



OIL AGREEMENTS IN IRAN

OIL AGREEMENTS IN IRAN (1901-1978): their history and evolution.

Introduction. The history of Iranian oil agreements began with an unprecedented concession granted by Nāṣer-al-Din Shah in 1872 to Baron Julius de Reuter, a British subject of German origin (see [CONCESSIONS ii](#)). The concession, which covered the entire territory of Persia, gave Reuter the exclusive rights and monopoly, for seventy years, to exploit all mineral resources including, but not limited to, coal, iron, copper, lead, and petroleum, and to construct and operate roads, railways, telegraph lines, water canals, irrigation systems, and customs services. Reuter's concession was cancelled a few years later because of strong political pressure and opposition from the Czarist government, as well as a number of eminent Persians. Reuter never accepted the cancellation of his concession and repeatedly filed claims for compensation. Eventually, as a result of the intervention by the British minister in Tehran, Nāṣer-al-Din Shah granted a new concession to Reuter in 1889, which became known as the *Bānk-e Šāhi* (Imperial Bank of Persia) concession. Under this new concession the bank had the right to exploit all mineral resources throughout the country, except gold, silver, and other precious metals. The bank subsequently sold its mineral rights to a British company, called the Persian Mining Corporation, for the sum of 150,000 Pounds Sterling. Ten years later, the Persian Mining Corporation's concession was annulled due to lack of financing (Fāteḥ, pp. 245-49).

The concession agreements, which were the legal basis on which the oil industry was run in most oil producing countries until early 1970s, can best be



summed up as an arrangement whereby a government grants exclusive rights to a company or an individual to carry out petroleum operations in a defined area for a finite period. The concessionaire bears the burden of the financial and commercial risks but acquires the right to excavate the oil and dispose of it freely in exchange for the payment of certain specified sums to the government as the owner of resources (Parra, pp. 8-10).

1901: D’Arcy concession. The chain of events leading to the entry of Persia into the international oil scene began with Antoine Ketābči Khan, the Persian commissioner-general at the Paris Exhibition of 1900. Ketābči Khan, an Armenian by descent, had held several posts in the Persian government, including the directorship of the customs service. Although the ostensible reason for Ketābči’s visit was the opening of the Paris Exhibition, his main purpose was to find an investor in Europe willing to take up the petroleum concession in Persia (Yergin, pp. 134-35). In Yergin’s words, what was to emerge from Ketābči’s efforts would prove to be a business transaction of historic proportions. The deal would initiate the era of oil in the Middle East, and Persia itself (or Iran, as it would be known from 1935 onward) would emerge into prominence on the world oil stage. In Paris, Ketābči sought the aid of Sir Henry Drummond Wolff, formerly the British minister in Tehran (1887-90), who suggested William Knox D’Arcy (q.v.), an English entrepreneur and financier who had made a fortune in gold mining in Australia and was eager to examine this proposition. On April 16 1901, D’Arcy’s representative arrived in Tehran for prolonged negotiations. The rivalry between Britain and Czarist Russia had at that time turned Persia into a major factor in Great Power diplomacy. Lord Curzon (q.v.), Viceroy of India, described Persia as one of “the pieces on a chessboard upon which is being played out a game for the domination of the world.” (Yergin, p. 136) The Russians wanted to assert their political dominion over Persia and exclude the other Great Powers. For the British minister to Persia, Sir Arthur Henry Hardinge (q.v.), the most important objective of British policy was to resist such an incursion. Here was where D’Arcy and his oil venture could help: A British oil concession would assist in righting the balance against Russia. And thus Britain gave its support to the venture.

At the same time, the prodigal Mozaffar-al-Din Shah and his government were in dire need of ready cash and therefore, on 28 May 1901, he granted D’Arcy an oil concession valid for sixty years, with exclusive rights to oil exploration in the entire country apart from the five northern provinces of Azarbaijan,



Gilān, Mazandarān, Astarābād, and Khorasan. These provinces were excluded to avoid offending Russia which regarded the north part of Persia as its own sphere of influence, in the same way that Britain saw southern Persia as falling in its own orbit. In return D'Arcy agreed to pay the Persian government twenty thousand pounds in cash, with another twenty thousand pounds worth of shares, as well as an annual royalty which was defined somewhat vaguely as equal to 16 percent of "annual net profits" (British Petroleum Archives at the University of Warwick, U.K.; henceforth B.P. Archives; for the terms, see Hurewitz, I, pp. 483-84).

D'Arcy had no organization and no company, only a secretary to handle his business correspondence. To put together and run the operation on the ground in Persia, he hired George Reynolds, a graduate of the Royal Indian Engineering College with previous drilling experience in Sumatra. The first site chosen for exploration was at Čiā Sorḡ, an almost inaccessible plateau in the mountains of western Persia, north of Qaṣr-e Širin. Work proceeded but mounting expenditure forced D'Arcy to seek financial backing in order to keep the concession afloat. By April 1904, less than three years after its inception, the venture was on the verge of collapse (Ferrier, pp. 59-62).

The British government was alarmed that D'Arcy might be forced to sell out to foreign interests or lose the concession altogether. Finally, in 1905, almost exactly four years to the day when the Shah had initialed the concession in Tehran, the match was consummated between D'Arcy and Burma Oil in London. Their agreement established the so-called concession syndicate. D'Arcy's operation became a subsidiary, and D'Arcy himself a director of the new enterprise (Corely, I, pp. 99-102).

Anglo-Persian Oil Company. The establishment of the concession syndicate was followed by a shift in the location of the exploration to a site in southwestern Persia at Maidān-e-Naftān (the plain of oil). The specific well location, Masjed-e Soleymān, was named after a nearby fire temple. Shortly after 4.00 A.M. on the 26th of May 1908, a gusher of petroleum, rising perhaps fifty feet above the top of the drilling rig, was smothering the drillers and oil had been at last struck in Persia.

The newly incorporated Anglo-Persian Oil Company (q.v.; APOC), or Anglo-Iranian Oil Company, as it would be known from 1935 onwards, went public on April 19, 1909, and the public offering of the stock on the day resulted in the Glasgow branch of the Bank of Scotland being mobbed by customers eager



to invest in the shares (Yergin, p. 148). Burmah Oil took the majority of the ordinary shares and D'Arcy was compensated for the exploration expenses and received shares worth a market value of 895,000 Pounds Sterling (Ferrier, p. 112). A major new source of oil had been secured under British protection. However, there were problems with the extraction of the oil and the refining. The site chosen for a refinery was Abadan (Ābādān (q.v.); 'Abādān), a long narrow island of mud flats and palm trees in the extended estuary of the Tigris, Euphrates, and the Kārun rivers. On its first test in 1912, the refinery broke down and the quality of its products was also poor. Once again, the very survival of the Persian venture was in doubt. By the end of 1912, the APOC had exhausted its working capital. A few years earlier, Burma Oil had saved the day. Now a new savior would have to be found (Ferrier, pp. 105-106; Yergin, p. 149).

In June 1913 Winston Churchill, in his capacity as First Lord of the Admiralty, presented the Cabinet with a key memorandum on "Oil Fuel Supply for His Majesty's Navy." The Cabinet agreed in principle that the government should "acquire a controlling interest in trustworthy sources of supply." Furthermore, after a debate in the Cabinet it was decided that the government itself would become a shareholder in Anglo-Persian Oil Company (Jones, pp. 166-67; Ferrier, pp. 181-82).

On June 17, 1914 Churchill introduced this historic measure in the House of Commons. The bill he proposed contained two important features: first, the government would invest 2.2 million Pounds Sterling in APOC, acquiring in return a 51 percent share of the stock; second, it would place two directors on the company's board with powers to veto matters involving Admiralty fuel contracts and major policy and political matters. Another contract was drawn up separately, so it could be kept secret; it provided the Admiralty with a twenty-year contract for fuel oil. The terms were very attractive and, in addition, the Royal Navy would get a rebate from the company's profits (Yergin, p. 161). The House approved the bill on the same day; and on August 10, 1914, the Anglo-Persian Oil Convention received the Royal assent. The British government became the major shareholder of Anglo-Persian Oil Company (Ferrier, p. 196). During World War I, despite her proclaimed neutrality, Persia was invaded by British, Russian, and Turkish troops. Moreover, there were tribal uprising in the south and rebellions in the north, and the country was close to a state of complete chaos and anarchy. Conditions were propitious for a powerful figure to step in and fill the virtual vacuum of



authority in the capital city of Tehran. Emboldened by the circumstances, Reza Khan (Rezā Khan), a military officer, seized power in 1921. After initially taking the post of minister of war, he consolidated his position and became prime minister in 1923. Two years later Aḥmad Shah was deposed and in 1926 Reza Khan, having taken the name Pahlavi as his dynastic title, was crowned Reza Shah Pahlavi. It did not take the APOC long to realize that it would no longer be dealing with the traditionally weak governments of the Qajar era, but with a new authoritarian figure (Bamberg, pp. 29-30).

From the Iranian point of view and even during the last years of the Qajar dynasty, the main consideration from the oil activities within the country was purely economic and the government was mainly interested in revenues from oil operations. In this regard disagreements developed from the early years of oil operations, between the government and the APOC. The disagreements centered on the company's calculation of 16 percent of its net profits that formed the basis of the annual payment to the Persian government. The heart of the problem was the definition of profits, about which expert opinions differed. For example, the profits of the APOC's subsidiaries operating abroad were excluded and the discount granted on oil sold to the British Navy was deducted. The negotiations between the parties finally led to the conclusion of the "interpretive" Armitage-Smith agreement of 1920, named after Sydney Armitage-Smith, the British Treasury official who was the financial adviser to the Iranian government in the negotiations.

Under the rule of Reza Shah, Iran embarked on an impressive program of modernization whose implementation required substantial financial resources. Foreign loans were excluded, for they would have compromised Reza Shah's sense of national independence. Although internal indirect taxes on such everyday items as tea and sugar were raised to fund projects such as the Trans-Iranian Railway, the Shah could ill afford any loss of revenues, an increasing proportion of which came from the APOC's royalty and tax payments.

Reza Shah rejected the validity of the Armitage-Smith Agreement of 1920 on the ground that he had exceeded his authority in reaching the agreement. The APOC regarded the agreement as valid, but recognized the desirability of revising the concession. To this end discussions were opened in 1928 by Sir John Cadman (q.v.), the chairman of APOC, and 'Abd-al-Ḥosayn Teymurtāš, the court minister.



The subsequent negotiations dragged on until mid 1932 when, with agreement apparently in sight, the APOC informed the Iranian government that the estimated royalty due for 1931, a year in which profits were badly affected by the worldwide depression, was only 306,872 Pounds Sterling, compared with 1,288,312 Pounds Sterling for the previous year. While the company's profits fell by about 36 percent between 1930 and 1931, the revenues payable to the Iranian government, under the company's accounting practices, decreased by 76 percent. Shocked by the precipitate fall in royalties, Teymurtāš rejected the terms which had been negotiated and proposed to go back to the drawing board, at which time Reza Shah intervened in a dramatic fashion (Bamberg, pp. 32-33).

1933 concession agreement. On 26 November 1932, while the Council of Ministers was in session, the Shah, accompanied by Sayyed Ḥasan Taqizādeh (Taqi-zāda), the finance minister, arrived and chastised Teymurtāš for failing to reach an agreement with APOC. The Shah then dictated a letter canceling the concession agreement before leaving his surprised ministers. The Prime minister, Mehdi-qolli Hedāyat, recollected that in his anger Reza Shah called for the file on the oil negotiations and had it flung into the stove. The Iranian government's unilateral cancellation of the concession was officially published on 27 November 1932 (text in League of Nations, Official Journal, 13 Dec. 1932). Mr. Thomas Jacks the company representative in Tehran received the letter of cancellation, signed by Taqizādeh, on 27 November. Complaining that the concession was in conflict with national interests, the Iranian government claimed that it was not legally and logically bound by concessionary terms which had been granted before the establishment of constitutional government in Iran, in view of the manner in which such concession was obtained at that time. However, although the letter argued that cancellation was the only way to safeguard its sovereign rights, it stated that the Iranian government would not in principle refuse to grant a new concession. The British government, on its part, rejected Iran's right to cancel the concession and on 19 December 1932 referred the dispute to the League of Nations in Geneva. The case of the Anglo-Iranian oil dispute in the League of Nations was finally handed to Dr. Eduard Beneš, the Czech foreign minister, for mediation and he put the matter into abeyance in order to give the contending parties time to try to work out a new arrangement. Five months later, in April 1933, Cadman himself went to Tehran to try to salvage the situation and met with the Shah for the second time on 24 April. It was a decisive event at which Cadman and the Shah, men of thoroughly contrasting backgrounds, came



together with the shared knowledge that each had the undisputed authority and the ultimate responsibility to reach agreement. They achieved a breakthrough.

At the end of meeting the APOC representatives and Iranian ministers including Taqizādeh, Moḥammad-‘Ali Foruḡi (q.v.), the minister of foreign affairs, and ‘Ali-Akbar Dāvar (q.v.), the minister of justice, went away to hammer out the details of the agreement which was ratified by the Parliament (*majles*) on May 28th, 1933 and received Royal assent on May 29th, 1933. Under the provisions of the new concession agreement the following terms (text in Hurewitz, II, pp. 434-41) were agreed upon:

The area of the concession was to be reduced from 480,000 square miles to 100,000 square miles by 1938, resulting in the relinquishment of about 80 percent of the area covered by the 1901 concession. The duration of the concession was, however, extended by 32 years to the end of 1993, i.e. it was to last for sixty years. In its financial terms, the agreement provided for the APOC to make a lump sum payment of one million Pounds Sterling to the Iranian government in settlement of all past claims. Instead of 16% of APOC’s profits, royalties were to be calculated by a more straightforward method, based not on profits, but on physical volume of oil and the financial distribution that the company made to its shareholders. Specifically beginning on 1 January 1933, the royalty was to be 4 shillings (gold) per ton of oil sold in Iran or exported, plus 20 percent of the distribution of dividends to the ordinary stockholders or to the reserves of the company above 671,250 Pounds Sterling (\$2,886,375). In addition small payments were to be made in lieu of local taxes, consisting of nine pence per ton for the first six million tons and six pence per ton above this volume during the first fifteen years of the concession, to be raised by three pence, respectively, for the subsequent fifteen years, and the rates to be negotiated for the remaining period. The company undertook to supply oil products to the internal market with a discount of 25 percent for the government and 10 percent for the public, partly through the development of the Naft-e-šāh Oilfield and the Kermānšāh Refinery. On the matter of representation, the Iranian government was to have the right to appoint a “delegate” who would be empowered to obtain from the company all the information to which shareholders were entitled; and to attend meetings of the board of directors, its committees and meetings of shareholders convened to consider matters arising out of relations between the APOC and the Iranian government. On employment the company was to recruit its artisans,



technical, and commercial staff from Iranian nationals to the extent that it could find Iranians who had the required competence and experience. In addition, the company and the Iranian government were to draw up a “general plan” for the progressive reduction of foreign employees and their replacement by Iranians in the shortest time possible. The exclusive right of the company to construct and operate pipelines within the concession area was cancelled. With the implementation of the 1933 Agreement the royalties for 1931 and 1932 were recalculated on the new basis, with the result that 1,339,132 Pounds Sterling (\$5,758,267) was eventually paid for 1931, in lieu of the amount of 306,872 Pounds Sterling (\$1,319,549) that had caused so much vexation. The Iranian government’s revenues from oil sold inside and outside the country increased from an average of 12.3 US cents a barrel during 1913-1932 to an average of 21.5 cents in the period 1933-June 1951. The total amount of the revenues rose from \$5.7 million in 1929 to \$10.3 million in 1936 and \$44.8 million in 1950. Oil production also rose from 116 thousand barrels per day to 171 thousand and 664 thousand respectively, during the corresponding period (Bamberg, pp. 48-50; Yeganeh, pp. 52-53).

There were a number of provisions in the 1933 Agreement, which planted the seeds of future controversies and disputes between the two parties. One of the major criticisms, on the Iranian side, was the extension of the oil concession to the Anglo Iranian Oil Company (AIOC) from 1961 to 1993, i.e., by 32 years. This extension had been made apparently as an incentive to AIOC to undertake larger scale investment for the expansion of its oil operations in Iran. However, in later years and after Reza Shah’s abdication, this extension was strongly condemned by Iranian politicians as a sell-out of Iranian interests.

Another weakness related to the provisions concerning payments to the Iranian government. The royalty payment, which had been fixed at 4 shillings (gold) per ton of oil, did not take into account the possible rise in oil prices, but it was a safeguard against any decline in prices. Also the fixed payments in lieu of taxes were indeed very small, and did not relate to the rising price of oil, or to the AIOC’s increasing profits, or to possible changes in income tax laws within Iran. Furthermore, the Iranian 20 percent share of worldwide profits had to be calculated on the basis of distribution of dividends to the ordinary stockholders, and was therefore subject to policies and decisions of the oil company and the British government. Moreover, the Iranian share was affected by the amount of profits decided by the AIOC for distribution, the rise in the rates of British government taxation, the dividend limitations imposed



by the British government during the war and post-war years, as well as the policy of the company to invest a substantial portion of its income in worldwide activities. However, a minimum annual payment of 750,000 Pounds Sterling (\$3,225,000) was guaranteed. Despite the above shortcomings, the terms of 1933 agreement were considerably better than those entailed in the D'Arcy concession and there were no known concession agreements with better terms at that time, particularly since Iran did not give up its title to the totality of APOC's petroleum activities throughout the world. To this end it is worth noting what Cadman had stated afterwards: "I felt that we had been pretty well plucked" (Yergin, p. 271).

In the post-World War II period Iranian dissatisfaction with the level of oil revenues was greatly aggravated by the growing annoyance at the fact that the British government was extracting more income from APOC through taxation than the Iranian government was obtaining from the exploitation of Iran's national resources. For example, in the years 1945, 1946, and 1947, Iranian revenue (including royalties and taxes) amounted to 5.62, 7.13, and 7.10 million Pounds respectively, while British government taxation reached 15.63, 15.59, and 16.82 million Pound respectively for those three years (Bamberg, p. 325).

Amid rising Iranian nationalism, the single article law of 22 October 1947 committed the Iranian government to look afresh at the Anglo Iranian Oil Company's concession, which became a dominant issue in political life in Iran for the next few years. Of the Iranian politicians most closely associated with the nationalistic fervor which was directed with great vigor against AIOC one man, in particular, stood out: Dr. Moḥammad Moṣaddeq. Having held various important posts in 1920s, he emerged after the abdication of Reza Shah as a central political figure in Tehran. He was elected to the fourteenth session of the parliament where he played a prominent part in the passage of the important law of 2 December 1944, which made it illegal for the Iranian government to negotiate or enter into concessions with foreigners, without the assent of the parliament (text in Hurewitz, II, pp. 738-42). In the elections for the fifteenth session of the parliament, Moṣaddeq was denied a seat and was therefore absent from that body when the single article law of 22 October 1947 was passed. However, he was soon to win reelection in January 1950 to the sixteenth session of the parliament, at the head of a new political group, the National Front, which rallied opposition to AIOC and called for its nationalization.



In June 1947, some months before the Majles passed the single article law of 22 October, the then prime minister, Aḥmad Qavām (Qāwām-al-Şalṭana), warned Sir John Le Rougetel, the British ambassador in Tehran, that the Iranian government might before long feel obligated to “attack” AIOC so that it would appear even handed in opposing Soviet concessionary aims in northern Iran. Appealing to nationalist sentiment, he broadcast a speech on 1 December 1947, asserting that when he informed the Soviet government of the parliament’s rejection of the proposed Irano-Soviet Oil Company, he had brought up the question of AIOC’s concession and would insist on satisfaction for the Iranian people (Bamberg, p. 385).

Preliminary discussions on the revision of the 1933 oil concession opened formally in Tehran on 28 September 1948 between Neville Gass, AIOC director, and Ḥosayn Pirniā, representing the government of Iran. Pirniā and his associates presented a 25 point memorandum that linked the talks directly to ‘clause E’ of the single article law of 22 October 1947 and set out Iranian dissatisfaction on a number of scores. The most important was the claim that Iranian royalties compared unfavorably with those in Iraq, Kuwait, and Venezuela in particular, a country where the principle of 50/50 profit sharing between the government and the oil companies had already been introduced. Other complains of significance were concerned with British taxation and dividend limitations; the sterling/gold exchange rate used in calculating royalty payments; the prices charged by the company for its oil products in Iran; the Iranianization of the company.

In discussions on the memorandum, Gass tried to convince the Iranian government that the Venezuelan 50/50 profit-sharing agreement was not a suitable case for comparison as the oil revenues of the Venezuelan government were derived solely from oil operations conducted in Venezuela, whereas the AIOC’s profits were earned both inside and outside Iran. No specific agreements were reached and Gass left Tehran on 18 October 1948.

A large shadow was cast over the subsequent talks by the attempted assassination of the Shah at the University of Tehran on 4 February 1949. Since the would-be-assassin was connected to the pro-Soviet Tudeh party, the party was banned and the Shah acquired further constitutional powers. In the negotiations, which opened on 13 February 1949, ‘Abbāsqoli Golşā’iān (q.v.), the minister of finance, stressed the obligation of the Iranian government to conform to the single article law of 22 October 1947, around which the Iranian oil policy now revolved. He requested a fundamental alteration in the methods



of paying royalties and protested that they compared unfavorably with those in other oil-producing countries.

On 9th of March, Moḥammad Sā'ed Marāqā'i , the prime minister, demanded immediate acceptance of the 50/50 profit sharing principle. Gass wrote to William Fraser, the AIOC chairman, warning that unless something was done to meet the 50/50 demand, the talks might end in deadlock. Fraser replied, suggesting that a solution might be found by segregating the AIOC's interests in Iran from its interests elsewhere through the formation a new subsidiary, whose activities would be limited to Iran and be subject to 50/50 division of profits.

As a result of pursuing negotiations, the Supplemental Agreement was signed on 17 July 1949 by Gass and Golšā'īān. Under its terms the royalty per ton was to be raised from 4 to 6 shillings per ton, retroactive to 1948. The 20 percent dividend limitation problem was to be circumvented by the provision that the company would make an additional annual payment to the Iranian government equivalent to 20 percent of the amount placed in General Reserve each year, retroactive to 1948. Moreover the annual payment was to be grossed up by the standard rate of British income tax. AIOC was to pay 5,090,909 Pounds Sterling (\$21,890,908) to the Iranian government within thirty days of the Supplemental Agreement coming into force. In return for continued exemption from Iranian taxation, the company agreed to increase its commutation payments on production from 9 pence to 1 shilling per ton, retroactive to 1948. Finally, it was agreed that the AIOC would increase its discounts on prices of products sold for consumption in Iran. Apart from one-off payment of 5,090,909 Pounds Sterling to be made from the General Reserves, it was calculated that the royalty and tax payments under the Supplemental Agreement would be 18,667,786 Pounds Sterling (\$80,271,479) for 1948 and 22,890,261 Pounds Sterling (\$98,428,122) for 1949. For comparison, the sums for those two years under the 1933 concession would have been 9,172,245 Pounds Sterling (\$39,440,653) and 13,489,271 Pounds Sterling (\$58,003,865) respectively (Bamberg, pp. 393-98). The Supplemental Agreement was presented to the parliament by the Sā'ed government on 19 July 1949 and passed through the committee stage before being debated in public session on the 23rd July. The debate was notable for the obstructive tactics employed by Moẓaffar Baqā'i, Amir Teymur Kalāli and 'Abd-al-Hoṣayn Ḥā'erizāda, firm opponents of the government of the time, as well as for the filibustering speech of Ḥoṣayn Makki, the National Front deputy, who did his



utmost to drag out the proceedings. The Speaker of the Majles announced a request from Sā'ed for evening sessions to settle the outstanding business but opposing deputies walked out to prevent a quorum. Sā'ed announced that the elections for the sixteenth session of parliament would commence on 6th August and the fifteenth session ended on 28 July 1949 without a vote being taken on the Supplemental Agreement. The Agreement was resubmitted to the parliament by 'Ali Maṣṣūr (Maṣṣūr-al-molk), the new prime minister but was then passed on to the Parliamentary Oil Committee of 18 headed by Moṣaddeq, in which five National Front deputies were members.

The episode of the Supplemental Agreement began with the single article law of 22 October 1947 and on agreed acceptance that the AIOC's concession required revising. It ended with the prime minister Ḥāj-'Ali Razmārā's withdrawal of the Agreement bill from the parliament in December 1950 (Bamberg, pp. 399-409).

The Nationalization of the Oil Industry. At the time the Supplemental Agreement was withdrawn from the Majles in December 1950, Iran was politically fragmented between the pro-Soviet Tudeh Party, the National Front, and the royalists of the Shah's court, with political allegiances prone to follow a shifting pattern of personal loyalties and factions rather than adhere to the more institutional and organized parties to be found elsewhere. Most importantly, Moṣaddeq's National Front was not a political party in the usual sense of the term, but a coalition of disparate interests including the traditional conservative religious hierarchy represented by Ayatollah Kashani (Kāšāni); the Party of the Iranian Nation (*ḥezb-e mellat-e Irān*) led by Dariuṣ Foruhar, representing the more secular and right-wing supporters of the National Front; the more centrist Iran Party, led by Allāhyār Ṣāleḥ; and on the left, the Toilers Party (*ḥezb-e zahmatkešān-e mellat-e Irān*), led by Baqā'i (Ghods, pp. 182-84). The one thing that united this coalition was vehement anti-British sentiment, which found an outlet in the issue which dominated Iranian politics: the oil question. In the highly charged, nationalistic and political atmosphere that existed in Iran, the National Front put forward a proposal to nationalize the oil industry, in order to meet the legislative requirements of the parliament for restoring Iran's rights. On 15 March 1951, upon the recommendation of the special oil committee headed by Moṣaddeq, the principle of nationalization of Iran's oil industry received parliamentary approval and on 20 March the Senate followed the example of the Majles and adopted the nationalization law.



On 28 April 1951 Moşaddeq was appointed prime minister and on the same day another law known as the nine-points law, was enacted by the Majles and passed the Senate on the 29th, and received royal assent on 1 May 1951.

The nine-points law provided for the implementation of nationalization, covering, *inter alia*, provisions for expropriation of the assets of the Anglo-Iranian Oil Company, the settlement of claims and counter claims of the two parties, the establishment of the National Iranian Oil Company for the operation of the Iranian oil industry, and arrangements for the uninterrupted sale of oil to the former customers of AIOC (Elm, pp. 91-93). The major objectives of Iran's nationalization consisted of: The establishment of Iran's sovereignty, ownership and control of the country's oil industry and resources; the eradication of British political and economic influence in Iran; and the mobilization of financial resources for the implementation of the country's development plans which needed to be financed largely from the oil revenue and foreign borrowing.

Moşaddeq had expected to receive American support in liberating Iran from the British influence as it had benefited from such a support for the evacuation of Soviet troops from the country after World War II. In 1951 the USA, having vastly extended the definition of its vital interests to embrace almost any cause which helped to contain the spread of communism, was worried that Iran might fall prey to its powerful northern neighbor, the Soviet Union through the Tudeh Party. The confrontation between Britain and Iran placed the USA in a dilemma. The USA could not, on the one hand, ignore the interests of Britain, its closest western ally. Moreover, the USA had its own oil interests in the Middle East, which it wanted to preserve. The US government therefore wished to avoid a settlement being reached with Iran that would upset the stability of the 50/50 profit sharing agreements under which US oil companies operated in other Middle East oil producing countries. On the other hand, the US government looked upon Iranian nationalism as a bulwark against communism and feared that Iran might fall under communist rule if the nationalist government of Dr. Moşaddeq failed to achieve its objectives and fell from power. The only settlement that would meet these at times conflicting elements in the US policy was one that accepted the Iranian nationalization of the oil industry, but upheld the 50/50 division of profits as the basis for future operations. In seeking to bring about a settlement on these lines, the USA repeatedly took on the role of mediator between Britain and Iran. However, the American support began to wane gradually due to the



prolongation of the oil dispute, the unwavering desire of the Iranian government for complete elimination of British oil interests from Iran, the increasing instability in the country due to the deterioration in political and economic conditions, and the rising opposition of major American oil companies to the Iranian nationalization policy (Bamberg, pp. 412-13; Yeganeh, pp. 61-62).

Furthermore Dr. Moşaddeq's trusted and close oil advisers had convinced him that given its size and importance, the Iranian crude oil and petroleum products were irreplaceable in the international markets. Consequently, the loss of such a volume of oil would bring the Western economies to their knees, forcing them to accept the Iranian terms, and bring about the success of the nationalization. They were clearly not sufficiently informed about the development of large-scale crude oil production capacities in the neighboring countries during the postwar years, and also about the emergence of considerable excess refining capacities in Western Europe (Yeganeh, p. 62).

No oil was flowing out of Iran, owing to the effectiveness of the British embargo and, in particular, AIOC's vigilance in bringing legal action against refineries or distributors who bought Iranian oil. The international machinery was quickly put into place to manage the shortfall. As in World War II, it was based upon Anglo-American cooperation. In the United States, acting under the Defense Production Act of 1950 and with antitrust exemption, nineteen oil companies formed a voluntary committee to coordinate and pool supplies and facilities and worked closely with a similar British committee, moving supplies around the world to eliminate bottlenecks and shortages. The oil companies also strove to increase production in the United States and in Saudi Arabia, Kuwait, and Iraq. As it turned out, the momentum of the great post-war oil development supported the British embargo against Iran, and the feared shortage never materialized. By 1952, Iranian production had plummeted to just 20,000 barrels per day, compared to 664,000 in 1950, while total world production had risen from 10.9 million barrels per day in 1950 to 13.0 million in 1952, an increase more than three times greater than Iran's total output in 1950 (Yergin, p. 464).

During his tenure of office Dr. Moşaddeq was presented with the following proposals for the settlement of the oil dispute:

The Jackson Mission. On 19 June 1951, the British delegation headed by Basil Jackson the AIOC Director offered, on behalf of the AIOC, to advance the



Iranian government 10 million Pounds and, in addition, to make monthly advances of 3 million Pounds Sterling while discussions were proceeding and as for arrangements which would maintain efficient operations while being consistent with the principle of nationalization, proposed that Iranian assets of the AIOC would be vested in National Iranian Oil Company (NIOC) which would grant the use of the assets to a new subsidiary to be established by AIOC. The new subsidiary would have Iranian directors on its board and would, in effect, operate the Iranian oil industry using the assets owned by NIOC. The AIOC's distribution business in Iran would be transferred to NIOC (Bamberg, pp. 422-30).

The Stokes mission. On 11 August 1951, a British delegation headed by Richard Stokes, Lord Privy Seal, handed an eight-point memorandum containing proposals for an oil settlement to the Iranian government. The preamble to the memorandum stated that it was “governed by the principle that the AIOC will cease to exist in Iran and that the Iranian government will acquire full authority over exploration, extraction and exploitation of oil in Iran.” The most important items in an eight-point memorandum were:

1. The AIOC would transfer its assets in Iran to the NIOC and receive compensation.
2. A purchasing organization would be formed to provide an assured outlet for Iranian oil by entering into a long-term contract with the NIOC.
3. The NIOC would be free to sell oil to other buyers provided such sales did not prejudice the interests of the purchasing organization.
4. The purchasing organization would make available to the NIOC an operating organization that would manage oil operations in Iran on behalf of the NIOC.
5. The terms on which the purchasing organization would buy oil from the NIOC would be so arranged that there would be a 50/50 division of the profits made from Iranian oil. Despite the wording of the preamble it is apparent, on closer examination, that the memorandum was really little more than a re-vamped version of the Jackson proposals (Bamberg, pp. 444-51).

The International Bank's Proposal. While Moşaddeq was in Washington for talks with the US State Department, it was suggested to him by the Pakistani ambassador that the International Bank of Reconstructions and Development



(The World Bank) might be able to help relieve the oil crisis. Moşaddeq expressed interest in the idea, and on 10 November 1951, Robert Garner, Vice President of the International Bank, called on him and outlined in general terms the principles on which the Bank might be able to help restart the Iranian oil industry. Garner suggested that the Bank should set up a temporary management to operate Iran's oil industry for up to two years. The management would be responsible to the Bank and be headed by nationals of countries not involved in the dispute. The Bank would also arrange a contract for the sale of Iranian oil to the AIOC, with some of the sales proceeds being held in escrow pending a final settlement of the dispute (Bamberg, pp. 465-70).

The Churchill-Truman proposals. After the five day episode of Moşaddeq's fall and rebound which occurred between 17 and 22 July 1952 and his victory in obtaining the International Court's judgment that it had no jurisdiction in the Iranian oil dispute, Dean Acheson, the US Secretary of State, came to the conclusion that there was no alternative to supporting Moşaddeq as the only bulwark against communism in Iran. He suggested that the British and US governments should make joint proposals to Moşaddeq. The Churchill-Truman proposals which were amended and improved several times were first officially presented to Dr. Moşaddeq on 30 August 1952 by George Middleton and Loy Henderson the British and American ambassadors in Tehran and culminated in the last and final proposal of 20 February 1953 which provided for the following:

1. The management and control of the oil industry in Iran would be in the hands of the Iranians. For the first time Moşaddeq was to be offered a settlement that did not entail foreign management and control of oil operations in Iran.
2. Compensation to be settled by the International Court of Justice on the basis of any English law of nationalization, meaning in effect, the Coal Nationalization Act of 1946. In paying the compensation, the Iranian government would be required to make payments in cash only to the extent of 25 percent of the proceeds from oil exports.
3. The USA would make a payment of \$100 million to Iran against future deliveries of oil to the Defense Materials Procurement Agency.
4. The Iranian government would negotiate a long-term sales contract with an international consortium in which the AIOC would have a share.



On 7 March 1953 a communiqué was issued in Washington, stating that the US government regarded the proposals of 20 February 1953 as fair and reasonable and in keeping with the principle of oil nationalization, but on the 20 March, Moşaddeq made a broadcast speech rejecting the proposals of 20 February. As a last resort, Moşaddeq wrote to President Eisenhower, who had succeeded Truman, appealing for financial aid. Eisenhower's response came in a letter delivered to Moşaddeq by Henderson on 3 July. In the letter, Eisenhower turned down Moşaddeq's request for aid on the grounds that it would not be fair to spend US taxpayer's money assisting Iran, which could have access to funds from the sale of oil if a reasonable agreement was reached on compensation. With that letter, the door for negotiations with Moşaddeq was finally sealed (Bamberg, pp. 473-87). The failure of Dr. Moşaddeq to settle the oil dispute coincided with severe deterioration of economic conditions and worsening of the internal political situation in Iran.

A rift developed between Dr. Moşaddeq and the Shah, who had initially supported the nationalization drive. Moreover the solidarity of the National Front, the main bastion of Dr. Moşaddeq, was greatly undermined and he lost the support of his main allies, including Ayatollah Kāshāni, Ḥosayn Makki, Możaffar Baqā'i, and many other personalities and organizations. Finally with active Anglo-American encouragement, Dr. Moşaddeq was dismissed by the Shah, but upon his resistance against the dismissal the Shah left the country. This was followed by an uprising in Tehran in favor of the Shah which led to the overthrow of Dr. Moşaddeq's government in August 1953, the installation of General Fażl-Allāh Zāhedi's government, and the return of the Shah to the country (See *EIr*, vol. VI, pp. 354-56). Thus the stage was set for the settlement of the Iranian oil crisis, and the conclusion of a new agreement for revival of the Iranian oil industry (Yeganeh, pp. 61-64).

To illustrate the golden opportunity which was at Dr. Moşaddeq's finger tips for complete success in achieving the goal of oil nationalization by accepting the Churchill-Truman proposals of 20 February 1953, it is appropriate to quote the following passage from page 511 of the *History of the British Petroleum Company*, vol. 2 by J. H. Bamberg: "The AIOC paradoxically owed a large debt of gratitude to Dr. Moşaddeq who, having played with great effect on US fears of communism to wring concession after concession out of the British, was offered terms in February 1953 which would have left the Iranians in charge of their own oil industry and the AIOC with no more than a share in a consortium responsible for the international marketing of Iranian oil exports.



At that point Moşaddeq made the great mistake of failing to realize that he had extracted all the concessions he could get. Having driven the USA and Britain to their limits, he asked for still more and precipitated his downfall, opening the way for new negotiations with Zahedi's Government."Given the nature of his power base, Moşaddeq, having risen on the rallying cry of oil nationalization , was left with very little room for maneuver, unable to accept any form of compromise with AIOC and Britain, let alone to take any positive initiative to reach a settlement, without being charged with betrayal by his own supporters. According to George C. McGhee, the U.S. Assistant Secretary of State in the Truman administration ,who had 80 hours of conversation in 20 meetings with Dr. Moşaddeq between 8 October and 18 November 1951 in the United States, "Moşaddeq gave the impression that he was very much alone, that he distrusted those who advised him and governed for him. Moşaddeq was painfully aware of the virtual impossibility of an Iranian head of government reaching agreement with a foreign company, particularly one owned by a powerful country like Britain, over the development of its natural resources. No terms agreed could ever be good enough. There was a suspicion on the part of the public that he might yield to bribery or pressure" (Bill and Louis, p. 298). In his own memoirs, while discussing his worries about the consequences of any agreement on the settlement of compensation, Moşaddeq himself recalls that "If the competence of the International Court of Justice at the Hague had been agreed to and the court had committed us to payment of only a minimum compensation, then it would have become known how the foreign agents would have accused the signatories of the agreement with treason and condemned them to eternal reproach and damnation" (Mowaḥḥed, p. 648).

Moşaddeq succeeded in nationalizing Iranian oil but failed in making nationalization work for the benefit of his country. Nonetheless he must be accorded the credit for the effort he made, and for his success, even at a high price to himself and to the people of Iran, in eliminating from Iran the last vestiges of foreign control.

The 1954 Consortium Oil Agreement. With the installment of Zāhedi's government, the stage was set to bring Iranian oil back into production and onto the world market. But how was this to be done? AIOC, of course, was hamstrung. For it to take the lead would only re-ignite the nationalist fires in Iran. Clearly the US government would have to lead the way to an oil settlement. The State Department retained Herbert Hoover Jr., as the special



representative of Secretary of State Dulles to see if a new consortium of oil companies could be created to take up AIOC's interests. The American government waived the application of its Anti-Trust laws in the Iranian case, and subsequently the Anglo-American inter-company talks ended with the signing of a memorandum of understanding on 9 April, 1954. The memorandum provided for the formation of a consortium in which the shares would be: 40 per cent for AIOC (changed to British Petroleum Company in December 1954); 14 per cent for Royal Dutch-Shell; 8 per cent each for the five US companies of Standard Oil (NJ), Socony, Socal, Texas and Gulf; and 6 per cent for Compagnie Française des Pétroles (CFP). This arrangement was later modified in April 1955 when each of the US major companies gave up one per cent of its holding so that a 5 per cent share could be made available for nine smaller independent US oil companies to hold through the joint organization which they formed for the purpose, the IRICON Agency. After agreement had been reached in London on the formation of the consortium, negotiations moved to Tehran, where discussions were held between representatives of the consortium and the Iranian government on arrangements for the future operation of the Iranian oil industry. At the same time, the matter of compensation was dealt with at inter-governmental level, the main British negotiator being Sir Roger Stevens, who had been appointed ambassador to Tehran. The consortium negotiating team, was headed by Howard Page of Standard Oil, and the Iranian delegation was led by Dr. 'Ali Amini, the finance minister. After four months of intensive negotiations, the oil agreement was finally signed in Iran on 19 September 1954 and Dr. Amini submitted the agreement to the Parliament on the 21st. A month later the Parliament gave its approval by a vote of 113 in favor, 5 against and 1 abstention. On 28 October, the Iranian Senate followed suit by 41 votes in favor, 4 against and 4 abstentions. On the 29th the Shah signed the royal assent.

In its essential features, the agreement provided for a consortium holding company, Iranian Oil Participants Ltd. (IOP), to be incorporated in England where it would also have its headquarters. The IOP was to be the parent of two wholly owned operating companies, incorporated under the laws of the Netherlands, which would operate the oil industry in southern Iran. They were the Iranian Oil Exploration and Producing Company, which was to undertake exploration and production; and the Iranian Oil Refining Company, which was to undertake refining. The operating companies were to be registered in Iran, to have their headquarters there, and to have two Iranian directors on their boards. They were to operate and manage the oil fields and



the Abadan Refinery on behalf of the NIOC, which was to be the owner of the assets. Another consortium company, Iranian Oil Services Ltd, was to be incorporated in England with its headquarters in London. Its function was to provide the operating companies with supplies, engineering services, and non-Iranian staff. Apart from being the owner of the oil industry in the Agreement Area, the NIOC was also to be responsible for management of non-basic facilities and infrastructure such as industrial training, public transport, road maintenance, housing, medical care, and social amenities. In addition NIOC was to own and manage the Naft-e šāh Oilfield, the Kermānšāh Refinery and internal distribution facilities for supplying Iran's domestic market. Profits made from the oil operations under the agreement were to be divided equally between the consortium and the Iranian government, preserving the principle of 50/50 profit sharing that had become the norm in the Middle East. As to the duration, the agreement was to last for twenty-five years, with provision for three five-year extensions, giving a maximum duration of forty years. However, each of the extensions was conditional on a reduction in the area covered by the agreement (initially about 100,000 square miles), so that in the last five-year period it would be half the size of the original area.

On the matter of compensation, the company was to receive a net sum of 25 million Pounds Sterling (\$70 million at prevailing exchange rate) from the Iranian government in ten equal installments starting on 1 January 1957. The AIOC was also to receive a sum of 32.4 million Pounds Sterling (\$90 million) from the other consortium participants in the first year of operations, plus a further payment of ten cents per ton of crude oil produced until \$510 million (182 million Pounds Sterling) had been paid (Bamberg, pp. 504-509; and Yergin, pp. 470-75).

Revenues of the Iranian government. The principle of equal profit sharing between the host government and the operating oil company was accepted in the 1954 Agreement. Therefore, the income realized from the sale of oil to the trading companies and from the fees earned by the two operating companies, was to be divided into two equal parts. Iran's share from these incomes, including income taxes and the value of 12.5 per cent royalty oil calculated at posted prices, would amount to fifty per cent of the total oil income before the payment of taxes to foreign governments. The following amendments and improvements were subsequently made in the financial terms of the 1954 Agreement resulting in an increase in Iranian governments revenues:

The royalty oil had been included in Iran's fifty per cent share of profits.



However, royalty oil is usually set aside for payment to the owner of oil resources and, therefore, included in production cost, as in the United States. This shortcoming was finally settled in 1964, through negotiations within OPEC, by expensing royalty oil as production cost. In return the companies received certain discounts on royalty expensing that were eliminated gradually by 1972. The sale of refined products to the trading companies and the income derived from oil refining for export was not based on the actual sale or posted prices of refined products but on the posted prices of applicable crude delivered for refining plus five per cent of the value of such crude, which was lower than the actual income. In 1956, the Government of Saudi Arabia had reached an agreement with Aramco, which had extended the equal profit-sharing principle to refining operation as well, retroactive to 1954. On that basis, the NIOC raised this issue with the oil consortium and was able to obtain the same treatment and to settle its past claims, reportedly, for \$10 million. The sale of Iranian oil to the trading companies was based on posted prices at Iranian points of export, minus a marketing allowance for expenses incurred by the trading companies for carrying out sales to their customers. The marketing allowance had been fixed at 2.3 per cent of posted prices for 87.5 per cent of the crude oil sold to the trading companies either for export or delivery to Abadan Refinery for refining and export. Subsequently this allowance was reduced, first to 1.15 per cent, and then to 0.5 US cents per barrel. Under the 1954 Agreement the oil revenues of the Iranian government continued to increase sharply from \$90 million in 1955 to \$285 million in 1960, and to \$2,396 million in 1972, the year preceding the conclusion of the Sale and Purchase Agreement. This sharp rise in revenue was largely due to the expansion of oil production, which increased from 329 thousand barrels per day in 1955 to 5.02 million in 1972. It was also due partly to higher income per barrel of exported oil, which had risen from 80 cents a barrel to \$1.36 a barrel during the same period. The 1954 oil agreement was a transitional arrangement until the early 1970s when the NIOC took major steps towards the complete control and management of oil resources and operations in line with the objectives of the 1951 nationalization (Yeganeh, pp. 64-75).

The Sale and Purchase Agreement. In addition to the fact that the 1954 Agreement failed to achieve the main objective of the 1951 oil nationalization, which was the complete control and management of the oil industry by NIOC, there were many weaknesses and shortcomings in the Agreement, many of which were unavoidable due to severe economic problems in the country, the weak bargaining position of Iran, and the prevailing policies and practices in



the international oil business. In early 1973, the NIOC gave an ultimatum to the oil consortium that unless a new arrangement was agreed upon, Iran would not extend the 1954 oil agreement beyond 1979 (the original 25 years), and that the consortium members would then be treated as ordinary buyers of Iranian oil. In the circumstances, the consortium members opted for a new arrangement to become privileged customers of the Iranian oil in return for giving up the management and control of the oil industry in the Agreement Area. Consequently a 20-year Sale and Purchase Agreement was signed between the parties on 19th July 1973 (with retroactive effect from 21st March 1973) replacing the 1954 Oil Agreement.

The salient provisions of the Sale and Purchase Agreement were as follows:

1. The NIOC would exercise the right of full and complete ownership, operation, management, and control in respect of all hydrocarbon reserves, assets and administration of the petroleum industry in the Agreement Area.
2. The functions of the two operating companies would terminate and the Consortium Members would cause a Service Company to be formed in Iran as a non-profit private joint stock company named the Oil Service Company of Iran (OSCO) to carry out services as assigned to it by NIOC in accordance with a Service Contract to be entered into with NIOC. The Service Contract would have a term of five years and could continue unless terminated by NIOC or the Consortium Members.
3. The investments required for the expansion of production would be financed by NIOC. However, during the first five years, which was the period of great expansion, NIOC would provide 60 per cent of the financing and the Trading Companies would contribute to the remaining 40 per cent by way of pre-payment for crude oil to be purchased by them. Each annual advance made by the Trading Companies would be set-off against sums due from them in respect of subsequent sales of crude oil by NIOC in equal annual installments over a period of ten years.
4. The NIOC would, in addition to the requirements of internal consumption, take “stated quantities” of crude oil for export, which was to increase from 200,000 barrels per day in 1973 to 1.5 million by 1981. The balance of crude production and refined products would be lifted and exported by the Trading



Companies of the Consortium Members. However, by the end of 1977, since Trading Companies failed to fulfill their obligation to lift the annual quantities of crude oil allocated to them, NIOC took the liberty of marketing more crude than the stated quantities and its direct export of crude reached a level of 1.7 million barrels a day at which time NIOC was also marketing some 270,000 barrels per day of petroleum products from the Abadan Refinery.

5. After allowing for the quantities of natural gas required by NIOC for internal consumption, including secondary recovery and otherwise, and to meet NIOC's requirements for the export by pipeline, natural gas from the Agreement Area would be available to NIOC and for sale to the Consortium members for processing in plants established under projects acceptable to NIOC for the export of gas or products.

6. As compensation for services rendered by OSCO and for contribution of 40 per cent of the capital investments required by NIOC for exploration and development of production capacity a discount of 22 cents per barrel from posted or government sales prices were granted to the Trading Companies on their crude liftings (Yeganeh, pp. 75-76; and *Ibid*, P. Mina, pp. 118-19).

It should be noted that during the term of 1954 Oil Agreement Iran's total oil income amounted to \$16.2 billion for a cumulative production of 15.459 billion barrels from 1955 to 1973, while after the conclusion of the 1973 Sale and Purchase Agreement, the oil income aggregated \$104 billion for a cumulative oil outlet of 10.284 billion barrels from 1974 to 1978 (*OPEC Annual Statistical Bulletin*, 1978, pp. 228 and 160). It may also be noted that since the beginning of the oil production in Iran in 1912 until 1951, the revenues of the Iranian government totaled 165.8 million Pounds Sterling (\$464 million based on prevailing exchange rate).

The 1957 Petroleum Act and the Joint Venture Agreements. In the years immediately following the signing of the 1954 Consortium Agreement, the fledgling national Iranian oil Industry received an enormous moral boost from the exploration activities conducted around Qom. The discovery of the Alborz oilfield and the Sarājeh gas field by the Iran Oil Company, a company set up during the First Plan to explore and exploit petroleum, not only proved Iran's growing technical capacity but it also helped to give Iran a prestige not hitherto enjoyed by any other oil producing and exporting country. Against this background it is therefore hardly surprising that when Enrico Mattei, the Chairman of ENI (the Italian State Oil Company), decided to look for oil



supplies in the Middle East by offering new contractual terms, he should turn to Iran and that the government of Iran and the NIOC should greet him with open arms. What had prompted Mattei to come forward with the participation formula was his resentment at the treatment he had received from the major oil companies by being excluded from the Consortium Agreement. Since access to crude oil resources was of utmost importance for Italy and ENI, a way had to be found for entry into the Middle East oil scene. NIOC and ENI thus pioneered a new form of contractual relationship, thereafter known as 75/25 profit sharing, breaking the hallowed fifty-fifty arrangement and heralding a new era in international oil agreements. While negotiations were being conducted between NIOC and AGIP Mineraria (the upstream arm of ENI), the first Petroleum Act was drafted and submitted to the Parliament. It was ratified by it and was promulgated on 31st July, 1957. The SIRIP Agreement between NIOC and AGIP Mineraria became effective a short while later on August 24 1957.

The salient features of the 1957 Petroleum Act. The Petroleum Act had for its objective the rapid exploration and extraction of petroleum throughout the country and continental shelf (excluding the consortium area) and the downstream activities such as refining, transportation, and sale of petroleum so obtained. For this purpose NIOC was permitted to enter into contractual relationships with persons, Iranian or foreign, possessing the requisite technical and financial competence, with the aim of developing the hydrocarbon resources of Iran. The Act envisaged three vehicles for such activities:

1. The Mixed Organization which would be a juridical person/entity owned partly by NIOC and partly by the so-called Second Party.
2. The Joint Structure which would be an operating entity created by NIOC and the Second Party without a separate juridical personality resulting from such combination.
3. An independent operation: this third vehicle was introduced in order to encompass the Consortium Agreement.

NIOC was to divide the country into petroleum districts, each with an area not exceeding eighty thousand square kilometers. NIOC was further directed to conserve at all times at least one third of the total exploitable areas including the continental shelf as national reserves and permitted to enter into



contractual relationships, on the basis of a specimen Agreement Form, with successful qualified bidders chosen from amongst applicants. The act envisaged a detailed bidding procedure.

The Agreement Form contained the following basic provisions:

1. The area under each contract was to be limited to a maximum of 16000 square kilometers. Relinquishment of half of the total surface area became mandatory after ten years from the effective date. All the area was to be relinquished after 12 years, in case commercial production was not achieved.
2. The initial period of agreement was put at twenty-five years after the attainment of commercial production.
3. NIOC was to exercise control over the operations by virtue of its proprietorship interest in the operating company including the setting of the production level and the posted price.
4. The concept of an exploration obligation including expenditure commitments was introduced.

While the Agreement provided for a participation relationship between NIOC and the Second Party, it also paved the way for the exploration risk to be assumed by the Second Party.

5. The economic benefits accruing to NIOC and Iran consisted of signature bonus, rental, stated payment of royalty, and taxes levied on income earned in Iran.
6. The operator was obliged to undertake to conform with good oil industry practice and in particular to observe sound technical and engineering principles in conserving the deposits of hydrocarbons.

SIRIP Agreement. This agreement was shaped on the mixed organization model in which a new juridical entity SIRIP (Société Irano-Italienne des Pétroles) was created with equal shareholding by NIOC and AGIP Mineraria. The agreement covered three distinct zones: A zone of the continental shelf located in the northern part of the Persian Gulf; a continental zone located in the region of the eastern slopes of the central Zagros Mountains; and a zone



along the coast of the Gulf of Oman. The total agreement area of some twenty-three thousand square kilometers was to be reduced by 25 per cent at the end of the fifth year from the beginning of exploration, followed by a further reduction of 25 per cent at the end of the ninth year. In any case SIRIP could only hold, at the end of the twelfth year, terrain in which commercial fields had been discovered.

IPAC Agreement. This Agreement was negotiated and concluded between NIOC and the Pan American Petroleum Corporation (owned by the Standard Oil Company of Indiana) in conformity with the bidding procedures as envisaged in the Petroleum Act. Although the vehicle chosen was the joint structure type operator, the major clauses were similar to those embodied in the SIRIP Agreement, with some innovations. In general, the agreement was a better-organized and more lucid document. The area under the Agreement was fixed at sixteen thousand square kilometers of the continental shelf in the Persian Gulf. The entity that was formed, the Iran Pan American Oil Company (IPAC) merely acted as an agent of its principals, except that in carrying out and performing the exploration obligations of the Second Party, IPAC acted as the agent of Pan American Petroleum Corporation. Under this agreement Pan American not only undertook by the standards of the day, a very significant exploration obligation amounting to a minimum of \$82 million, but it also offered to pay a large signature bonus of \$25 million. Both these facets of the agreement were considered to be outside of the norms and were widely commented on in the petroleum literature (Najmābādi, pp. 80-90).

The Joint-Structure Agreements of the mid-1960s. Based on the success and experience gained by NIOC with the implementation of SIRIP and IPAC Agreements, and given the ambitious nature of the Government's development plans and economic growth objectives, a decision was taken to open a part of the continental shelf of the Persian Gulf for international bidding. However, this time round, NIOC decided to carry out, at the expense of those interested in bidding, a marine seismic program on the area in question and to make the information so obtained available to bidders, as a part of the technical file. This approach proved to be an enormous success. Not only did this "Iranian First" concept become a trendsetter to be widely followed by other countries, it also resulted in the payment of more than \$180 million in cash bonuses by five groups of oil companies who concluded joint structure agreements with NIOC in 1965. The significance of this round of bidding went well beyond the figures associated with bonuses and exploration



obligations. A major oil company, Shell, had broken rank with other major companies and accepted the concept of participation. This, too, proved to be forerunner of many new agreements leading eventually to OPEC's Resolution and Participation in September 1971. The five agreements concluded in 1965 were based on a modified and improved Agreement Form presented by NIOC. The most important modifications were as follows:

1. In order to accelerate the Iranianization of the joint-structure company, it was required to prepare and execute plans and programs for industrial and technical training and education with a view to ensuring the gradual and progressive reduction of foreign personnel in such a manner that upon expiry of ten years from the effective date of the agreement the number of foreign nationals employed by the joint-structure would not exceed two per cent of the total staff employed by it.
2. The Second Party accepted to provide the NIOC's 50 per cent share of the development expenditure, if and when required by the latter. Such advance would carry interest equal to the rate of discount of the Federal Reserve Bank of USA plus 1.5 per cent and would be reimbursed in six equal half yearly installments starting six months after the date of commencement of commercial production.
3. On taxation, the Agreement provided that First Party, Second Party and any Trading Company shall with respect to their net income from the operation authorized under the Agreement be subject to taxation in accordance with the Iranian Income Tax laws as they may prevail from time to time. This clause was a significant change from the invariable tax provisions of the previous agreements concluded in Iran and other producing countries.
4. For the first time production bonus was introduced in these agreements starting at one million dollars when production first reached an average daily rate of one hundred thousand barrels, advancing to three million dollars at the four hundred thousand barrel per day level.
5. While the IPAC agreement provided for the joint-structure company to enter into crude oil sale commitments, this provision was removed and the right of marketing of crude was entrusted to the Parties. In addition the joint-structure company was relieved from publishing prices and this function returned to the Parties and granting of discounts from the posted prices was subjected to the approval of NIOC.



Agency Agreement. Not long after concluding several joint-structure agreement, NIOC once again pioneered a new type of contractual relationship known as Agency Agreement, where under the operator, ERAP (Entreprise de Recherche et d'Activités Pétrolières, French State Oil Company) carried the status of a contractor without any ownership rights to production. The main features of this agreement were the following:

1. ERAP undertook to render technical, financial and commercial services.
2. The operations covered by the Agreement were at all times under the financial responsibility of NIOC, it being understood that all funds required for exploration, appraisal, and development operations were to be supplied by ERAP until the cash flow accruing to NIOC as a result of the operations would be sufficient to enable NIOC to provide the financing of appraisal and development.
3. NIOC were to become liable for the repayment of all funds advanced by ERAP only if a commercial field were to have been discovered and commercial production were to have commenced.
4. The oil produced was entirely owned at wellhead by NIOC.
5. NIOC was the owner of all the assets created or used in connection with the operation. f) In case of commercial discovery ERAP was to be reimbursed out of part of production for the loans extended to NIOC, while it was also entitled to purchase a certain quantity of production at a discounted price as remuneration for services rendered.
6. The tax status of ERAP was that of a purchaser of oil, making no profit in Iran (Najmābādi, pp. 91-93).

1974 Petroleum Act and Risk Service Contracts. In order to further enhance its control and management of the petroleum operation carried out on its behalf by qualified operators, the NIOC drafted a new and innovative Petroleum Act in 1974, which was approved by the Council of Ministers and enacted by the Parliament. This new law envisaged that exploration and production agreements with foreign oil companies could only be concluded on the basis of “Risk Service Contracts” under which the contractor had no ownership right either to the reserves discovered or to the production from the agreement area. In a telling clause (Section 1 of Article 3) it was stipulated that “The Petroleum resources and the Petroleum industry of Iran belong to the Nation.



The exercise of sovereignty right of Iranian Nation over the Petroleum resources of Iran with respect to the exploration, development, production, exploitation and distribution of Petroleum throughout the country and its continental shelf is entrusted exclusively to the National Iranian Oil Company who shall act thereupon directly, or through its agents and contractors.” (The text of the Act was published by Public Relations Affairs, Iranian Oil Industry in 1974).

The salient provisions of the Risk Service contracts were as follows:

1. The Contractor would, under the supervision of NIOC, be entrusted only with the conduct of exploration operations in the agreement area.
2. As soon as a commercial field had been established an Executive Committee, composed of two representatives of NIOC and two representatives of the Contractor would be formed. The said Committee would be entrusted with the preparation of the development plans and programs, as well as management and control of all development operations.
3. On the date of commencement of commercial production, the operations would be completely taken over by NIOC and Service Contract would be terminated.
4. The Contractor would supply NIOC with funds necessary to carry out the exploration operations, and in the event of discovery of a commercial field, all development expenditures and any other expenses required under the Service Contract.
5. The exploration operations would be carried out at the sole risk of the Contractor and would be reimbursed, free of interest, to the Contractor over a period of 10 year only if a commercial field is established.
6. Funds supplied for financing development expenditures would constitute loans with interest that would be reimbursed over a period of ten years.
7. As remuneration for services rendered, NIOC would, upon the commencement of commercial production from the agreement area, enter into a Sales Contract for a period of 15 years whereby up to maximum of fifty per cent of crude oil produced would be sold for export to the Contractor.



As an acknowledgment of the risk taken by the Contractor in respect of exploration expenditure, a sliding scale discount of up to a maximum of five percent on the market price would be granted on the crude sold to the Contractor.

Conclusion. In the years following nationalization, the exercise of effective control over the exploitation of petroleum resources had been at the forefront of NIOC's agenda and had shaped its approach to international petroleum agreements. The 1957 Petroleum Act initially provided the vehicle for the achievement of these objectives. The process was evolutionary but deliberate. It followed a pace commensurate with the maturation of NIOC. In its quest for enhanced control and better terms and conditions, NIOC created several milestones in the contractual relationships between the international oil companies and the host country. Many of the agreement forms pioneered by NIOC eventually found wide application in other producing countries.

Finally with de facto changes in the contractual relationship with the Consortium Members and signing of the Sale and Purchase Agreement in 1973 followed by enactment of a new Petroleum Act and conclusion of several Risk Service Contracts in 1974, NIOC had, at last, reached its long cherished objective of full and complete control of the Iranian Oil Industry and resources.

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