil in the Persian Gulf could, in the eyes of American and British oil executives and government officials, be rationalized as a necessary step in the building of an integrated, Western-based global economy.[63]

[62] Michael J. Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952* (New York: Cambridge University Press, 1987), 16-17.
[63] Ibid., 3.

CHAPTER II

Oil and U.S. Foreign Policy in the Middle East, 1941 to 1960



President Franklin Delano Roosevelt with King Ibn Saud
aboard the USS *Quincy* in the Suez Canal on February 14, 1945

Photo courtesy of the Saudi Arabian Embassy

In the two-decade period following the U.S. entrée to World War II until the formation of OPEC in 1960, a collaborative relationship formed between the United States government and American oil companies. At the core of the relationship existed the concept of energy as an essential component of military strength and national security. Adolph Hitler launched his invasion of the Soviet Union in June of 1941 with the aim of securing the oil fields in Baku, a location that could have served as a springboard to the oil fields of Iran and Iraq, while the Japanese Emperor, under the guidance of Prime Minister Hideki Tojo, targeted the oil fields of the Dutch East Indies.[1] According to historian Keith Miller, the Allies could not have prevailed in the Second World War without the aid of American oil companies "For oil, once processed or refined in various ways, became the source or indispensable material for laying runways, making toluene for bombs, the manufacturing of synthetic rubber for tires, and the distilling into gasoline for use in trucks, tanks, jeeps, and airplanes."[2] Following the United States' declaration of war on Japan and Germany in December 1941, the Middle East assumed a greater significance in U.S. foreign policy as Washington recognized the importance of denying the Axis powers access to oil, while simultaneously providing adequate supplies to Allied campaigns throughout the world.

The United States government considered oil security such a high priority that it sought to obtain a share in the U.S. concession in Saudi Arabia. Historian Irvine Anderson described how, in 1943, the U.S. government offered funding to Casoc to construct a 100,000 barrels/day refinery at Ras Tanura "as bait to lure the companies into selling the government an interest in the Saudi concession."[3] Even though it did not receive a share of the concession, the U.S. government still assigned a high priority to the steel and other materials when Socal and the Texas Company constructed their 50,000 barrels/day refinery.[4] According to Gulf Oil executive Charles Hamilton, Ickes "was so impressed with the importance of Saudi Arabian oil to the national welfare of the United States … [that] he first moved to secure American lend-lease for Ibn Saud's government and then was instrumental

[1] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money & Power* (New York: Free Press, 2009), 300-5, 317-19.
[2] Keith Miller, "How Important was Oil in World War II?," History News Network, http://hnn.us/article/339 (accessed September 19, 2013).
[3] Irvine H. Anderson, *Aramco the United States and Saudi Arabia: A Study of the Dynamics of Foreign Oil Policy 1933-1950* (Princeton: Princeton University Press, 1981), 116.
[4] Ibid.

in causing the Petroleum Reserves Corp. (PRC) to be organized" with the aim of the PRC acquiring, on behalf of the U.S. government, a share of the American company holding the concession in Saudi Arabia.[5] The Petroleum Administrator for War also wanted the U.S. government to buy a share in Gulf's position in Kuwait, in the same manner that the British government controlled the Anglo-Persian company (later BP), but the private company again refused to sell.[6]

In 1943 and 1944, the U.S. government, specifically Harold Ickes and Secretary of State Cordell Hull, undertook negotiations with the British government for an Anglo-American Oil Agreement: they sought a treaty that would protect American oil concessions in the Middle East and bring order to the international oil market through the creation of an eight-member International Petroleum Commission. They hoped the latter that would resolve disputes among oil producers and recommend production levels for ensuring adequate supply for all parties. Their proposal closely resembled the Organization of Petroleum Exporting Countries (OPEC) that went into operation approximately two decades later. The U.S. Congress, however, never ratified the agreement, primarily because U.S. oil companies, both large and independent, opposed the treaty; the independents feared cheap oil from the Middle East would drive prices down and take away markets in Europe and the United States, while the larger companies feared possible anti-trust allegations and opposed

[5] Charles W. Hamilton, *Americans and Oil in the Middle East* (Houston: Gulf Publishing Company, 1962), 150.
[6] Ibid., 151.

U.S. government control of their industry.[7] Still, the fact that U.S. oil companies participated in these negotiations involving the U.S. government, the British government and British oil executives suggested the potential for a collaborative relationship between the two nations and their respective companies.

Following the Yalta Conference in 1945, President Roosevelt met with Saudi King Ibn Saud aboard the USS *Quincy* in the Suez Canal Zone, a meeting that would have been highly improbable just a decade earlier when Casoc started drilling for oil in Eastern Arabia. At the time of FDR's historic meeting with King Saud, the U.S. was just four years away from reaching net importer status, meaning the nation was on the verge of consuming more foreign oil than domestically produced crude.[8] In just over a decade since the signing of the first exclusive U.S concession in Bahrain, the Middle East had transformed into a foreign policy priority for the U.S. government, with Saudi Arabia emerging as an unlikely, yet indispensable, partner.

The Truman Years: The End of Colonialism, Israel and Aramco

Approximately two months after his historic meeting with Ibn Saud, Franklin Delano Roosevelt passed away on April 12, 1945, and Vice President Harry S. Truman assumed the presidency. Japan's defeat in the war and the devastating losses experienced by European imperialist powers Britain and France contributed to the ending of colonial rule, an exploitive form of government which Truman described as "hateful to Americans … [since] America

[7] Herbert Feis, "The Anglo-American Oil Agreement," *The Yale Law Journal* 55, no. 5 (August, 1946): 1174-90; Yergin, 384-85.
[8] U.S. Energy Information Administration, "U.S. petroleum product exports exceeded imports in 2011 for the first time in over six decades," March 7, 2012, http://www.eia.gov/todayinenergy/detail.cfm?id=5290 (accessed May 2, 2013).

fought her own war of liberation against colonialism."[9] In 1945 the Allies recognized Syria and Lebanon as independent countries and invited them to join the United Nations; however, the French under General Charles De Gaulle attempted to reclaim their former colonies. British military intervention ultimately thwarted the French aggression in Lebanon and Syria, but the French shifted their focus to retaining colonies in Algeria and Indochina. Soon thereafter, Britain ended its mandate over Palestine and, according to J. Robert Moskin, it "gave up India, and within a few years the Netherlands lost Indonesia … [while] the French were facing an uprising in Algeria and had been defeated by the Vietnamese at Dien Bien Phu … The movement toward separation was worldwide."[10] As colonialism was ending in the middle of the twentieth century, a new world order was forming based on political ideologies. Smaller states seeking assistance and recognition were forced to form alliances with either the United States or the Soviet Union, the dominant democratic and communist powers following the Second World War.

Among the most impactful decisions Truman made with regard to U.S. foreign policy in the Middle East were his decisions to support Jewish immigration to Palestine following the war and to recognize the newly-declared Jewish state in Palestine in 1948. In his first press conference following the Potsdam Conference, a reporter asked President Truman for the position of the United States government with regard to Palestine. Truman responded that he wanted "to let as many of the Jews into Palestine as it is possible to let into that country" but at the same time, he had "no desire to send 500,000 American soldiers there to make peace in Palestine."[11] Truman's comments revealed that, as early as 1945, the U.S. government started laying the groundwork for U.S. support of a Jewish state in Palestine. Yet, from his comment about not wanting to send 500,000 American soldiers to make peace

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[9] Harry S. Truman, *Memoirs Volume One: Year of Decisions* (Garden City, NY: Doubleday, 1955), 275.
[10] J. Robert Moskin, *Mr. Truman's War: The Final Victories of World War II and the Birth of the Postwar World* (New York: Random House, 1996), 174-75.
[11] Harry S. Truman, *Memoirs Volume Two: Years of Trial and Hope* (Garden City, NY: Doubleday, 1956), 136.

in Palestine, Truman clearly understood the potential magnitude of conflict that could erupt between Arabs and Jews with the creation of a Jewish state in Palestine.

The U.S. and British governments formed a joint commission to study the emigration needs of Jews in Europe, specifically the feasibility of large-scale Jewish immigration to Palestine. The chairman of the American delegation presented the committee's report to the President on April 22, 1946 which, according to Truman, recommended "that one hundred thousand certificates be issued for immigration into Palestine and that actual immigration be pushed forward as rapidly as possible."[12] Following the release of the committee's report, Truman asked the Joint Chiefs of Staff to give their opinion on the possible ramifications of implementing the committee's recommendations. The Joint Chiefs opposed the recommendation on the grounds that supporting Jewish immigration into Palestine by force would jeopardize British and U.S. control of oil, turn the peoples of the region against the West, and open the door for the Soviet Union.[13]

When Arab leaders expressed concern over the committee's recommendations, Truman dispatched messages, like the one he sent to Prince Abdul Ilah of Iraq that stated "You may rest assured therefore that no decision regarding the committee's report will be made without prior consultation with the government of Iraq."[14] The British implored Truman to fully explore the complexities of Arab-Jewish relations before committing to any policy; however, the president held fast to his support of immediate Jewish immigration to Palestine, even as Jewish extremist groups increased their level of terrorist acts against British forces in Palestine.

On November 29, 1947, the United Nations voted in favor of partitioning Palestine to make room for a Jewish state. When the British government ended its mandate over

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[12] Ibid., 145.
[13] Ibid., 149.
[14] Ibid., 148.

Palestine and withdrew its forces on May 14, 1948, Ben-Gurion declared Israeli statehood. President Truman immediately recognized Israel on behalf of the United States despite the fact that some key administration officials like Secretary of State George C. Marshall and White House political advisor Clark Clifford opposed the creation of a Jewish state in Palestine on the grounds that it would trigger violence between the Arabs and the Jews and threaten American oil interests in the region.[15] One day after the Israeli declaration of statehood, Arab states declared war on Israel.

With regard to Truman's recognition of Israel, historian Anderson claimed the company warned the U.S. government of the danger in supporting the creation of a Jewish State in Palestine as early as 1937, but did not openly and actively lobby against it. Instead, Aramco kept a low profile and, according to Anderson, "By standing aloof from this volatile issue, the company also made it possible for the Saudi government to differentiate to Arab critics between opposition to American governmental actions vis-à-vis Palestine, and good business relations with the oil companies [Socal and Texas]"[16] Truman historian Michael Cohen regarded the Aramco lobby as more active than Anderson gave credit. He pointed to Terry Duce, Aramco's vice president in Washington, D.C., as a conduit to State Department officials and claimed other company officials, often "former State Department or government employees, moved in the same social circles as the heads of the Washington administration. Much of their contact was oral, over meals or by telephone. Therefore, as might be expected, written records of their concerns are sparse and not easy to track down."[17] Despite U.S.

[15] Anderson, 168-69.
[16] Ibid., 170. Anderson's comments appeared in footnote 33 on page 170.
[17] Michael J. Cohen, *Truman and Israel* (Berkeley: University of California Press, 1990), 95-96.

recognition of Israel, Aramco operations continued and increased substantially in Saudi Arabia in the decade following the creation of the Jewish state in Palestine, most likely because the Saudi government needed revenues from Aramco operations as much, if not more than the United States needed oil from the kingdom.

Truman later wrote in his memoirs, “It was my belief that world peace would, in the long run, be best served by a solution that would accord justice to the needs and the wants of the Jewish people who had so long been persecuted.”[18] Truman published his memoirs in two volumes in 1955 and 1956, more than a decade before the war of 1967 in which Israel seized considerable territory in the region and started its occupation of the West Bank and the Gaza strip, an occupation that is now approaching the half-century mark. Like the development of a Western-based oil industry in the Middle East, the creation of a Jewish state in the region also proved to be a seismic event that contributed significantly to anti-Westernism and the nationalization of Middle Eastern oil.

At nearly the same time it recognized Israel, in the spring of 1948, the United States also launched the Marshall Plan for the reconstruction and economic recovery of Europe from the Second World War. The plan, which congress funded for approximately $12 billion from the spring of 1948 to mid-1951, provided technical and financial assistance to European states and aimed to replicate highly efficient American models of industrial production. Approximately 13 percent of the Marshall Plan’s funding paid for fuel, much of it oil from the Middle East, and by July of 1951, Europe’s industrial production had already increased

[18] Truman, *Memoirs Volume Two*, 135.

43 percent.[19] The Marshall Plan represented not only the United States' commitment to its European allies, but also the impetus of another major foreign policy objective, to counter the growing influence of the Soviet Union throughout the world. Oil proved so critical to the Marshall Plan's success that the Truman administration supported Aramco's construction of the Tapline by allocating steel for pipes and tubing for the 1,068 mile pipeline from the oil fields of Eastern Arabia to the Mediterranean Sea. Also, to facilitate Europe's economic recovery, the governments of Britain and the United States pressured oil companies over the pricing of crude and, according to Daniel Yergin, "Middle Eastern oil was being pushed down to price levels below what had, until then, been the benchmark U.S. Gulf Coast price."[20] From the perspective of Middle Eastern states, colonial European powers that previously exploited the region were now being saved by the combination of U.S. aid and discounted Middle Eastern oil. While the Marshall Plan was heralded as one of the greatest foreign aid achievements of the twentieth century, this massive recovery plan for post-war Europe further linked U.S. and British interests.

In his memoir J. Paul Getty, CEO of the Getty Oil Company, which held the concession for the Saudi portion of the Neutral Zone, confirmed the collaborative environment that was forming between American and European interests following the Second World War. Getty, who relocated to London in 1951 to better serve his business interests, observed,

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[19] Michael J. Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952* (New York: Cambridge University Press, 1987), 414-15.
[20] Yergin, 406-7.

> Europe and the European capitals–Paris, Rome, London–were the ideal headquarters for any entrepreneur whose business interests were rapidly expanding in both hemispheres … It was in Europe and the Middle East that pipelines, tankers, refineries had to be built or purchased and new marketing outlets created.[21]

Getty's book detailed working lunches and meetings in Paris with bankers, oilmen, and Ari Onassis, the oil tanker magnate that held what Getty said "amounted to a monopoly on tanker-transportation of all oil produced in Saudi Arabia."[22] The implication from Getty, who was at the time the richest man in America, was that wealthy and powerful American and European businessmen established the framework for a Western-based energy industry, which had a center of gravity that was shifting toward the Persian Gulf.

American oil companies operating abroad aligned well with U.S. foreign policy objectives in the post-war era. President Truman, for instance, advanced the concept of modernization of underdeveloped countries as a foreign policy objective. During his inauguration speech of January 20, 1949, he told the assembled crowd "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."[23] Truman proceeded to outline what he considered four essential points for U.S. engagement in the world: continued support for the United Nations; continued efforts for world economic recovery; strengthening "freedom-loving nations" confronting aggression; and providing technical assistance and capital investment in under-developed areas. Truman's fourth point soon evolved into the

[21] J. Paul Getty, *As I See It: The Autobiography of J. Paul Getty* (Englewood Cliffs, NJ: Prentice-Hall, 1976), 128.
[22] Ibid.,
[23] Truman, *Memoirs Volume Two*, 227.

Point Four program, which specifically aimed to increase development in those countries that had suffered the "curse of colonialism."[24]

While Truman embraced the humanitarian aspects of the Point Four program, he also considered it a key element of U.S. foreign policy, one which had the potential to sway undeveloped countries away from the Soviets and within the sphere of influence of the United States. According to Truman, "The resources of such areas as Mesopotamia, Iran, India, North Africa and huge sections of South America have hardly been touched, and their development would be as beneficial to American trade as to the areas themselves."[25] By developing countries through "trade not aid," Truman believed the United States could halt the spread of communism while simultaneously growing the U.S. and global economies.[26]

In 1952, Congress, which originally funded the Point Four program for $34.5 million in 1951, expanded the program's budget to $147.9 million, and then increased it again to $155.6 million in 1953.[27] According to Truman, Point Four funding helped establish a sound fiscal system in Saudi Arabia.[28] Such a program benefited Aramco, both for the practical service of introducing a domestic banking industry capable of stabilizing the riyal, but also for goodwill generated by U.S. taxpayer-funded programs, the implication being that one of the perks of working with U.S. oil companies was the possibility of receiving aid from the U.S. government. American oil companies constructing a modern energy industry in the

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[24] Ibid., 227, 232.
[25] Ibid., 232-33.
[26] Ibid.
[27] Ibid., 236.
[28] Ibid., 237.

Persian Gulf region fit well with Truman's concept of making "scientific advances and industrial progress available for the improvement and growth of underdeveloped areas," while at the same time, the endeavor generated millions of dollars in revenues for American oil companies.[29]

The Truman Doctrine steered U.S. foreign policy toward a priority of combating communism rather than developing relations with the countries surrounding the Persian Gulf. According to Cohen, because "Arabian oil … was seen as vital to European economic recovery and consequently to Europe's postwar ability to stand up to the threat of Communism, both internal and external," the United States government supported Aramco operations through financial aid to the Saudi government, and by providing the company with a substantial foreign tax credit following the implementation of the company's 50-50 profit sharing agreement with the Saudi government, a move intended to ease growing nationalist tensions in the region during the 1950s.[30] Throughout both the Roosevelt and Truman administrations, the United States government provided the impetus, in the name of economic recovery and national security, for American oil companies to expand their operations in the Persian Gulf. During this period, U.S. foreign policy in the Middle East evolved beyond simply assisting its companies operating in the region, as the government's larger strategic objectives, particularly countering the threat of communism, assumed a higher priority than assisting its oil companies.

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[29] Ibid., 227.
[30] Cohen, 94; Nathan J. Citino, *From Arab Nationalism to OPEC* (Bloomington & Indianapolis: Indiana University Press, 2002), 53-54; Yergin, 428-29.

The Eisenhower Years: The Cold War, Modernization Theory and OPEC

As a former military commander, President Eisenhower understood the strategic importance of oil on the battlefield. Whenever possible, Eisenhower acted favorably toward the industry, but also balanced his support for U.S. oil companies in the Middle East with his administration's larger Cold War objectives, which included the full economic recovery of European allies and halting the spread of communism to strategically significant regions like the Middle East. In his work, *Eisenhower and the Middle East*, William Stivers described a "heightened U.S. activism" in the region under President Eisenhower, most notably the 1953 CIA-sponsored coup of Iranian Prime Minister Mohammed Mossadegh, who nationalized British oil holdings, and "congressional passage on March 9, 1957, of the Middle East Resolution, a two-pronged program comprising $200 million a year in economic and military assistance to be granted to Middle Eastern countries at the President's discretion."[31] During the Eisenhower administration, the U.S. government expanded its military presence in the Persian Gulf region and increasingly offered financial assistance in exchange for support of its Cold War objectives.

In the 1950s and 60s, events throughout the world, including the Middle East, were largely viewed by U.S. policy makers through the prism of the Cold War rivalry between the United States and the Soviet Union. Virtually every foreign policy decision of this era in some way considered that ideological conflict. The problem with viewing the world through

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[31] William Stivers, "Eisenhower and the Middle East," in *Reevaluating Eisenhower: American Foreign Policy in the 1950s*, ed. Richard A. Melanson and David Mayers (Urbana and Chicago: University of Illinois Press, 1987), 192.

this prism was that it confused U.S. policy makers' understanding of the complex relationships and dynamics that existed in the Middle East, as these states were not engaged in a struggle between democracy and communism, but rather a conflict against colonialism and Western imperialism intensified by the creation of an Israeli state in Palestine. Furthermore, the United States and the Soviet Union sold significant quantities of weapons to Middle Eastern states during the Cold War, a decision that contributed to increased tension and violence in the region throughout the second half of the twentieth century.

Table 1: US Arms Exports to Persian Gulf States, 1951 – 1960
Values expressed in US $ millions at constant (1990) prices

Year	Saudi Arabia	Iran	Iraq
1951	0	6	0
1952	6	0	0
1953	1	1	0
1954	2	75	0
1955	16	110	0
1956	9	121	21
1957	51	53	4
1958	36	119	4
1959	6	94	0
1960	11	10	0
Totals	138	589	29

SOURCE: SIPRI Arms Transfers Database[32]

In the Middle East, Eisenhower faced a foreign policy dilemma. He had to balance his support of Western Europe as a Cold War ally against the interests of the increasingly

[32] Stockholm International Peace Research Institute, "SIPRI Arms Transfers Database," http://www.sipri.org/research/armaments/transfers (accessed September 10, 2013).

powerful Arab nationalists, whose primary grievance was with those same European colonial powers that exploited the region for decades. Further complicating matters for Eisenhower was the fact that the Arab nationalists' goal of diminishing Western influence in the region aligned well with Soviet Cold War objectives. To keep from pushing Egyptian President Gamal Nasser and the Arab nationalists into the arms of the Soviets, Eisenhower had to give the appearance of taking fair and balanced action in the region, which explained his support for Egypt during the Suez crisis. By forcing the British, French and Israelis to halt their invasion of Egypt following Nasser's nationalization of the canal on July 26, 1956, Eisenhower temporarily stabilized the region. This action belied the president's true feelings toward Nasser. On March 28, 1956, just months before the Egyptian government nationalized the Suez Canal, Eisenhower wrote in his diary,

> I suggested to the State Department that we begin to build up some other individual as a prospective leader of the Arab world—in the thought that mutually antagonistic personal ambitions might disrupt the aggressive plans that Nasser is evidently developing. My own choice of such a rival is King Saud. However, I do not know the man and, therefore, do not know whether he could be built up into the position I visualize. Nevertheless, Arabia is a country that contains the holy places of the Moslem world, and the Saudi Arabians are considered to be the most deeply religious of all the Arab groups. Consequently, the king could be built up, possibly, as a spiritual leader. Once this were accomplished we might begin to urge his right to political leadership.[33]

Eisenhower's thoughts revealed a lack of understanding of the nuance of both Arab politics and the Islamic faith. While King Saud was held in high regard by other Persian Gulf monarchies, he was certainly not considered an Islamic spiritual leader and his prestige did

[33] Robert H. Ferrell, *The Eisenhower Diaries* (New York: W. W. Norton, 1981), 323.

not extend to increasingly nationalized states such as Iraq and Syria. Also, the idea of a Wahhabi leader of the Arab world as preferential to secular nationalism is particularly ironic considering Wahhabism has proved to be the most virulently anti-Western form of Islam in the half century since Eisenhower left office.

As American oil companies significantly expanded their Persian Gulf operations throughout the 1950s, tensions between Arab nationalists and the West steadily increased. The Eisenhower Doctrine focused U.S. efforts on stabilizing the region for the sake of protecting oil supplies, while checking the spread of Soviet influence throughout the Middle East by supporting entrenched regimes instead of new nationalist leaders.[34] Over time, Cold War policies like these eventually produced the energy autocrats of the Middle East, ruthless dictators like Saddam Hussein and Muammar Ghaddafi that kept the oil flowing to the West in exchange for ever-increasing oil revenues, military aid and political recognition.

<u>Modernization Theory</u>

U.S. foreign policy makers of the 1950s and 1960s were greatly influenced by modernization theory, which argued that technology and modernization could transform unstable developing countries into politically stable developed states for the benefit of peace and greater economic prosperity. In 1957 two professors from the Massachusetts Institute of Technology published a book with the bold title *A Proposal: Key to an Effective Foreign Policy*. The first sentence of that book by Walt Rostow and Max Millikan stated “that a much expanded long-term program of American participation in the economic development of the under-developed areas can and should be one of the most important means for

[34] Citino, 142-43.

furthering the purposes of American foreign policy."[35] The authors argued that "the goals, aspirations, and values of the American people are in large part the same… [as those] in other countries" and that economic development could create "viable, energetic, and confident democratic societies through the Free World."[36]

Rostow and others believed that modernization required massive amounts of working capital that could only come from rapidly developing one or two sectors like oil.[37] By focusing on the massive amounts of capital required to propel states to economic maturity and high mass consumption, U.S. policy makers failed to take into account that such narrowly focused economic development created mineral-dependent economies that suffered from corruption, conflict and inflation, and rarely supported democratic institutions.[38] Gulf Oil executive Charles Hamilton, who also served as Director of the Kuwait Oil Company from 1947 to 1957, proudly detailed the modernization his company helped deliver to Kuwait in his book *Americans and Oil in the Middle East*, in which the author observed,

> The great pearling fleet that used to number many hundreds of Kuwaiti manned vessels became reduced to a few score. Kuwait's famous shipbuilding industry that flourished for nearly two centuries has dwindled to insignificant proportions. The almost daily parade of camel caravans, loaded with trade goods, entering and leaving the city's four gates are now rarely seen …The metamorphosis is not yet complete but what, so far, has been accomplished during Shaikh Abdullah's 12-year leadership, reads like a fairy story.[39]

Through the rapid exploitation of Kuwait's massive oil reserves, Gulf Oil and Anglo-Persian propelled the state to high mass consumption; however, no democratic society emerged.

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[35] Max F. Millikan and W.W. Rostow, *A Proposal: Key to an Effective Foreign Policy* (New York: Harper and Brothers, 1957), 1.
[36] Ibid.
[37] W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (New York: Cambridge University Press, 1971), 22.
[38] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley and Los Angeles: University of California Press, 1997).
[39] Hamilton, 188-89.

Table 2: Crude Oil Production in Persian Gulf States, 1928 – 1960

(Expressed in Thousands of Barrels of 42 U.S. Gal.)

Year	Iran	Iraq	Bahrain	Saudi Arabia	Kuwait	Qatar	Neutral Zone	Total
1928	43,461	713						44,174
1929	42,145	798						42,943
1930	45,828	913						46,741
1931	44,376	830						45,206
1932	49,471	836						50,307
1933	54,392	917	31					55,340
1934	57,851	7,689	285					65,825
1935	57,273	27,408	1,265					85,946
1936	62,718	30,406	4,645	20				97,789
1937	77,804	31,836	7,762	65				117,467
1938	78,372	32,643	8,298	495				119,808
1939	78,151	30,791	7,589	3,934				120,465
1940	66,317	24,225	7,074	5,075				102,691
1941	50,777	12,650	6,794	4,310				74,531
1942	72,256	19,726	6,241	4,530				102,753
1943	74,612	24,848	6,572	4,868				110,900
1944	102,045	30,943	6,714	7,794				147,496
1945	130,526	35,112	7,309	21,311				194,258
1946	146,819	35,665	8,010	59,944	5,931			256,369
1947	154,998	35,834	9,411	89,852	16,225			306,320
1948	190,384	26,115	10,915	142,853	46,500			416,767
1949	204,712	30,957	10,985	174,008	90,000	750		511,412
1950	242,476	49,726	11,016	199,547	125,722	12,268		640,755
1951	123,512	65,122	10,994	277,963	204,910	18,009		700,510
1952	7,800	141,100	11,004	301,861	273,433	25,255		760,453
1953	9,400	210,268	10,978	308,294	314,592	31,025		884,557
1954	21,500	228,432	10,992	347,845	347,319	36,450	5,995	998,533
1955	120,035	251,206	10,982	352,240	398,493	41,983	8,848	1,183,787
1956	198,289	233,421	11,014	360,923	399,874	45,345	11,725	1,260,591
1957	263,193	163,498	11,691	362,121	416,000	51,356	23,200	1,291,059
1958	301,526	266,102	14,873	370,486	509,383	63,910	29,310	1,555,590
1959	338,810	311,311	16,473	399,821	504,855	62,197	42,438	1,675,905
1960	390,755	354,592	16,500	456,453	594,278	63,908	49,830	1,926,316
Total	**3,902,584**	**2,716,633**	**246,417**	**4,256,613**	**4,247,515**	**452,456**	**171,346**	**15,993,564**

Source: Production data compiled by *World Oil*.[40]

The United States and Britain recognized the need, following the Second World War, for stable supplies of oil to support the new Western-based economic order, which some

[40] Hamilton, 287-88. Hamilton's table, which covered the years 1913 to 1961, also included production figures for Turkey and Israel and was titled "MIDDLE EAST OIL PRODUCTION." *World Oil* was established in 1916 and is still published monthly by Gulf Publishing Company. Historical information and data is at http://www.worldoil.com/.

scholars called "corporative neo-capitalism."[41] According to Michael J. Hogan, "This trend fundamentally altered the shape of American diplomacy, which for all practical purposes sought to restructure the world economy along lines similar to the corporative order that was emerging in the United States."[42] This new system promoted multinational corporations and oligopolies for the sake of limiting competitive nationalisms and regulating markets. These practices stabilized the production and pricing of oil for the sake of improved efficiency and greater output from the global economy, which primarily benefitted the major economic powers.[43] These practices also signaled the start of the modern global energy industry, which by the 1950s was under the control of seven powerful companies known as "the Seven Sisters."[44] Three of these companies came from Rockefeller's Standard Oil – Exxon, Mobil, and Socal (later Chevron). Two of the sisters, Gulf and Texaco, were from Texas. Shell was initially a British company that merged with a Dutch company to become Royal Dutch Shell. The seventh sister was British Petroleum (formerly Ango-Persian), which was unique in that the British government owned a 51 percent share.[45] In addition to their global exploration efforts, the Seven Sisters simultaneously developed transportation capabilities, including pipelines and fleets of tankers capable of moving supplies of oil from any producing country to markets throughout the world. In the first half of the twentieth century, these seven companies "hard-wired," or integrated, the world's economy for petroleum.

The massive exploitation of oil in the Middle East combined with the rise of Arab nationalism in the middle of the twentieth century initially incentivized greater profit sharing between the oil companies and their host states; however, conditions in the region were ripe for a transfer of power. Ironically, it was the formation of the Organization of Petroleum

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[41] Hogan, 2-3.
[42] Ibid., 3.
[43] Ibid., 4-5.
[44] Sampson, 59, 147. The phrase 'le sette sorelle' (the seven sisters) was popularized in the 1950s by Enrico Mattei, the head of the Italian State Oil Company.
[45] Ibid., 169.

Exporting Countries (OPEC) in 1960, not direct Western intervention that dealt Arab nationalism its fatal blow, as OPEC divided the Muslim world along economic lines into states with oil and those without it.[46]

OPEC formed in Baghdad in 1960 and originally included Saudi Arabia, Iran, Iraq, Kuwait and Venezuela and then later added Algeria, Ecuador, Gabon, Indonesia, Libya, Nigeria, Qatar, and the United Arab Emirates.[47] Prior to the formation of OPEC, Western oil companies extracted crude in the developing world for a pittance, and they set prices based on the needs of oil-consuming countries rather than market forces. Oil producing states established OPEC in an effort to reclaim ownership of their oil reserves and to gain control of production and pricing.[48]

OPEC ushered in the era of the National Oil Company (NOC). Unlike the publicly traded or privately held energy companies of the West, NOCs were controlled by the governments of their respective countries and served the interests of those governments as opposed to serving private shareholders. In addition to securing energy resources and earning revenue, the objectives of these NOCs often included the larger strategic objectives of the country's government. Additionally, these governments often funded pipelines, roads, railways and other infrastructure in support of their NOCs' operations.

Although the U.S. oil industry initially hoped to distinguish itself from the British government and its oil companies through efforts such as Aramco's 50/50 profit sharing agreement, corporate philanthropy, and employee development programs, the U.S. position became further linked to the British through the Allied victory in the Second World War, the rebuilding of Europe through the U.S.-sponsored Marshall Plan and the Western powers' Cold War alliance against the Soviet Union. While the U.S. entrée to the region began with

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[46] Citino, 152-57.
[47] Steve A. Yetiv, *Crude Awakenings: Global Oil Security and American Foreign Policy* (Ithaca: Cornell University Press, 2004), 141.
[48] Ibid., 140-41.

the premise that U.S. oil companies were not British, the emerging superpower and the diminishing colonial power had aligned for the sake of shared foreign policy objectives and a shared world view. As the U.S. industry came to represent a new American imperialism, anti-Western and Arab nationalist movements gained strength throughout the region, contributing to the nationalizing of oil in Iraq in 1958, the formation of OPEC in 1960, and the nationalizing of oil in other Persian Gulf states in the 1970s and 80s.

Just as American oil companies transformed from competitors to collaborators in their relations with the British, they also became indelibly linked with the increasingly hegemonic and pro-Israeli U.S. government, which facilitated the exploitation of Persian Gulf oil for the sake of national security and the economic development of states in the region that might be capable of buffering and countering Soviet influence. U.S. foreign policy in the Middle East was nearly non-existent at the onset of the Second World War but evolved into a highly engaged and complex policy during the Cold War and following the formation of OPEC in 1960. During this period, the United States transformed from an isolationist state to the world's leading superpower, while U.S. imports of crude oil increased more than six-fold, from 50,606,000 barrels per year in 1941 to 371,575,000 barrels per year in 1960.[49] The use of military forces to protect oil pipelines and shipping lanes, the promotion of democracy to Arab states, and the preservation of relations with Israel have all guided U.S. policies in the Middle East since the middle of the twentieth century.

[49] U.S. Energy Information Administration, "U.S. Imports of Crude Oil, 1941-1960," http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mcrimus1&f=m (accessed September 23, 2013).

CHAPTER III

From Camels to Cadillacs: State transformation or state exploitation?

> *From camels to Cadillacs in a single generation is a startling transition – but it has happened in several Middle East countries. It is not too farfetched to conclude that had it not been for the indoctrination and example of western missionaries, educators and oil men, the sudden wealth from oil, which has poured out from the underground, might have been the undoing of the peoples of the Middle East.*[1]

> - Charles W. Hamilton, Gulf Oil executive and author of *Americans and Oil in the Middle East* (1962)

American oil companies operating in the Persian Gulf from 1928 to 1960 enjoyed great autonomy within their host states, which lacked the capital and technical expertise to develop commercial oil without foreign assistance. These oil companies designed and constructed much of their host states' infrastructure based on particular needs, and the patterns of development they followed in Bahrain, Saudi Arabia, and Kuwait proved highly efficient in the short-term, but such singularly focused development transformed communities and created mineral-dependent economies.

American oil executives devoted considerable efforts and resources to maintaining relations with the ruling families of the states that granted oil concessions to their companies, believing that if those relationships remained strong, all would be well between the companies and the general populations of the countries in which they worked. This approach, coupled with increasing oil revenues, allowed anti-democratic political structures to strengthen over time, and as a result, oil development arguably stunted political reform in the Persian Gulf.

American oil companies introduced new labor structures in the Middle East as

[1] Charles W. Hamilton, *Americans and Oil in the Middle East* (Houston: Gulf Publishing Company, 1962), 19.

companies hired thousands of local residents away from traditional industries and provided strong incentives for them to learn skills related to oil production or to begin ancillary industries in support of the oil industry. As a result, traditional industries such as pearl diving, palm cultivation, caravanning, boat building, and crafting diminished or disappeared in local economies.[2]

American oil companies controlled production and pricing levels of oil, which determined state revenues and created serious challenges for local governments whose revenues and budget could increase or decrease by hundreds of millions of dollars each year. Often government-sponsored construction and service projects initiated during peak periods had to be delayed or halted when oil production or pricing dropped. In these situations, Persian Gulf states often had to borrow money from the oil companies with future crude production as collateral. Yet, because the state accumulated these revenues, even more so following nationalization, there developed a strong incentive for those governments to continue rent-seeking behavior once commercial oil production started, a trend that discouraged economic growth in other sectors like heavy industry and agriculture, and rendered states susceptible to the effects of the "resource curse," including corruption, conflict, inflation, and limited economic diversity.[3]

Common Patterns of Development in Bahrain, Kuwait and Saudi Arabia

In each state of the Persian Gulf region where U.S. oil companies operated during the first half of the twentieth century, similar patterns of development emerged. Exploration and drilling required companies to set up oil camps for their workers. Upon the discovery of oil in commercial quantities, the companies typically constructed pipelines, refineries, additional roads and loading docks, while discovery also spawned ancillary industries that supported oil

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[2] Fuad I. Khuri, *Tribe and State in Bahrain: The Transformation of Social and Political Authority in an Arab State* (Chicago: University of Chicago Press, 1980), 135-39.

[3] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley and Los Angeles: University of California Press, 1997), 3-17.

operations. As production expanded, companies then constructed additional corporate and residential facilities and engaged more actively in their host states' healthcare and education systems, mainly for the benefit of their workers, but also, to some extent, for the benefit of the general population.

Bapco, a subsidiary of Standard Oil of California, received its drilling equipment in Bahrain at the end of 1930 and the company spudded the first well at Jabal ad-Dukhan on October 16, 1931. That first well produced oil in commercial quantities on May 31, 1932.[4] The discovery of oil producing zones in Bahrain that were different than those of Iraq and Iran encouraged subsequent exploration in Saudi Arabia and, according to U.S. oil executive Thomas Ward, "sustained the conclusions of the Gulf Company geologists that the possibility of finding oil in commercial quantities in Kuwait was very much brighter."[5]

With the discovery of oil came oil-related development. In Bahrain, Bapco provided, according to Charles Hamilton, "commissaries, schools, hospitals, movies, swimming pools, churches and mosques, social and recreational clubs for its employees, as well as homes for married and single workmen – both the Bahrainis and the Europeans."[6] In 1935 the company decided to construct a refinery to process some of its Bahraini crude oil.[7] Such development obviously required substantial amounts of capital and, to some extent, explained the joint-ventures that soon emerged throughout the region. In 1936, Bapco's parent company, the Standard Oil Company of California, entered into an agreement with the Texas Corporation (Texas) whereby Texas received a half-interest in Socal's Bahrain and Saudi Arabian concessions and in return, Socal received a share of their new partner's marketing facilities that allowed the company to sell oil from Bahrain in South Africa, Asia and Australia. The

[4] Thomas E. Ward, *Negotiations for Oil Concessions in Bahrain, El Hasa (Saudi Arabia), The Neutral Zone, Qatar and Kuwait* (New York: Ardlee Service, 1965), 180-82.
[5] Ibid., 182.
[6] Hamilton, 130.
[7] Ward, 184.

merger also provided the necessary capital for the construction of additional refining and shipping facilities to handle the increased business that resulted from the new partnership.[8]

The company soon constructed its own small city in the center of the country, named 'Awali' by the Sheik of Bahrain, to serve the needs of Bapco and its employees, who operated 50 oil wells and a refinery. In the January 1939 issue of *American Magazine* journalist Jerome Beatty, Jr. described Awali as "a neat, white ultramodern city which cost $25,000,000 to build and which includes … homes, a hospital, clubs, a school, a movie theater, a beauty parlor, and a commissary, all air-conditioned and full of electric gadgets, from kitchen ranges to curling irons."[9]

In 1938, the Bahraini government opened its first technical school with a primary objective of training young Bahraini students for employment in the oil industry.[10] Bapco opened an even larger school in Awali. In 1953, 284 Bahraini employees of Bapco attended classes at the Awali school, while others received company scholarships to attend the Bahrain government's secondary and technical schools and even the American University of Beirut.[11] However, when Bapco realized that many of those receiving company-sponsored education established their own businesses or moved on to other higher paying jobs in the region, the company restructured its educational program in 1955 to "The Bapco Apprenticeship Training Scheme" for the sake of retaining those individuals that it paid to educate.[12] Bapco also contributed to improved health conditions in Bahrain, primarily to benefit its workforce, but that benefit ultimately extended to the general population as well. To combat malaria, for instance, Bapco employees regularly sprayed for mosquitoes, and by the end of the 1950s the company had effectively eradicated malaria from Bahrain.[13]

[8] Ibid., 185.
[9] Angela Clarke, *Bahrain Oil and Development 1929-1989* (London: Immel Publishing, 1990), 163. Clarke cites Jerome Beatty, Jr., "Is John Bull's Face Red," *American Magazine*, January 1939.
[10] Ibid., 212.
[11] Ibid., 213.
[12] Ibid.

With the next exclusive U.S. concession in the region, similar patterns of development emerged in Saudi Arabia. Philip C. McConnell, who worked for the California Arabian Standard Oil Company (Casoc), observed:

> Following the discovery of commercial oil, the pace of development increased rapidly. More building was performed in Dhahran: residences for families, improved bunkhouses for single men, shops and storehouses. The sand spit named Ras Tanura, some 25 air miles to the north and about 40 by road, was close to deep water, a condition rarely found in the predominantly shallow waters along the Gulf's western shore. An oil shipping facility was installed on the spit, including 3000 feet of trellis extending to deep water; and a ten-inch pipeline was laid to carry oil from Dhahran to the port. A smaller shipping point was established at Al Khobar, where shallow draft barges could receive oil to carry to the Bahrain refinery about 25 miles to the southeast.[14]

Significant development accompanied the rapid expansion of Saudi Arabia's oil production. The company, for example, built power plants near its major operations and then increased the capacity of these stations in tandem with increasing oil operations. In the early 1950s, the company installed additional generator capacity at the power plants in Abqaiq (site of a major oil field) and Ras Tanura (site of Aramco's primary refinery) while in 1954 a new power plant with three turbo generators that later expanded to five, was opened in Dhahran at the site of Aramco headquarters.[15] These power stations clearly benefited the oil company by providing adequate electricity to carry out its operations, but they also acted as a magnet of sorts and powered ancillary industries in support of Aramco operations. Development in Saudi Arabia occurred where infrastructure like roads and an electrical grid existed, which were determined by Aramco's operations.

In just a twenty year period from the spudding of Dammam No. 1 well on April 30, 1935 to May of 1954, the company reached total production of more than one million barrels

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[13] Ibid., 218.
[14] Philip C. McConnell, *The Hundred Men* (Peterborough, NH: Currier Press, 1985), 16.
[15] Ibid., 155.

per day.[16] A submerged pipeline laid from the shores of eastern Arabia to BAPCO's refinery in Bahrain became operational on March 2, 1945, while in 1954, the company's primary refinery in Saudi Arabia, Ras Tanura processed 218,752 barrels of oil per day.[17] The Trans-Arabian Pipeline (Tapline), a 1068 mile pipeline extending from the oil fields of Eastern Arabia to Sidon, Lebanon on the shores of the Mediterranean Sea, was completed on September 25, 1950 with the first tanker loaded on December 2, 1950.[18] When contractors completed the Tapline, it included four pump stations in Saudi Arabia: Qaisumah, Rafha, Badanah and Turaif. According to the company's handbook, "These names were applied to locations which were selected in the open desert but which have become fair-sized communities."[19] The road that paralleled the Tapline soon became an important Middle Eastern highway. In just two decades, Aramco's operations were transforming areas far removed from the oil fields of Eastern Arabia. Sensitive to this fact, Aramco's self-published history mentioned that the company "graded sand ramps over pipelines and drilled water wells to ease the impact of the pipeline on the local Bedouin."[20]

Michael Sheldon Cheney, who worked for International Bechtel, Inc. at Ras al Misha' ab while the company completed construction of the Tapline, mentioned in his memoir that the company was required by the Saudi government to provide water for the local population while building the pipeline. Company personnel drilled 52 wells in the desert, of which 40 produced water, and according to Cheney, "By the summer of 1950, before the line was even complete, Tapline's wells were playing host to an estimated hundred thousand Bedu, with

[16] Arabian American Oil Company, *Aramco Handbook* (Dhahran: Arabian American Oil Company, 1960), 141, 153.
[17] Ibid., 148, 153.
[18] Ibid., 153.
[19] Ibid.
[20] Saudi Aramco, *The Energy Within: A Photo History of the People of Saudi Arabia* (Dammam: Saudi Aramco, 2006), 57.

one hundred and fifty thousand camels and double that number of sheep and goats."[21] Aramco's operations not only created new communities in the desert, but also transformed how people moved throughout the region.

Building infrastructure required significant capital and Aramco invested heavily in Saudi Arabia from 1946 to 1952. According to former oil executive Leonard Fanning, "Oil-handling facilities, product pipe-lines and local marketing facilities required capital totaling 70 million dollars. Expansion of the refinery at Ras Tanura cost 16 million dollars. The construction of housing, roads and general plant facilities totaled 140 million dollars" while the Trans-Arabian pipeline cost more than $200 million to complete.[22] From the industry's perspective these sizeable investments justified the partnering of multiple U.S. companies as well as their partnering with European oil companies on ventures throughout the region. For the companies, it also justified the expansion of oil production as a necessary step in order to recover their substantial investments. As a result of this significant and rapid development, Fanning noted that "by 1952, Aramco had become the leading oil producing company not only in the Middle East but in the world. With estimated crude oil reserves of over 28 billion barrels, the company alone possessed reserves equal to all those of the United States."[23] It is important to note that Fanning did not say that Aramco had 'access to' or 'rights to' these oil reserves, rather that Aramco *possessed* the oil beneath Saudi soil.

As with Bapco in Bahrain, Aramco contributed to the health and education systems of the host state. According to Saudi Aramco, in the 1940s in Eastern Arabia, malaria infected an estimated "98 percent of children under age 1 … and that 25 percent of adults suffered disabling bouts of malaria each year;" yet through education and spraying, the Arabian

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[21] Michael Sheldon Cheney, *Big Oilman from Arabia* (London: William Heinemann LTD, 1958), 191.
[22] Leonard M. Fanning, *Foreign Oil and the Free World* (New York: McGraw-Hill, 1954), 54.
[23] Ibid., 55.

American Oil Company (Aramco) eradicated the disease by 1958.[24] In 1948, the company opened an eighty bed hospital in Dhahran and in 1953 it constructed ten primary schools throughout the Eastern Province. In 1957, Aramco TV aired as Saudi Arabia's first Arabic language station.[25] According to Saudi Aramco, "From 1951 through 2005, the company sponsored more than 10,000 four-year college scholarships and some 900 advanced-degree scholarships for both employees and potential employees in the Kingdom and abroad."[26] In the early days, the majority of Aramco's philanthropy directly benefited the company and its personnel, but some benefit, like improved infrastructure and the eradication of malaria and other diseases, extended to the general population as well.

Transforming Communities, Transporting the American Dream

Gulf Oil partnered with Anglo-Persian to form the Kuwait Oil Company, which signed its concession with the Sheikh of Kuwait on December 23, 1934.[27] These lines from Gulf Oil executive, Charles Hamilton, summarized the patterns of development typically followed by U.S. oil companies operating in Kuwait and other Persian Gulf states and explained how this development supported a larger ambition of sharing the 'American dream' with the peoples of the Middle East.

> European and American oil men brought to the Middle East not only their technical skills, necessary to oil finding and development, but also their concept of a better way of life. The oil companies in the Middle East have initiated trade and primary schools for their employees of all nationalities; they have built and maintained hospitals; they have constructed homes for their workmen and have promoted housing schemes. They have erected mosques and churches in or adjacent to the oil camps; they have installed commissaries, ice plants, laundries, central heating and cooling systems, gardens, recreational centers, clubs and movies for the benefit of all employees and their families, and they have … given their workmen a new sense of social security against sickness and old age by fostering savings plans, pensions and

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[24] Saudi Aramco, 51.
[25] Ibid., 27, 44-45.
[26] William Facey et al., *A Land Transformed: The Arabian Peninsula, Saudi Arabia and Saudi Aramco* (Dhahran: The Saudi Arabian Oil Company, 2006), 290.
[27] Ward, 7.

> incentive benefits. Religion, race or color has been no bar to employment or advancement in the Middle East. In that area, every man can aspire to hold any position in the oil industry which he is qualified to hold or which in time he becomes qualified to hold.[28]

These lines from Hamilton hint at a number of elements of 'the American dream' and the American lifestyle including, home ownership, entrepreneurship, church and family, recreation and leisure activities, social security in old age, and the concept that anyone, regardless of race, religion or class, can become successful if they work hard enough. However, the effort to transport American society to the oil communities of the Persian Gulf region may have had more to do with retaining the company's American and European personnel than with elevating the "economic and social stature" of the company's Arab personnel.[29] For instance, the February 1950 issue of *Aramco World* magazine included a story about a new 400-seat movie theater at Ras Tanura, site of the company's primary refinery. The issue also featured bowling scores from the company's bowling league where "General Services for the Men's Division and Law and Aviation for the Women's Division … won the first half of the East Coast League bowling contest."[30] In subsequent years, the company increasingly featured its Arab employees within the magazine, but initially, *Aramco World* featured stories about company-sponsored recreational activities like softball, football, dancing and fishing that were clearly intended for the American and European personnel on staff.

In an effort to attract and retain American geologists and executives to work in remote areas of the Persian Gulf region for years, U.S. oil companies often attempted to replicate American suburbia with communities that featured facilities for leisure activities, including golf courses, tennis courts, swimming pools, bowling alleys and movie theaters.

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28 Hamilton, 18-19.
29 Ibid., 19.
30 *Aramco World* 1, no. 4 (February, 1950): 1, 4.

These communities also typically included clubs for consuming alcoholic beverages, an act forbidden by Islamic law. Oil executives again, tended to justify these practices by arguing that they represented the sharing of the American lifestyle with residents of the region; however, the companies rarely opened these amenities to the local workforce. At best, separate recreational facilities might be constructed for the benefit of the company's Arab employees.

In Bahrain, local workers earned approximately one rupee per day and, according to Angela Clarke, "Initially, Bapco worked a seven day week which meant that local employees returned to their families perhaps once every two months. Eventually, one day of rest was allowed after thirteen days of work and the Bahrainis returned home once every two weeks on a Thursday afternoon."[31] In the oil camp at Jebel Ad-Dukhan, the site of Bahrain's Well Number One, the company's Western employees lived in Nissen huts, while approximately 350 Bahrainis, Iraqis and Indians lived in small barasti houses made of palm leaves. The company did not provide food to the barasti camps, only water, which it stored in tins previously used for kerosene.[32]

In subsequently developing these oil camps in the American style, the oil companies inserted elements of Western culture into the Persian Gulf states where they operated and assumed such action would be viewed favorably, perhaps even emulated by Middle Eastern societies. Through this practice American oil companies ultimately provided local dissidents with visible signs to rail against, particularly when oil communities segregated along race lines, with American and European employees living in spacious bungalows with modern amenities and even irrigated lawns in the desert, while the company relegated its Arab employees to dormitory style housing or worse.

Bapco adversely impacted the local economy, perhaps unintentionally, by paying

[31] Clarke, 133.
[32] Ibid., 135.

slightly higher wages than other local merchants. This practice made it difficult for other employers and industries to compete with the oil companies for personnel. For instance, Bapco hired away many of the Gulf's best pearl divers and prevented their departure during the pearl diving season by paying their outstanding debts to the pearl diving captains who employed them.[33] Due to practices like this, the American oil industry inadvertently stunted the development of other domestic industries. In the short-term, the higher wages paid by the oil companies seemed to justify the new industry's dominant position in the state's economy; however, the long-term consequences of limited economic diversity presented a host of challenges that the region struggles with to this day.

Oil development transformed Eastern Arabia where Aramco conducted the majority of its drilling and refining operations and where the company located its headquarters. However, the transformational impact was not limited to the Eastern province, it also extended to communities throughout the country as people migrated and ancillary industries spawned in support of the massive oil industry. In 1986-87, Anthropologists Soraya Altorki and Donald Cole conducted an extensive field study on the people of the north central oasis city of 'Unayzah. Their work uncovered some of the state-wide impacts of the new mineral-dependent economy in Saudi Arabia. According to Altorki and Cole, "In the 1940s, men from 'Unayzah began to go to the Eastern Province in search of work—not only in the oil fields but … in the building of the railroad, … in the building of the Trans-Arabian Pipeline (Tapline), and in the Geological Survey, which searched for oil deposits."[34]

During their case study, Altorki and Cole interviewed numerous residents from the community to assess the overarching impact of oil on the central oasis city. By the early 1950s, approximately 150 men from 'Unayzah lived in Dhahran, home of Aramco, and

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[33] Ibid., 145-46.

[34] Soraya Altorki and Donald P. Cole, *Arabian Oasis City: The Transformation of 'Unayzah* (Austin: University of Texas Press, 1989), 104.

others lived in Bahrain. Those community members already employed by Aramco subsequently helped other community members find work with the oil company and supported them upon their arrival in the oil camps.[35]

Altorki and Cole concluded that the massive influx of oil revenues created an economic boom that subsequently altered the developmental process and stunted the natural development of industries such as crafts and agriculture.[36] The building of highways and the introduction of large trucks also brought an end to caravanning, one of the oldest occupations in the central oasis town of ‘Unayzah. According to Abu Mish’al, a resident of ‘Unayzah who worked in caravans until the late 1940s, “When the trucks started to come, they began to take work away from us … but there were the Dahna’ sands … And so we went there and carried dates from al-Ahsa’ for the shaykhs in Riyadh. Then the railroad was built to Riyadh and that was the end.”[37] The railroad referenced by Abu Mish’al was the 357-mile railway from Dammam, site of Aramco’s first oil well, to Riyadh, built by Aramco for the Saudi government.[38]

Altorki and Cole’s study revealed what one would expect, that the oil industry significantly impacted other regions of the country, as people who had lived in the communities of their ancestors suddenly uprooted to seek employment or to respond to changing dynamics within the country. The decade from 1975 to 1984 was known in Saudi Arabia as the *tufrah* [boom]. According to the Saudi state, from 1970 to 1984, the length of paved roads tripled, the number of schools increased more than four-fold and the number of factories increased eight-fold, while construction was completed on roughly 437,000 residential units. By the early 1960s, there even existed a small desert airport in ‘Unayzah to receive regular flights from Jeddah and Riyadh that brought mail and passengers to

[35] Ibid., 105.
[36] Ibid., 8.
[37] Ibid., 102.
[38] Arabian American Oil Company, 221.

‘Unayzah.[39]

In the 1969-70 fiscal year, the Saudi government reported state revenues of 5.7 billion riyals, while in 1981-82 that figure soared to 368 billion riyals due to significant increases in the price of crude oil on the global market.[40] This sudden and massive influx of state revenues presented a host of unexpected challenges. First, the state emerged as a major employer, which reduced the country’s unemployment rate in the short term, but it also removed significant numbers of prospective employees from the private sector. Oil revenues allowed the state to issue interest-free loans to the general population, which stimulated real estate activity and caused prices to skyrocket, while the new construction led to “the importation of a large expatriate labor force and the mushrooming of construction companies and numerous other supporting enterprises.”[41] During the boom, the Saudi government quickly implemented development projects without comprehensive planning and, according to Altorki and Cole “Affluence allowed for the selection of programs and projects on other than purely economic grounds.”[42] The conditions described in this passage such as inflation, state subsidies, expanding state employment and hastily arranged state development projects funded by oil revenues, are all negative outcomes associated with the resource curse, a condition common to mineral-dependent developing countries. According to Helen Lackner, social transformation was “the most significant long-term effect of this economy based on oil income. Financial wealth superimposed on a totally undeveloped society has created a life based on the material comforts … as a result of the ‘modernising’ influence of the USA.”[43]

It is difficult to argue against oil development considering the lack of infrastructure, healthcare and educational facilities in these states prior to the arrival of oil companies and

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[39] Altorki and Cole, 103.
[40] Ibid., 119-21.
[41] Ibid., 235-36.
[42] Ibid.
[43] Helen Lackner, *A House Built on Sand: A Political Economy of Saudi Arabia* (London: Ithaca Press, 1978), 217.

given the fact that some community members did quite well in the oil industry. Abu ‘Abd al-Muhsin started to work for Aramco in 1947 as an unskilled laborer for 3 riyals a day and by the late 1980s served as a high administrator for PETROMIN, the Saudi state’s marketing agency for oil. Others, like Abu Ahmad and Abu Salih, started with the oil company but then opened their own successful ancillary businesses.[44] Before the introduction of oil, some men from ‘Unayzah migrated to countries throughout the Middle East; however, the industry created significant demographic shifts within the country, which transformed the workforce in Saudi Arabia by changing the expected skillset of those workers and by introducing Western concepts of hourly wages, annual salaries, and contractual agreements between Aramco and its numerous subcontractors providing ancillary services in support of oil operations.[45]

The works of oil executives like Karl Twitchell and Charles Hamilton suggested favorable relations existed between U.S. oil companies and their Arab employees. Many works covering the first several decades of the U.S. industry in the region make only casual reference to labor disputes, which are treated as anomalies, often attributed to Arab employees from other states, such as Palestine, Egypt and Syria. These strikes are even more significant considering the harsh repercussions Arab workers faced from the ruling family for disrupting operations and essentially challenging the status quo.

Aramco faced a labor strike in 1953 that started when representatives from the company’s facilities at Dhahran, Ras Tanura, and Abqaiq demanded more privileges and improved working conditions for the company’s Arab employees. The representatives presented a signed petition that, according to Nathan J. Citino, “also protested the company policy of granting living allowances only to non-Saudi Employees.”[46] The Saudi royal

[44] Altorki and Cole, 104-5.
[45] Ibid., 107-8. Altorki and Cole cite Aleksei Mikhailovich Vasiliev, *Tarikh al-‘Arabiyah as-Sa’udiyah* [History of Saudi Arabia] (Moscow: Dar al-Taqaddum, 1982).

family appointed a commission to investigate the workers' grievances, but soon after the commission arrived in Dhahran in early October of 1953, government officials arrested the leaders of the labor movement, which set off a wave of protests by company personnel. According to Citino, "Ninety percent of Aramco's Saudi employees failed to report to work on Monday, October 19, and 85 percent of the Saudis who worked at the Dhahran airfield were absent. In response to worker unrest, the Saudi government moved about 2,000 troops into the Eastern Province and … arrested 1,000 [strikers]."[47] Allowing host governments to use excessive force against their workers to break unions and avoid work stoppages represented a willingness, on the part of the American oil companies, to deviate from standard business practices for the sake of maintaining relations with their host states. If the oil industry represented the new face of imperialism, then conflict between Arab oilfield workers and the oil companies represented a new front in the region's struggle against Western imperialism.

The Control of Production and Pricing

The complete control over oil production and pricing represented the primary source of tension between U.S. oil companies and their host states in the Persian Gulf region following World War II, when global energy consumption increased dramatically.[48] From 1950 to 1959, U.S. oil consumption increased from 6.5 million barrels per day (b/d) to 9.5 million barrels per day, while in Western Europe, consumption increased from 1.3 million b/d to 3.5 million b/d.[49] From 1947 to 1950, European crude oil imports from the Middle

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[46] Nathan J. Citino, *From Arab Nationalism to OPEC: Eisenhower, King Saud, and the Making of U.S.-Saudi Relations* (Bloomington and Indianapolis: University of Indiana Press, 2002), 58.
[47] Ibid., 59.
[48] Muhammad Jawad Al-'Abbusi, *Oil in the Arab States* (Cairo: The League of Arab States Institute of Advanced Arab Studies, 1956), 154. Al-'Abbusi's report was translated from Arabic into English in 1958 by The Research and Translation Office in Beirut, Lebanon.
[49] Ian Skeet, *Opec: Twenty-five years of prices and politics* (New York: Cambridge University Press, 1988), 2. The information is contained in Table 1 *Oil consumption and production, 1950-59 (m b/d)*. Skeet cites BP, 1960.

East increased from 80,000 b/d to 643,000 b/d.[50] To accommodate Europe's rapidly expanding oil consumption, Western oil companies expanded Middle East oil production from 1.8 million b/d in 1950 to 4.6 million b/d in 1959.[51] Exploration efforts also substantially increased the level of proved reserves in the Middle East, which increased from 32.6 billion barrels in 1949 to 97.5 billion barrels in 1954.[52] While the oil companies rapidly and significantly expanded production in the Middle East, mounting pressure from anti-Western nationalist movements throughout the region forced companies to renegotiate concession agreements with host states. Aramco's 50/50 profit sharing agreement with the Saudi government, inspired by the Venezuelan government's arrangement with Western oil companies, served as the model that other Persian Gulf states soon adopted. One immediate impact of this rapid expansion of oil production and increased royalty rates was a dramatic increase in state revenues, which nascent states were not capable of handling due to a lack of state institutions such as a strong central bank and government ministries or agencies experienced in managing large budgets on behalf of the state.

The comparatively low production costs in the Middle East further contributed to the rapid increase in Middle Eastern oil production. According to Ian Skeet, oil production costs in the Middle East during the early 1950s were about twenty cents per barrel compared with eighty cents per barrel in Venezuela and even higher in the United States.[53] These incredibly low production costs represented extremely high profit margins for the companies, which further incentivized production. These margins also allowed the companies to accept lower prices for the oil when necessary, as the low production costs ensured a healthy profit at

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[50] Helmut J. Frank, *Crude Oil Prices in the Middle East: A Study in Oligopolistic Price Behavior* (New York and Washington: Frederick A. Praeger, 1966), 37. The information is contained in Table 4, *European Crude Oil Imports By Source, 1947-1950*. Frank cites U.S. Bureau of Mines, *International Petroleum Trade* 17, no. 9 (1947): 178-79; 18, no. 11 (1948): 222-3; 21, no. 4 (1950): 45-46.
[51] Ibid.
[52] Ibid., 72. Frank cites American Petroleum Institute, *Petroleum Facts and Figures*, Centennial Edition (1959): 432-37, 452; Twelfth Edition (1956): 348, 351-52; Tenth Edition (1952): 236-37.
[53] Skeet, 3.

nearly any price level. In this manner, Western oil companies, primarily the Seven Sisters (Exxon, Mobil, Standard of California, Gulf, Texaco, BP and Royal Dutch Shell) attempted to match global supply to global demand and influenced pricing for oil in the global market.[54]

In his 1966 study of Middle East oil prices, Helmut Frank described the oligopoly that controlled oil production prior to the formation of OPEC as a "handful of giant firms, each highly integrated from well to gasoline pump, each with far-flung if not world-wide interests, linked through joint ventures, supply and marketing arrangements, and at one time through formal agreements … highly restrictive of competition."[55] Many citizens of the Middle East regarded such complete control over the resources and economies of their states as a new form of economic imperialism.[56]

Before the formation of OPEC in 1960, production levels and pricing systems, such as the "Gulf-Plus" system used almost exclusively before World War II, were determined by Western companies and were not driven by free market forces or the host state's need for capital but rather by the companies' own strategic objectives.[57] If global supply was abundant and prices relatively low, Aramco might curtail production regardless of whether the Saudi government required income. Conversely, when global supplies tightened, the company might increase production, which substantially and temporarily increased royalty revenues. If competition was stiff at a given period, the company might offer discounts simply to move product. The net result was a fluctuating state income over which the state actually had no control, a situation that made successful state planning and development

[54] Ibid., 4-5.
[55] Frank, 1-2.
[56] Skeet, 5.
[57] The "Gulf-Plus" system established global pricing for oil based on the cost to purchase and ship oil from the Gulf Coast of the United States. For a complete description of "Gulf-Plus" and other point-based systems, see chapter 1 of Helmut J. Frank's *Crude Oil Prices in the Middle East*.

extremely difficult.[58]

In his 1956 report published by the Arab League, Muhammad Al-'Abussi observed that "the oil industry has been run primarily in the national interest of foreign states whose companies control … the level of oil production, prices, and marketing, and decide where the oil is to be refined."[59] According to Ian Skeet, it was the decision by Esso (later Exxon) to lower the market price of Arabian light crude by 14 cents a barrel in August of 1960 that was 'the final straw' for key oil producing states that formed the Organization of Petroleum Exporting Countries (OPEC) later that year.[60] By ensuring abundant and cheap supplies of oil throughout the 1950s, Western oil companies encouraged and enabled a global addiction to oil that continues to this day, but in so doing, they also likely hastened the nationalizing of oil in Persian Gulf states.

Prior to the formation of OPEC, oil companies operating in the Persian Gulf region also enjoyed privileges unimaginable in the United States, including tax exemptions at the local level: freedom to construct roads, ports, pipelines, railways and airlines; legal protection under the jurisdiction of foreign courts; and exemption from import and export restrictions, including money transfers and customs charges.[61] As Al-'Abbusi correctly observed, Arab states had little control over the companies operating within their territories. In many respects, these companies acted like parallel governments, providing many of the services one would expect from a functioning bureaucracy. This dynamic had the net effect of weakening the actual state government, and because these governments depended on the oil companies for the vast majority of their states' revenues, there was a strong incentive to

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[58] Edith T. Penrose, *The Large International Firm in Developing Countries* (Cambridge, MA: MIT Press, 1968), 162-65.
[59] Al-'Abussi, 154.
[60] Skeet, 1.
[61] Al-'Abbusi, 59.

accept the status quo. These conditions allowed the oil companies to take advantage of that "blank canvas" and create what they believed to be the ideal oil-producing state – a state where all roads literally led to oil. Unbeknownst to the companies at the time, however, the creation of mineral-dependent economies did not represent a shortcut to developed nation status. Rather, such narrowly focused economic development created a series of chronic economic and political problems for host states, a phenomenon known as "the resource curse."

The Resource Curse and the Transformation of the State

Richard M. Auty, author of *Sustaining Development in Mineral Economies: The Resource Curse Thesis*, is a widely cited expert on the unique challenges facing states dependent on resource revenues. According to Auty, "mineral economies comprise around one-fifth of the developing countries and they face special problems in achieving sustainable development and they have as a whole been less successful than resource-poor countries."[62] Noted political scientist Terry Lynn Karl observed that oil wealth "tends to produce a rentier state … [in which] rent seeking as a strategy for wealth creation is rampant. Rulers tend to stay in power by diverting revenues to themselves and their supporters through subsidies, protection, the creation of public employment, and overspending."[63]

Another term commonly associated with the Resource Curse is "Dutch Disease," a reference to the inflation of the Dutch currency following gas discoveries in Holland during the 1960s, and the adverse impact those higher exchange rates had on other Dutch manufacturing industries. Because oil is such a high-priced commodity, the establishment of an oil industry in a developing country introduces a huge and disproportionately allocated sum of money into that country's economy. External demand for oil drives up the value of a

[62] Richard M. Auty and Raymond F. Mikesell, *Sustainable Development in Mineral Economies* (Oxford: Clarendon Press, 1998), 3.
[63] Terry Lynn Karl, "Understanding the Resource Curse," in *Covering Oil: A Reporter's Guide to Energy and Development,* ed. Svetlana Tsalik and Anya Schiffrin (New York: Open Society Institute, 2005), 25.

producing nation's currency to the detriment of other domestic manufacturers hoping to sell their products abroad. As is often the case, governments of oil producing states will then subsidize these industries using oil revenues; however, when oil markets decline, those subsidies generally cannot be sustained at adequate levels. Similarly, public works projects funded by oil revenues are often abandoned or greatly delayed when oil markets decline.

Economist W. M. Corden argued that "the use of Booming Sector revenues for social service levels [in Holland] which were not sustainable … [and] politically difficult to reduce" were even more damaging to Dutch society than the adverse effect the disproportionate natural gas revenues had on the country's manufacturing.[64] In oil producing states like Iran, Libya, and Saudi Arabia, enough oil revenue is generated that there is no need to tax citizens of these countries. Without taxation, citizens typically have no claim to representation in their governments. As such, there is "no incentive to promote the protection of property rights as a way of creating wealth … and no effective mechanism by which to hold government accountable. This can lead to the unchecked abuse of state power and … make it very hard for political institutions to develop."[65]

The resource curse also includes measures that external players are willing to take against oil producing states in order to gain access to their oil reserves. Those actions may include bribery, human rights violations, war, and the support of unsavory political leaders. Even today, there exist numerous oil producing states which the United Nations classifies as Developing Countries and some which remain Least Developed Countries despite their significant oil revenues. This suggests that oil wealth alone is not capable of elevating a country to developed status.

As the global demand for oil increased rapidly during the second half of the twentieth

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[64] W.M. Corden, "Booming Sector and Dutch Disease Economics: Survey and Consolidation," *Oxford Economic Papers, New Series* 36, no. 3 (November 1984): 359.
[65] Nancy Birdsall and Arvind Sumramanian, "Saving Iraq From Its Oil," *Foreign* Affairs 83, no. 4 (July–August 2004): 81.

century, the oil industry further developed production in the Persian Gulf region, making these states even more dependent on oil and less likely to develop alternative industries. At the same time, U.S. oil companies exerted tremendous influence on state operations in the areas where they operated. According to Charles Hamilton, following the development of commercial oil in Kuwait, "The local government was reorganized … [with] finance, education, public works, security, courts, customs and post office as separate departments each headed by members of the Ruling Family and each with its staff of foreign experts and advisers."[66] Hamilton defended this state building on the grounds that the people of Kuwait understood "that anything which tends to work a hardship on their indigenous oil industry will eventually, if not at once, work a hardship on their pocketbook."[67]

These lines from Hamilton referenced several classic symptoms of the resource curse, including lack of economic diversity, the reinforcement of rent-seeking behavior and the use of oil revenues to create a welfare state for the sake of extending rule by an existing political structure, in this case, the Monarchy of Kuwait. According to Karl, "dependence on a particular export commodity [like oil] shapes not only social classes and regime types … but also the very institutions of the state, the framework for decision-making, and the decision calculus of policymakers."[68] Following the development of commercial oil in the Persian Gulf, oil factored into nearly every policy decision these states made. A symbiotic relationship had formed between U.S. oil companies and the governments of the states in which they operated. Neither party had a strong incentive to modify the relationship, despite a host of challenges, including internal unrest.

In a matter of decades, the economies of states surrounding the Persian Gulf became so singularly linked to the oil industry that the fate of these nations became linked to the

[66] Hamilton, 230.
[67] Ibid., 221.
[68] Karl, *Paradox of Plenty*, 7.

continuously fluctuating oil market. During the second half of the twentieth century, host states experienced unprecedented increases in revenues, particularly following the implementation of more favorable profit sharing agreements. The Saudi government's oil revenues increased from approximately $60 million in 1950 to approximately $150 million in 1954.[69] This sudden windfall from increased profit sharing with Aramco provided the King with significant funds to spend on the Royal family, various ministries, the military, and numerous public works projects like the Hedjaz railway and water improvements.[70] At the time, Fanning may not have considered this arrangement problematic; however, the incredible wealth and power Aramco provided the monarchy of Saudi Arabia allowed an anti-democratic form of government to strengthen its control over the state. Fanning and other executives may have rationalized that this was simply the way business was done in the Middle East: oil companies paid the King or the Sheikh with the expectation that the ruler would take care of his people.[71] Ironically, as Saudi Arabia's revenues increased throughout the 1950s, so too did its debt, which increased from $200 million in 1953 to $480 million in 1958.[72]

As Persian Gulf states experienced rapid oil development, their strategic significance to the world's superpowers increased as well. During the Cold War, both the United States and the Soviet Union used military aid as a method of extending influence. Governments of oil producing states often used their vastly improved military capabilities to suppress domestic unrest for the sake of repressing internal opposition and remaining in power. In this respect, oil development transformed the Persian Gulf into a key front of the Cold War, which in turn, contributed significantly to the arming of the Middle East.

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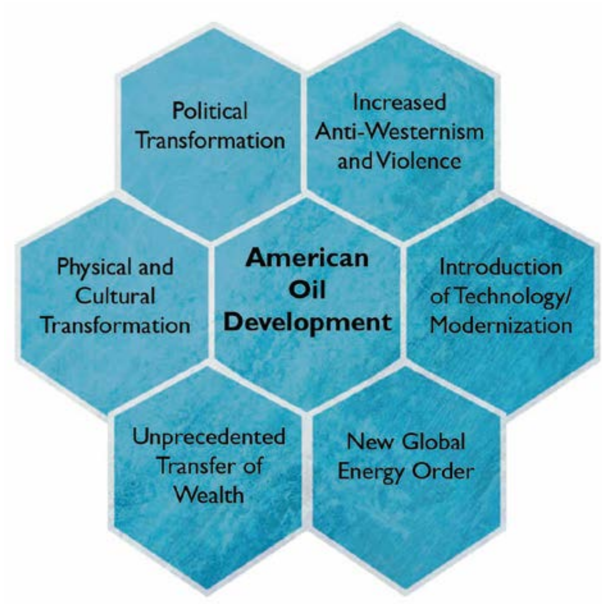
[69] Fanning, 55.
[70] Ibid., 142.
[71] Ibid., 326.
[72] Madawi Al-Rasheed, *A History of Saudi Arabia* (London: Cambridge University Press, 2010), 103. Al-Rasheed cites J. Shamiyyah, *al-Sa'ud: madihum wa hadiruhum* [Al Sa'ud: their past and present] (London, 1986), 243.

There appeared to be no elaborate plot by U.S. oil companies in 1920s and 30s to create mineral-dependent economies in the Persian Gulf; however, the convergence of events achieved just that. Following the formation of OPEC in 1960, Saudi Arabia had little choice but to continue producing oil for the global market to sustain the nation's development, fund the state's system of rentier politics, and maintain Saudi influence on the global stage. Three decades of American oil development established Saudi Arabia as the largest producer of oil in the world, one capable of rapidly increasing or decreasing production for the sake of moderating spikes and shocks in the world oil market. By 1980, the Saudi government completed its buyout of Aramco from its American partners and the venture was 100 percent owned and controlled by the Saudi state.[73] More than thirty years has passed since then and, although oil prices continue to rise and fall, the market has never lacked for crude; however, now, it is the Saudi's buying new tankers and upgrading pipelines and refineries. These states are servants of oil but more specifically, they are servants of their domestic energy industries and the global energy market.

[73] Saudi Aramco, 98.

CHAPTER IV

Implications of American Oil Development in the Persian Gulf



> *ARAMCO not only facilitated the emergence of the first wave of Saudi administrators, technocrats, civil servants and oil millionaires, but also the first political prisoners, dissidents, exiles and opposition literary figures.*[1]
>
> - Madawi Al-Rasheed, author of *A History of Saudi Arabia*

As the graphic above depicts, a number of significant transformations surrounded American oil development in the Persian Gulf region during the first half of the twentieth century. Events in the mosaic, like the rapid modernization of the Saudi state or the anti-Westernism of the Iran Hostage Crisis, occurred not as isolated incidents, but rather as connected tiles, each touching American oil development.

American oil companies significantly altered the landscape of the Persian Gulf and introduced new technologies that transformed the region, as well. In some cases, oil

[1] Madawi Al-Rasheed, *A History of Saudi Arabia* (London: Cambridge University Press, 2010), 96.

development reinforced political structures like the Gulf monarchies and the energy autocrats, while at other times it fueled anti-Westernism, which spawned new political movements like Nasserism and Islamic extremism. Royalties and revenues that Persian Gulf states earned from commercial oil represented the largest peacetime transfer of wealth the world has ever experienced and also signaled the start of a new global energy order in which Persian Gulf states figured prominently.[2]

Oil production is the current landscape of the Persian Gulf, created by American and European oil companies during the first half of the twentieth century, and that landscape has shaped the region's history. From 1980 to 1988, Iran and Iraq fought a horrific war over the disputed oil-rich Khuzistan Province and the Shatt-al-Arab waterway, which both countries used to transport oil to the Persian Gulf. Hundreds of thousands died in the conflict, which severely damaged energy infrastructure in both countries and removed an estimated four million barrels per day of crude production from the global market.[3] Iraq's invasion of Kuwait in August of 1990 represented Saddam's Hussein's attempt to claim Kuwait's vast oil reserves. When denied those resources, the retreating Iraqi army set fire to approximately 600 Kuwaiti oil wells.[4] The second war in Iraq (2003 – 2011) removed Saddam Hussein from power and placed the country's vast oil reserves under the control of a more favorable regime that steadily increased the nation's crude production through the award of oil development contracts to foreign companies. And during the Arab Spring of 2011, thousands in the Middle East protested entrenched regimes, some in states like Bahrain and Libya that remained in power largely due to oil revenues. Although one can debate the extent to which the industry impacted each of the transformations described in the graphic above, it is difficult to argue against oil development as the hub of these events.

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[2] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, (Berkeley: University of California Press, 1997), 3.
[3] Daniel Yergin, *The Epic Quest for Oil, Money & Power* (New York: Free Press, 2009), 688 - 93.
[4] Ibid., 759.

This chapter attempts to connect American oil development in the Persian Gulf from 1928 to 1960 with subsequent historical events in the region. If one collectively examines the major events of this period like a mosaic, an image emerges: American oil companies and their European colleagues collaborated on the creation of a global energy industry that facilitated a global dependence on oil by providing an abundant and relatively cheap supply from the Middle East. To satisfy the increasing word-wide demand for petroleum, particularly after World War II, these companies rapidly maximized production in their host states, and in the process, created mineral-dependent economies that have struggled with the effects of the resource course for the last half century. Although Persian Gulf states have reclaimed ownership of the production, pricing and exploration of their natural resources through nationalization, they have taken ownership of an industry that only really functions within a Western-dominated system. As such, the mosaic created is an image of Persian Gulf states as servants of oil – states with no other option but to produce oil for the global energy market. Until the landscape of the Persian Gulf region is significantly altered again, the histories of these states will continue to be shaped by oil.

Physical and Cultural Transformation

The rapid creation of a modern energy industry in the Persian Gulf changed how people worked, traveled, recreated, and interacted throughout the region. Oil development created highways, harbors and hospitals, but it also funded Saddam Hussein's palaces, Iran's purported nuclear facilities and Dubai's excessive recreational facilities that cater to wealthy citizens and tourists while straining the country's natural resources.

Today, urban areas like Kuwait City, Dubai and Doha are modern, prosperous cities, complete with skyscrapers, museums, shopping malls, banks, international airports, four star hotels and golf courses; however, there are costs associated with this type of sudden physical transformation. Consider the case of Dubai in the United Arab Emirates where development has occurred so rapidly that the state is now experiencing significant environmental challenges such as inadequate drinking water, electricity, and waste treatment facilities. To combat these problems the UAE is now desalinating the equivalent of four billion bottles of water per day, which is increasing the salinity of the Persian Gulf to dangerous levels. At the same time, the country is turning to nuclear power to satisfy its industrial demands for energy.[5] States throughout the region struggle with similar challenges brought on by rapid development. Despite increasing economic diversity, these states remain uniquely linked to the petroleum industry as evidenced by the dangerously high percentages of export revenues and government income attributed to oil and natural gas.

Dubai, United Arab Emirates, as seen from Burj Khalifa, the tallest building in the world. Through economic diversification in trade, finance and tourism, the UAE has reduced oil and gas revenues to 25% of its GDP, yet faces serious challenges providing adequate drinking water and electricity to sustain its rapid development.[6]

In his memoir, Charles Hamilton of Gulf Oil boasted that the industry transformed the

[5] Liz Alderman, "Rapid Growth in Dubai Outstrips Its Resources," *The New York Times,* October 28, 2010.
[6] Central Intelligence Agency, "United Arab Emirates," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/ae.html (accessed July 25, 2013); iStockphoto, "View on Dubai from Burj Khalifa," http://www.istockphoto.com/stock-photo-23322108-view-on-dubai-from-burj-khalifa.php (accessed July 25, 2013).

Middle East "from camels to Cadillacs in a single generation" without even considering whether 'Cadillacs' or the American lifestyle represented a desirable outcome for Persian Gulf states.[7] In starting with a blank canvas, U.S. oil companies created petro-states and whenever possible, emulated American society with their state construction. U.S. oil executives attempted to promote the American dreams of home ownership and entrepreneurship to Arabs living in Muslim states under monarchy rule, where the local populations did not enjoy the same rights as citizens in democratic states. In the process of modernizing or 'Americanizing' their host states, oil companies transformed the culture of the region, as traditional lifestyles involving pearl diving, crafting, caravanning and agriculture gave way to jobs directly or indirectly related to oil.

Political Transformation

Initially, the U.S. entrée to the Persian Gulf region may have contributed to the ending of colonialism. The United States, which had no colonial history in the region, served as an alternative resource for under-developed states in need of foreign capital, technical expertise and military protection. Officially, colonialism ended in the Middle East following World War II when France withdrew from Lebanon and Syria in 1946, and the British government concluded its mandate over Palestine in 1948 and removed its troops from Egypt in 1949. The British presence in Iraq ended following the Iraqi revolution of 1958. By 1962, Tunisia, Sudan, Morocco and Libya had all achieved independence.[8] During this timeframe, oil development led by American and European companies flourished throughout the region, which required an ever-increasing number of oil camps, pipelines, refineries, loading docks, and oil tankers. By the end of 1960, Bahrain had already produced 246 million barrels of crude, Kuwait and Saudi Arabia produced roughly 4.25 billion barrels each, while the

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[7] Charles W. Hamilton, *Americans and Oil in the Middle East* (Houston: Gulf Publishing Company, 1962), 12.
[8] Dankwart A. Rustow, "Dependability and Dependence: Political Prospects for Middle East Oil," in *Oil Imports and the National Interest* (New York: Petroleum Industry Research Foundation, Inc., March 1971), 27.

American and European-owned IPC produced more than 2.7 billion barrels in Iraq. Oil production in Qatar and the Neutral Zone was also well underway and steadily increasing when OPEC formed in 1960.[9]

Over time, American oil development impacted political structures of the Persian Gulf region in two primary ways: it either reinforced existing political structures through oil revenues or it contributed to the breakdown of political structures by triggering a strong anti-Western response to oil exploitation. Countries with relatively small populations (hence high GDP per capita) and strong ties to the West like Bahrain, Kuwait and Qatar experienced the least political transformation over the last half century. Throughout the development of their commercial oil industries they have remained constitutional monarchies, although now free from British governance, and each of these states nationalized their oil industries peacefully in the 1970s.

In 1958, Iraq experienced a nationalist revolution led by Abd al-Karim Qasim, who overthrew the Western-backed King Faisal and nationalized the Iraq Petroleum Company.[10] A handful of strongmen ruled the country for nearly half a century, with Saddam Hussein serving as President from 1979 to 2003. Following Iraq's August 1990 invasion and unsuccessful occupation of Kuwait, the country struggled for years under a series of UN sanctions aimed at curbing the Iraqi dictator's power, while the UN's Oil-For-Food program provided a mechanism for returning Iraqi crude to the global market. In 2003, the United States again led an international force in its invasion and occupation of Iraq over Saddam Hussein's purported stockpiling of weapons of mass destruction. That campaign lasted until December of 2011 with the former Iraqi dictator executed by hanging on December 30,

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[9] Hamilton, 287-89.

[10] Hafizullah Emadi, "China and Iraq: Patterns of Interaction, 1960-1992, *Economic and Political Weekly* 29, no. 53 (December 31, 1994): 3315-18.

2006.[11]

Iran, under President Mohammad Mosaddegh, nationalized the Anglo Iranian Oil Company in 1951. Oil production immediately faltered. A CIA-backed coup in 1953 replaced Mosaddegh with a pro-western Prime Minister, allowing the Shah to remain in power until Iran's Islamic revolution of 1979. An Islamic theocracy has ruled the country for the last thirty-five years despite four rounds of UN sanctions primarily over Iran's purported nuclear weapons program.[12]

Saudi Arabia is a unique case in that the royal family has remained in power since the country's first oil concessions, but only through its relationship with Wahhabism, a traditional form of Islam. Although the continued rule of the Saud line gives the appearance of stability, the kingdom has experienced a number of domestic terrorist attacks against Westerners, which prompted the United States to close its military base in Dhahran in 2003.[13]

Also, fifteen of the nineteen 9/11 hijackers were Saudis.

Some governments in the region have attempted to diversify their economies through trade, finance, tourism and the creation of Sovereign Wealth Funds (SWFs), while maintaining moderate foreign policies. The UAE is perhaps the most diversified and stable of the Persian Gulf states. Qatar, with its commitment to liquefied natural gas production and moderate foreign policy has also emerged as a stable Gulf state. Kuwait, with its massive SWF, the Kuwait Investment Authority, is also using oil revenues to diversify its economy; however, 95% of the country's export revenues and 95% of its government income still come from oil and gas.[14] Certain states in the region, like Saudi Arabia and Iran, have

[11] Central Intelligence Agency, "Iraq," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html (accessed August 5, 2013).

[12] Central Intelligence Agency, "Iran," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html (accessed August 5, 2013).

[13] Central Intelligence Agency, "Saudi Arabia," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html (accessed August 5, 2013).

used oil wealth as a mechanism to gain regional and international political clout, albeit with different agendas. While other states, like Iraq, Libya and Egypt have experienced considerable internal unrest and appear to have entered periods of great political uncertainty.

The oil concessions American companies like Socal and Gulf signed with Persian Gulf states in the first half of the twentieth century made the royal families of Saudi Arabia, Bahrain and Kuwait extremely wealthy and powerful while the situation of the average citizen in these countries improved only gradually. Since American oil companies negotiated with these rulers, it was imperative for these companies that incumbent governments remain in power; otherwise, the legitimacy of the concessions might be in question. This dynamic also explained some of the state development undertaken by oil companies and the state aid awarded to many of these regimes by the United States government. The millions of dollars these states received annually from oil revenues provided much of the capital needed to develop their nations, even though these states remained in the vulnerable position of having this development funded almost exclusively by mineral wealth. Oil revenues also allowed these regimes to solidify their positions of power through the creation of modern militaries and further entrenched regional monarchies by funding a system of rentier politics, in which this newfound wealth could buy domestic political support through payments to Sheiks and tribal leaders.

In adapting their enterprise to regional political systems such as monarchies, theocracies and dictatorships, the oil companies could not truly be 'for the employee' as this would have undermined the authority of incumbent governments in charge of key oil producing states. Thus began the dilemma of U.S. foreign policy in the Middle East that spawned the energy autocrats of the second half of the twentieth century, including the Shah of Iran, Saddam Hussein in Iraq and Muammar Ghaddafi in Libya. Maintaining these

[14] Central Intelligence Agency, "Kuwait," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/ku.html (accessed August 4, 2013).

regimes achieved temporary stability for the sake of continued crude production; however, the oil revenues generated for these corrupt governments often strengthened the state against the position of the common citizen, thus making such revenues a strong anti-democratic factor. In this light, Iran's Islamic Revolution of 1979 represented a response to the nearly forty-year reign of the pro-Western Shah, who solidified his rule following the CIA-sponsored coup of Mossadegh in 1953, who nationalized Iranian oil in 1951 – a chain of political events directly linked to oil development.

Oil also tipped the regional balance of power in favor of oil producing states. Whereas Arab nationalists like Egypt's Nasser wielded significant regional influence in the middle of the twentieth century, the formation of OPEC brought an end to Arab nationalism by dividing the region economically into states with oil and those without it. Today, it is the large oil producing states like Saudi Arabia and Iran that vie for regional prominence, while states like Egypt and Syria struggle with internal political dissent.

Finally, oil has changed the global balance of power. Following the collapse of the Soviet Union in 1991 and the U.S.-led invasion of Iraq during that same year, oil producing states of the Persian Gulf region sought new relationships with emerging nations like China and India for the sake of balancing out the hegemonic position of the United States in the region. In January of 2006, King of Abdullah made the first visit to China by a Saudi ruler. That same year, China's President Hu Jintao visited Riyadh, as the two nations advanced their mutual interests in energy and trade.[15] Today, China has replaced the United States as the top consumer of Saudi oil.

Increased Anti-Westernism and Violence

With a broader historical perspective, acts of anti-Westernism and violence such as the Iran Hostage Crisis, both Gulf Wars in Iraq and even 9-11 assume a new context. In

[15] Stein Tonnesson, "China's Quest for a Harmonious Middle East?" (paper presented at the *Statoil Seminar,* Stavanger, Norway, March 28, 2007).

transforming the Middle East into the world's largest petroleum-producing region, American oil development altered the cultures, politics, and economies of the region, which contributed to the politicizing and militarizing of the region, as well. Oil elevated the strategic importance of the region, particularly to the two Cold War superpowers, the United States and the Soviet Union. As the Second World War gave way to the Cold War, states in the Persian Gulf region increasingly received military assistance from the US, the UK and the Soviet Union. The United States exported millions of dollars of arms to Iran, Iraq and Saudi Arabia beginning in the 1950s. Over time, the Soviet Union responded by arming states in the region as well. For instance, from 1958 through 1960, the Soviets exported $455 million worth of arms to the newly formed Iraqi government.[16] The combustible combination of oil wealth, armament, and anti-Westernism rendered the Middle East one of the most violent regions in the world in the second half of the twentieth century.

The American oil industry created numerous signs of Western presence in the Persian Gulf. Every drilling rig and oil tanker, every American oil executive driving a luxury vehicle to his private community served as a visible reminder to millions of Muslims that Western powers controlled the resources beneath their own soil. In stamping the region with such a heavy footprint, the U.S. oil industry likely fueled anti-Western sentiments. At the same time, the millions of dollars in oil revenues the industry paid to state governments that forced their populations to acquiesce to the existing arrangements facilitated the long-term grip on power these regimes held – another source of discontent directly linked to the oil companies.

At various times in the last quarter of the twentieth century, the U.S. government supported autocrats like Saddam Hussein in Iraq, Muammar Gaddafi in Libya and Hosni Mubarak in Egypt because they had the military power and the will to prevent domestic attacks against the petroleum industry, a dynamic that protected American investments and

[16] SIPRI Arms Transfers Database, "TIV of arms exports to Iraq, 1950-1960," http://www.sipri.org/databases/armstransfers/ (accessed June 2, 2013).

kept oil flowing for the benefit of the global energy market. By enhancing the military capabilities of these states for regional stability, the U.S. government helped entrench these regimes that also used their upgraded armed forces to discourage or quell social unrest. These autocrats ruled their countries in a police state, frequently torturing and imprisoning opposition figures, thus making domestic reform extremely difficult. Such short-sighted U.S. foreign policy made it virtually impossible for democracy to take root in the region.

During the buildup to the U.S. invasion of Iraq in 2003, many throughout the world assumed President George W. Bush's primary motive for the invasion was to secure access to Iraq's oil for U.S. companies. Now, a decade later, aside from ExxonMobil's current efforts in Kurdistan, Chinese companies are emerging as the leading foreign presence in the development of Iraq's massive reserves. That situation could change over time, but it suggests the invasion was not about securing access to oil for U.S. companies, but about getting Iraq's oil back on the global market, regardless of what company or nation developed it. While Iraq's oil production has returned to pre-war levels, the U.S. occupation triggered a wave of sectarian violence throughout the country as various religious groups – Sunni, Shi'a and Christians – and their affiliated political parties have attempted to fill the power vacuum created by the removal of Saddam Hussein. In Iraq, controlling the government means controlling the state's massive revenues from oil. As Terry Lynn Karl observed in *The Paradox of Plenty*, external conflict and internal unrest are two of the chronic conditions states struggle with when their economies are mineral-dependent.

Unprecedented Transfer of Wealth

The nationalizing of oil ushered in an era of state capitalism, which significantly increased state revenues in the Persian Gulf region and eventually spawned the massive Sovereign Wealth Funds (SFWs) of the 20th and 21st centuries. As Table 3 illustrates, oil revenues in Persian Gulf states increased tremendously following the formation of OPEC in

1960.

Table 3: Oil Revenues for Persian Gulf States in OPEC, 1961 - 1980
(millions of U.S. dollars)

Year	Iran	Iraq	Kuwait	Qatar	Saudi Arabia	UAE	Total
1961	291.2	265.4	461.4	54.3	377.6	0	1449.9
1962	342.3	266.3	480.3	56.6	409.7	2.0	1557.2
1963	380.0	308.0	521.4	60.5	455.2	6.4	1731.5
1964	482.2	353.1	566.4	63.8	523.2	12.3	2001.0
1965	514.1	367.9	598.2	69.2	664.1	33.3	2246.8
1966	608.2	394.2	637.8	90.7	789.9	99.7	2620.5
1967	751.6	364.4	714.7	105.4	903.6	109.6	2949.3
1968	853.4	487.9	701.8	111.8	926.4	153.4	3234.7
1969	922.8	479.0	759.1	117.6	949.2	190.8	3418.5
1970	1109.3	521.0	820.7	122.4	1214.0	233.0	4020.4
1971	1851.1	840.0	954.3	199.6	1884.9	431.0	6160.9
1972	2396.0	575.0	1403.7	255.2	2744.6	551.0	7925.5
1973	4599.2	1843.0	1734.7	463.1	4340.0	900.0	13880.0
1974	17821.8	5700.0	6542.6	1849.0	22573.5	5536.0	60022.9
1975	18433.2	7500.0	6393.1	1684.9	25675.8	6000.0	65687.0
1976	22042.0	8500.0	6869.5	2091.9	30754.9	7000.0	77258.3
1977	21210.2	9631.0	7515.7	1994.0	36538.4	9030.0	85919.3
1978	19300.0	10200.0	7699.5	2200.0	32233.8	8200.0	79833.3
1979	20500.0	21291.0	16863.0	3642.0	57522.0	12862.0	132680.0
1980	11600.0	25981.0	18016.0	5377.0	102212.0	19344.0	182530.0
Total	146008.6	95868.2	80253.9	20609.0	323692.8	70694.5	737127.0

Source: OPEC. Annual Statistical Bulletin 1980, p. XLIX.[17]

In Iraq, annual oil revenues increased nearly tenfold, from $265.4 million in 1961 to $25.981 billion in 1980. In Saudi Arabia, annual oil revenues increased even more dramatically during this two decade period, from $377.6 million in 1961 to $102.2 billion in 1980. As a result of these incredible windfalls, many states formed Sovereign Wealth Funds to reinvest a portion of their mineral revenues in an effort to diversify their economies. These Sovereign

[17] Abdulaziz Al Sowayegh, *Arab Petro-Politics* (New York: St. Martin's Press, 1984), 47. Al Sowayegh's table includes revenues for all OPEC member states and is titled "OPEC Member Countries' Oil Revenues, 1961-1980."

Wealth Funds have spurred additional development in the Persian Gulf region and also transformed these states into investors in the West. As a result, these states have a strong incentive to support Western economies with energy, so that their investments in the West will remain strong.[18]

Table 4: 2013 Sovereign Wealth Fund Rankings – Persian Gulf States
(World's Largest Funds by Assets Under Management)

Country	**Fund Name**	**Assets** ($ US billions)	**Inception**	**Ranking**
UAE – Abu Dhabi	Abu Dhabi Investment Authority	$627.0	1976	2
Saudi Arabia	SAMA Foreign Holdings	$532.8	N/A	4
Kuwait	Kuwait Investment Authority	$386	1953	6
Qatar	Qatar Investment Authority	$115	2005	12
UAE – Dubai	Investment Corporation of Dubai	$70	2006	15
UAE – Abu Dhabi	International Petroleum Invest. Co.	$65.3	1984	16
UAE – Abu Dhabi	Mubadala Development Company	$53.1	2002	20
Iran	National Development Fund of Iran	$52	2011	21
Oman	State General Reserve Fund	$8.2	1980	37
Bahrain	Khazanah Nasional	$7.1	2006	38

Source: SWF Institute, August 2013[19]

As Table 4 indicates, 8 of the top 25 Sovereign Wealth Funds in the world are owned by Persian Gulf States; all funded by oil and gas revenues. As the global population and demand for energy increases in the twenty-first century, the price per barrel of oil is likely to continue rising, resulting in even greater revenues for oil-producing states. Despite these efforts, most states in the region remain dependent on the petroleum industry for the majority of their export and government revenues. For instance, Qatar has the highest per capita income of any country in the world. Despite some attempts at economic diversification, hydrocarbons continue to provide roughly 85% of export earnings and 70% of government

[18] Helen Lackner, *A House Built on Sand – a political economy of Saudi Arabia* (London: Ithaca Press, 1978), 215.
[19] Sovereign Wealth Fund Institute, "Fund Rankings," http://www.swfinstitute.org/fund-rankings/ (accessed August 22, 2013).

revenues. Based on current output levels, Qatar's oil reserves are projected to last just another 57 years.[20]

New Global Energy Order

The energy industry has changed dramatically in the past one hundred years: from the oligopoly of the 'Seven Sisters' in the first half of the twentieth century, to the creation of OPEC and National Oil Companies during the second half of the century, to today, where China is the world's leading consumer of energy and the second largest consumer of oil. At the same time, developing countries in Latin America and Africa have become major oil producers and key players in the global energy market. Technology has also developed rapidly in the last century, allowing energy companies to pursue hydrocarbons in unconventional reserves that oil and gas executives would not have dreamed of exploring one hundred years ago. As a result of these changes, wealth has redistributed to new centers of power in Asia, Russia, Latin America, and the Middle East and new alliances are forming across geographic borders.

The vast majority of the world's proved oil reserves are now controlled by developing states and not by the developed countries that pioneered the industry. Saudi Arabia (1st), Iran (4th), Iraq (5th), Kuwait (6th) and the UAE (7th) are among the top seven countries in the world terms of proved oil reserves.[21] Persian Gulf states also play a key role in oil production as Saudi Arabia (1st), Iran (5th), UAE (7th), Kuwait (9th) and Iraq (11th) are among the top twelve producers in the world.[22]

The geopolitics of oil and energy security is a significant factor driving cooperation among North American producers. Since the terrorist attacks of 9/11, Canada and Mexico

[20] Central Intelligence Agency, "Qatar," CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/qa.html (accessed July 25, 2013).
[21] United States Energy Information Administration, "2011 World Proved Reserves," http://www.eia.gov/countries/index.cfm?view=reserves (accessed July 22, 2013).
[22] United States Energy Information Administration, "2011 World Oil Production," http://www.eia.gov/countries/index.cfm?view=production (accessed July 22, 2013).

have become the top two sources of imported oil for the United States, while Saudi Arabia is third and Iraq is a distant sixth.[23] From 2001 to 2012, U.S. imports of crude oil and petroleum products from OPEC countries decreased by more than 450 million barrels per year.[24]

In the post 9/11 world, the West and the Middle East are widely regarded as two civilizations locked in an epic struggle. The West remains heavily identified with Christianity, consumerism, democracy and an elaborate military industrial complex, while the Middle East remains associated with Islam, Sharia Law, oil and terrorism. Even before violence between the West and the Middle East escalated in the twentieth century, British historian, Arnold Toynbee observed that groups and states associated with Judaism have been continuously engaged in conflict with one another due to the self-centered nature of their world views.[25] With the politicization of Islam and Christianity, those conflicts have intensified. Following events such as 9/11, the war in Iraq, the war in Afghanistan, the assassination of Bin Laden in Pakistan, Arab Spring and the Syrian civil war, one could easily believe that the struggle between the West and the Middle East is the great story of the twenty-first century. However, that perception is largely due to the fact that the West controls the major media outlets and creates this message based on its self-centered perceptions and interests. As this conflict between the West and the Middle East plays out, the Buddhaic states of China and India continue their rise on the global stage. China has now amassed foreign currency reserves in excess of $3 trillion U.S. dollars, while the United States struggles with a national debt in excess of $16 trillion dollars. A transfer of wealth and power is clearly underway, yet the media and, to some extent, the academic community

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[23] United States Energy Information Administration, "Crude Oil and Total Petroleum Imports Top 15 Countries," http://www.eia.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/current/import.html (accessed August 5, 2013).
[24] United States Energy Information Administration, "U.S. imports from OPEC countries of crude oil and petroleum products," http://www.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mttimxx1&f=a (accessed August 4, 2013).
[25] Arnold Toynbee, *An Historian's Approach to Religion* (New York: Oxford University Press, 1956).

continue to focus more on the ideological differences between the West and the Middle East than the rise of the East.[26]

Just as the Americans gained a foothold in the region by virtue of the fact that they were not British, one could argue that the Chinese have also succeeded in the region by virtue of the fact that they are not the United States. Given its lack of colonial history and its multi-faceted engagement with the Middle East, China appears better poised for long-term success in the region. China's oil imports from the Middle East have increased from 8.4 million barrels per year in 1990 to approximately 700 million barrels per year in 2011.[27] In December of 2009, China's imports of Saudi oil broke the one million barrels per day mark as China supplanted the United States as the top consumer of oil from the kingdom.[28] The kingdom is diversifying its energy relations away from the United States, an inevitable move given the geopolitics of oil and the sheer numbers of persons living in countries like China and India. What has not changed is that countries like Saudi Arabia remain committed to the production of oil. They are not servants of the United States or China per se, but to the production of the commodity itself.

Introduction of Technology/Modernization

In 1956, Arnold Toynbee observed that "Technology has replaced Religion as the pursuit in which Western Man has put his treasure in the Late Modern Age. It is natural that he should have expected his new idol to reward him for his worship by enabling him to fill the spiritual vacuum, which he had created by discarding his ancestral religion."[29] Whether intended or not, Western oil companies have acted as 'Trojan horses' of modernization in the

[26] Manochehr Dorraj and James English, "China's Strategy for Energy Acquisition in the Middle East: Potential for Conflict and Cooperation with the United States," *Asian Politics & Policy* 4, no. 2 (April, 2012): 173-91.
[27] United States Energy Information Administration, "China Country Analysis Brief," http://www.eia.gov/countries/cab.cfm?fips=CH (accessed March 02, 2012).
[28] Erica Downs, "China-Gulf Energy Relations," in *China and the Persian Gulf: Implications for the US*, ed. Bryce Wakefield and Susan L. Levenstein (Washington, DC: Woodrow Wilson International Center for Scholars, 2010), 62-63.
[29] Toynbee, 216.

Persian Gulf. Once American companies established these industries, host states had no choice, even after nationalization, but to continue modernizing their oil industries for the sake of remaining relevant and profitable. New technologies, particularly cell phones and the internet, have played a critical role during social uprisings such as Iran's Green Movement following the disputed re-election of Mahmoud Ahmadinejad in 2009 and the Arab Spring, which started with demonstrations in Tunisia in December of 2010 and continues in 2013 with civil war in Syria.

Technology offers citizens of the Middle East something that feels powerful, that feels like development and progress, but it is also something that only really functions within the Western system. So while Toynbee is correct, the initial introduction of this technology has aggravated the stability of the world, perhaps that is just the initial response to this new challenge. At some point, as states become more deeply immersed in the Western systems of energy, finance, and technology, conflict makes less and less sense, as one would only be fighting against one's own interests. If the Western system delivers energy and technology to the world, then fighting against that system will only deprive a state of those things, which threatens the path toward developed nation status.

It remains to be seen whether the Arab Spring will culminate in democratizing events that transform traditional Islamic societies, but one can clearly see a connection between the introduction of technology and modernization in oil producing states during the first half of the twentieth century and the citizens of the region using technology as a tool of social change in the twenty-first century. Despite entrenched monarchies in the Gulf States and a hardline Islamic theocracy in Iran, younger generations understand the implications of technology and their leaders' inability to harness its great power, as evidenced by the massive Arab Spring protests. The situation creates a conundrum for regional leaders. To accept the oil industry means the acceptance of technology and modernization. If these leaders do not constantly upgrade their industries with the latest technologies, they risk losing market share and profitability in an increasingly competitive global energy market. Yet this technology represents a potentially powerful tool to be used by the masses against existing governments. To reject the technology would deny lifeblood to their energy industries, which remain their source of power, domestically and internationally. They have little choice but to modernize and continue producing oil for the global energy market.

CONCLUSION

In the late 1920s and early 1930s, six oil companies from the United States finally opened the door to the Persian Gulf. Socal's concessions in Bahrain and Saudi Arabia established the Americans as key players in the Middle East; however, the American companies quickly aligned with their colonial predecessors through lucrative partnerships such as Kuwait Oil Company and the Turkish Petroleum Company (later the Iraq Petroleum Company) and through a common, overarching goal of ensuring abundant and relatively cheap supplies of oil flowed from the Middle East to the West, particularly Europe. By the middle of the twentieth century, the global oil industry was firmly in control of the 'Seven Sisters' – five American and two British companies that determined production, pricing and the transportation of oil throughout the world.

United States foreign policy in the Middle East evolved from nearly non-existent in 1928 to a high priority in the middle of the twentieth century, as the Second World War demonstrated the significance of oil for military and economic security. During this period, the United States transformed from an isolationist state to the world's leading superpower, while U.S. imports of crude oil increased six-fold, from 58,449,000 barrels per year in 1927 to 371,575,000 barrels per year in 1960, growth that rendered the country a net importer of oil in 1949.[1] The U.S. oil industry routinely turned to the United States government to help

[1] United States Energy Information Administration, "U.S. Imports of Crude Oil, 1910-2012," http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRIMUS1&f=A (accessed April 21, 2013).

resolve issues and advance its interests in the Persian Gulf region; therefore, it could be argued that U.S. oil companies shaped U.S. foreign policy in the Middle East during the pre-war era by obtaining government support of its corporate objectives.

American exceptionalism guided much of the post-war U.S. foreign policy, a belief common in the United States that because the country emerged as the most powerful nation following the war proved the American experience and way of life was somehow unique and better from other nations of the world. The rapid success of the Marshall Plan only served to validate this view that America's potent combination of capitalism and democracy had *saved* Europe and therefore should be replicated throughout the developing world. Through Modernization Theory, the U.S. government came to regard the U.S. oil industry as a tool of global development, which suited its foreign policy objective of creating pro-democracy capitalist states capable of buffering and countering Soviet influence.

Millikan and Rostow's *Proposal* represented the marriage of capitalism, or economic development through industry, and the promotion of democracy worldwide as a foreign policy priority, a view that inevitably linked American oil development to U.S. foreign policy. When European colonization ended following World War II, nascent states emerged throughout the Middle East and Africa. Soon enough, the developed world realized that these states needed more than just modernization to succeed. Most underdeveloped countries lacked not only the monetary resources to develop, but also the state capacity to manage large revenues and resolve complex issues like poverty, disease, and terrorism. The U.S.

government attempted to fill this gap by supporting state development as a foreign policy objective. Oil companies shared this objective as a functioning state ultimately stabilized oil flows and served the interests of the industry as well.

Just as U.S. oil companies transformed from competitors to collaborators in their relations with the British, they also quickly became associated with an increasingly hegemonic U.S. foreign policy, which facilitated the exploitation of Persian Gulf oil for the economic recovery of Europe and sought to economically develop these states for the sake of transforming them into democratic or, at least, non-communist societies. These indelible links between the U.S. oil companies and the U.S. government formed during the industry's first three decades in the region and likely fueled anti-Western attitudes toward both, as host states struggled with mineral-based development throughout the twentieth century.

The leaders of Saudi Arabia and Bahrain recognized that the development of commercial oil within their countries represented their best chance at modernizing rapidly. Early American experts conducted extensive geological surveys, including hydrographic surveys of coastal waters that served the Arabian oil industry for years to come and in Bahrain and Saudi Arabia American oil companies helped eradicate malaria and generally supported the improvement of public health.[2] Despite performing some philanthropy and infrastructure projects to gain favor with their host states, U.S. oil companies in the Middle East mainly invested in projects that furthered their objective of producing oil in commercial quantities and delivering it profitably to market. This included not only oil wells and oil camps, but also refineries and chemical plants to further process the crude oil into secondary products, and roads, pipelines and dock facilities to transport oil to markets.

[2] Philip C. McConnell, *The Hundred Men* (Peterborough, NH: Currier Press, 1985), 16.

Oil royalties and revenues funded substantial development in the Persian Gulf; however, much of this state-driven development directly or indirectly supported the petroleum industry. The development was so singularly focused on oil production that insufficient economic diversity existed to protect these economies from the inevitable downturns commonly occurring in the oil market. Because Western oil companies controlled production levels, pricing, markets, and the creation of infrastructure that supported the industry, Persian Gulf states working with these companies had very little control over their own economies. In his 1956 report published by the Arab League, Mohammed Al-‘Abbusi observed “there is no strong direct connection between the [oil] industry and the economy of the countries in which it operates.”[3] Specifically, Al-‘Abussi pointed to the fact that oil companies operating in the Middle East relied on capital, specialized personnel, and administration from the West, while producing a product mainly exported to Western markets.[4] The oil industry brought significant revenues into the states in which they operated, but these industries acted autonomously and not in conjunction with the other elements of the state’s economy. In developing their businesses, U.S. oil companies helped build much of the early infrastructure of oil-producing states in the Middle East. They also locked these states into oil production.

Oil companies from the United States obtained concessions in the Persian Gulf region during the first half of the twentieth century to pursue capitalist gain and achieve strategic objectives. It is unlikely that American companies developed commercial oil production in Persian Gulf states to cause them economic disaster. Corruption, conflict and other chronic problems may have resulted from increased oil production and revenues, but they were not the likely goal of U.S. oil companies. These companies needed an ever-increasing amount of

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[3] Mohammed Al-Abbusi, *Oil in the Arab States*, trans. The Research and Translation Office (Cairo: The League of Arab States Institute of Advanced Arab Studies, 1956), 58.
[4] Ibid.

oil to fill their refineries and satisfy the growing demand of consumers throughout the world. Therefore, the story of American oil development in the Persian Gulf region from 1928 to 1960 could be one of corporate goals and unintended consequences.

For states of the region, American oil development created a conundrum: oil simultaneously provided Persian Gulf leaders with the financial resources needed to modernize their societies but also linked these states more tightly to the same Western powers that exploited the region for decades. Although these states have long since nationalized their domestic oil companies, the infrastructure created by the American oil industry during its first three decades in the region – wells, pipelines, refineries, harbors, a workforce trained in oil operations – all reinforced oil production in these states, while revenues from these operations tended to reinforce existing political structures by funding systems of patronage or military-control over autocratic societies. In this dynamic, oil production reinforced political structures and in turn, these governments had a strong incentive to continue supporting oil production. That potent and self-perpetuating dynamic ensured continued production, revenue generation, and the emergence of a new global energy order, which featured Persian Gulf states no longer exploited by the West, but in partnership with the West. The elevated status oil affords Persian Gulf states in the global energy order further reinforces oil production as stopping or even diminishing production might reduce that state's wealth, prestige, and political power. This dynamic has increased anti-Westernism and violence from those groups in the region excluded from the oil wealth and power. Ironically, many in the region are now turning to technology for the sake of political transformation and that technology arrived in the region primarily through the energy industry.

The current dynamic in the region is unlikely to change unless the physical landscape is transformed again, through economic diversification away from oil, which is difficult for states when oil production remains so lucrative. In another twist of irony, oil becomes even more lucrative during periods of political instability when speculators invariably drive the prices on crude futures upward. In this respect, political instability and even conflict tend to further reinforce oil production. Finally, American oil development has also contributed to a growing divide in the Muslim world between those willing to embrace modernity and those seeking a return to tradition. Like Houdini in chains, these states now seek to unlock themselves from the trap of what might be called 'oil determinism.' They are in a race against the clock to diversify their economies away from oil before their oil is exhausted or obsolete. For now, they remain servants of oil.

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ABSTRACT

SERVANTS OF OIL:
HISTORY AND IMPLICATIONS OF AMERICAN OIL DEVELOPMENT
IN THE PERSIAN GULF, 1928 – 1960

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This work examines the entrée of American oil companies in the Persian Gulf in the late 1920s and early 1930s up to the formation of OPEC in 1960 and finds the present U.S. entanglement in the Middle East related to those first three decades of American oil exploitation. As American oil companies aligned with the British and their colonial history and the U.S. government and its increasingly hegemonic and pro-Israeli foreign policy, the industry came to represent a new American imperialism, which intensified anti-Western sentiment in the twentieth century.

With the formation of OPEC and nationalization, oil-producing states gained control over the production and pricing of crude; however, those states assumed ownership of an industry that dominated their domestic economies and only functioned within the Western system. While oil provided regional leaders with economic and political power, it also linked them to the West and made them servants of oil.