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NATIONALIZATION OF THE IRANIAN OIL INDUSTRY --
AN OUTLINE OF ITS ORIGIN
AND ISSUES

February 19, 1952

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I. INTRODUCTION & SUMMARY OF THE ISSUES

The Iranian oil dispute has been given world-wide publicity because it highlights the problem of foreign exploitation of weak underdeveloped countries and the curtailment of the flow of oil for the defense and industry of the free world. Although world-wide attention has been focussed on the dispute for only a year, the basis of the controversy goes back as far as 1909. If the current issues are to be understood, they must be put in the perspective of their historical development. An understanding of these issues will throw light on the reasons for the failure of Iran and the Anglo-Iranian Oil Company to reach a settlement despite their obvious common interests as supplier and marketer.

The heart of the dispute lies in the relationship of The Anglo-Iranian Oil Company and its predecessors with the Iranian Government over the past forty years. The Iranian Government accuses the Company of having violated concession terms, unjustly enriched itself, and interfered in the internal affairs of the country to suits its purposes. The Company's colonial attitude in its relations with the Iranian Government and people, its deliberate efforts to evade or reduce its royalty payments, and its policy to ignore the feelings of the people and the interest of the country from which its vast profits have been derived, have left an indelible imprint on the Iranian mind. It has destroyed their confidence in the AIOC as a commercial organization which can be relied upon to perform its obligations in good faith. Indeed, it has destroyed their confidence in any plan by which a foreign company would control the Iranian Oil industry.

Under these circumstances Iranians are firmly convinced that the nationalization of the oil industry is the only practical policy. They are in no mood to compromise the principle of nationalization. Any scheme for the resumption of Iranian exports which implies control of the oil industry by a foreign operating company is considered contrary to the philosophy underlying nationalization and will consequently be rejected, no matter how attractive the financial terms may be. The only type of plan acceptable is one by which oil is produced and refined with the assistance of foreign technicians and is sold by Iran at seaboard to would-be purchasers.

Proposals to settle the dispute which fail to give full recognition to this irrevocable national policy are doomed to failure. Whether the Stokes and other proposals provided reasonable bases for the settlement of the dispute can be judged only in the light of this national policy and of all facts, both historical and current, which brought that policy into being.

II. THE D'ARCY CONCESSION AND ITS EXECUTION ^{1/}

A. The D'Arcy Concession

The original concession granted in 1901 to William Knox D'Arcy, a British subject, included an area of about 400,000 square miles, or all of Iran except the five northern provinces. Under this concession D'Arcy

obtained exclusive rights to the exploration, production and refining of petroleum for sixty years, as well as exclusive rights to lay pipelines within the area of the concession. In return, the concessionaire agreed to make a cash payment of \$100,000 and to issue to Iran paid-up shares representing a 10% ownership of the "First Exploitation Company". In addition, the concessionaire agreed to pay Iran a royalty of 16% of the profits. At the end of the concession, all the assets of the company, both in Iran and abroad, were to be vested in the Iranian Government. Lands granted by the Government or acquired by the Company, in addition to oil products exported, were to be free of all imposts and taxes. All materials and apparatus needed for exploration and development and for construction of a pipeline were to be imported free of all taxes and custom duties.

The terms of the agreement -- if carried out in good faith by the concessionaire -- were very favorable, and in fact no better terms have since been offered to Iran. The concession provided an arrangement by which D'Arcy could build up an oil industry in return for giving Iran a 10% ownership and 16% of the profits, or a claim approximating one quarter of total earnings. Over a sixty-year period, the concessionaire would have enjoyed about 75% of the profits. In 1961 Iran would have obtained ownership and control of the Company's properties, both in Iran and elsewhere. In 1950 these properties amounted to over one billion dollars on the basis of original cost and stood in the Company's books at about \$400 million after depreciation and write-offs.

The concession terms did not exempt the Company from payment of Iranian income taxes. Such taxes first imposed in 1931 at low levels were gradually increased to 50% in 1942.

B. Formation of the Anglo-Persian Oil Company

During the first few years, oil was found only in relatively small fields and far from seaboard. Finally, in 1908, a rich strike was made about a hundred miles from the Persian Gulf.

Iranians believe that about that time D'Arcy's successors took the view that the terms of the concession were far too liberal to Iran. The London Economist termed the D'Arcy concession "a naive document in light of the place Iranian oil was to take in the world market". In 1909 the concessionaire set up a new company with the participation of the Burma Oil Company. The new company -- the Anglo-Persian Oil Company (later Anglo-Iranian Oil Company) -- was established with a capital of \$5 million. The concessionaire transferred the production, refining, and marketing rights from the First Exploitation Company to the new company in consideration of a token royalty.^{1/} Iran suddenly found that she no longer had a 10% interest in the operating concern, but only a 10% interest in the royalties received by the First Exploitation Company from the Anglo-Persian Oil Company (APOC).

^{1/} In 1950 the First Exploitation Company received from the Anglo-Iranian Oil Company \$1,596,000 and gave Iran 10% thereof, i.e., \$159,600.

Furthermore, royalties paid by APOC to the First Exploitation Company were charged off as costs and thereby reduced profits on which royalties of 16% were due. This dual company device was the first step in watering down what was considered an overly generous agreement.

C. The British Government Becomes The Major Shareholder

Within a year or two, the size of the oil reserves had been well established and APOC was ready for major expansion.

After the establishment of the Iranian Constitution in 1906, the concessionaire's dealings with Iran had taken on a different character. It could no longer deal solely with the Shah and his immediate advisors. Now it had to reckon with the Iranian Parliament and with public opinion.

The commencement of active operations and the construction of the pipeline and refinery had involved numerous problems on local levels, for the solution of which the Company dealt directly with the local chiefs and authorities. To win support of these local chiefs, the Company engaged in a systematic program of encouraging their insubordination and supporting them against the central government under a policy of divide and rule.

The desire of the APOC to consolidate and perpetuate its political position vis-a-vis the Iranian Parliament and public opinion, coincided with the decision of the British Admiralty to substitute oil for coal as fuel in all its vessels. As a result of this double coincidence shortly before the outbreak of World War I, the British Government, by investing £10 million in the APOC, acquired two million shares and consequently control of the company, which it has maintained ever since. Additional investments by former shareholders, together with annual payments by the British Government on the shares issued to it in 1914, resulted in a substantial increase in APOC's capital. By the end of the First World War approximately £25 million worth of shares had been paid up, and the Company raised its capital by authorizing a total capital issue of £100 million.^{1/} Simultaneously with the shares issued to the government the British Admiralty entered into a thirty-year contract with the Company, which according to the Press gave the British Navy:

"...an automatic reduction in price down to an agreed minimum, to the equivalent of 25% of any profits earned by APOC in excess of the amount required to pay the preference dividend and a dividend of 10% per annum upon the ordinary shares."

^{1/} At present the capital of the Company is £33,000,000; issued £32,843,752 in £7,232,838 eight per cent, cumulative first preference stock, £5,473,414 nine per cent cumulative second preference stock, £20,137,500 ordinary stock, all in £1 units. £11,250,000 ordinary and £1000 first preference stock held by the British Government. Thus although the British Government holdings of stock amounts to only 32.4% of the value of the total shares, it commands 52.6% of total votes.

As a result of this contract, the cost of oil to the British Navy during the past forty years may be estimated to have ranged between 30 and 40 U.S. cents per barrel as against market prices fluctuating between 90 U.S. cents and \$2.43 per barrel. In 1923 the British Government's ownership of a majority interest in APOC was attacked in the British Parliament as being socialistic. In reply, Mr. Winston Churchill declared that as a result of its oil-at-about cost feature, this contract saved the Admiralty \$40 million during the first World War. Savings to the Admiralty represent, necessarily, an equal reduction in the profits of the Company in which Iran had a 16% share. Consequently, Iran suffered a loss of \$6 million in royalties. Estimating Admiralty consumption at an average of 15 million barrels a year, the contract probably saved the British Government as much as \$500 million during the past forty years or about fifteen percent more than the total amount received by the Iranian Government.

Iranians have always insisted that neither the investment by the British Government of \$10 million nor the cheap contract with the Admiralty was commercially necessary. The Company could easily have raised as much capital as it required from private investors both in England and abroad. As early as 1917 preference shares commanded a premium which became increasingly greater. By 1923 share premiums alone had supplied nearly \$18 million of capital. While the British Government's initial subscription of \$10 million was made in 1914, only slightly more than \$5 million had actually been paid in by 1917. By this same date, write-offs and reserves out of current revenues exceeded \$3 million. The contract with the Admiralty was not profitable to the Company. Indeed, but for the strengthened bargaining position resulting from having the British Government as a majority stockholder and active participant, the contract was not economic rationale.

D. Systematic Violation of the D'Arcy Concession

Iran resented the control of the Company by the British Government but at that time was unable to utter even a feeble protest. The Iranian Government was subjected to tremendous pressure from both the British and Tsarist Governments, as described by W. Morgan Schuster, the American financial adviser, in his book "The Strangling of Iran".

Further evidence can be found in British official publications. The following quotations from Vincent Sheean's "The New Persia" (1927), pages 162-175, are also illuminating:

"No chapter in the history of British diplomacy would supply a better theme for an Anglophobe than the story of the relations of the British Empire with Persia. Almost every action of the British Government with respect to Persia since the beginning of the nineteenth century can be interpreted as the result of aggressive or acquisitive ambitions. Especially is this so in the present century, when the progress of British influence in Persia has very often appeared to strike at the independence of that unfortunate nation".

.....

"And although British trade in the gulf goes back to the eighteenth century, and British special privilege dates from earlier still, it was not until 1901 that the concession was granted which was to result (1908) in the formation of the Anglo-Persian Oil Company for the exploitation of the petroleum fields of Khuzistan. British adventurers had long been in commercial control of the Mohammerah and Bushire districts, and the Anglo-Persian concessions made of that control a true 'economic hegemony'."

.....

"So long as the British Government carries the majority of the shareholders' votes, it is apparent that the Anglo-Persian Oil Company is to a large extent, under political control."

.....

"Persia was filled with British agents, and bribery was the accepted means of persuasion. The expenses of the British establishment in Teheran were enormous, and British agents quite openly worked in elections, in Parliament, and in every political activity. This form of action was defined as 'fighting with the enemy's weapons'. The British legation at Teheran is very large (larger than some embassies in Europe), and the British business men and traders throughout the country may be considered, in a sense, 'agents'."

The British Government had barely got into the picture before the Company began exerting pressure to amend the D'Arcy concession. Its first move was to withhold payments of royalties to Iran. This was done on the grounds that a neighboring government had incited the sabotage of the pipelines. Although the actual damage did not exceed 100,000, the Company used this as a pretext to withhold royalty payments for 5 years and even claimed some 2 million in compensation. Article 14 of the Concession provided that Iran was only obligated to protect the property of the company and the lives of its employees, but was not liable for any loss or damage caused by acts beyond its control. Another reason given for withholding payments was that the Company had to pay a 3% royalty to the owners of the land on which the wells had been drilled. Article 3 of the Concession provided that the concessionaire was to recompense landowners for private lands taken for this purpose.

The Company also frustrated Iran's efforts to inspect its accounts although this was called for in the Concession. Nor was the Iranian Government alone in lacking adequate information to safeguard its interest. Commenting on the published financial reports which lumped together the investments and advances to subsidiaries, the London Economist insisted upon the right of the British people to adequate knowledge of the Company's operations:

"The public which is interested through the Government's holding has the right to protest against the cloaking of these important financial operations by one single unintelligible item in the parent company's balance sheet."

Since the Company was diverting an abnormally large share of profits into various reserves used to finance its phenomenal expansion abroad, Iran's concern was obvious. Fed by an increasing stream of profits, these reserve accounts continued to grow rapidly. The extent to which the Company was built up out of profits from Iranian oil was bluntly stated in the annual report of the Chairman of the Board for 1924:

"Since we first became a revenue producing concession in 1914, we have provided out of earnings no less than £19,000,000 for expenditures of a capital nature...."

Four years earlier, the Chairman declared:

"We have surplus assets at the end of the last financial year (1919) amounting to nearly £6,000,000. These are, of course, being drawn upon from time to time by the capital outlay...but on the other hand this is being met, to a substantial extent, by surplus (current) revenue".

Profits were also siphoned into subsidiary companies. The combined effect of these practices, Iran concluded, was to evade or minimize royalty payments and use the funds so withheld for the expansion of the Company. Refusal of the Company to make full disclosure of its earnings, and the fact that its published accounts obviously showed only a fraction of the real profits, created an intense distrust of the Company and its accounting methods.

E. Political Control Over Iran

The Iranians assert that from the very outset the Company, with the aid of British Government officials stationed in Iran, established itself as an independent power in the territories surrounding its concession. Reference has already been made to the Company's policy of establishing political relations with the tribal chiefs in these areas. To cite an example, APOC created as a subsidiary the Bakhtiari Oil Company for the purpose of issuing free stock to the chiefs of the Bakhtiari tribe. In addition, the feudal Sheikh of Mohammerah was encouraged to disregard the Iranian Government and to establish an autonomous Sheikhdom in Khuzestan and so to bring the oil-bearing territories under British suzerainty and control. The Iranians cite the following passage from "The Pageant of Persia" by H. Filmer:-

"Consideration would appear to have been given for a time by the British Authorities to the safeguarding of its interests in the south under an independent southern Persia confederation."

The Iranian Government has also published the text of a letter from the British Resident and Consul General to Sheikh Khazal of Mohammerah guaranteeing him protection against the central Iranian Government. Iran was convinced that the Company patterned its policies after those of the British East India Company.

Throughout its history the Company directed, if not dictated, the policy of the British Government in its relations with Iran. Few Iranian officials or individuals would risk the displeasure of the Company, and those who dared to do so were liable to disgrace or dismissal, and the Company fostered the belief in its omnipotence in order to strengthen its influence and domination.

These political activities destroyed the confidence of the Iranian people in the good faith of the Company and engendered an ever-growing conviction that it was carrying out with impunity a policy of colonial exploitation with the full support of the British Government.

This conviction explains the present uncompromising insistence of Iran to control its oil industry and to reject any proposal involving the revival of British influence.

F. The Armitage-Smith Agreement

Despite cut-rate fuel oil supplied to the Admiralty and profits siphoned off into subsidiaries, the Company accounts disclose sizable profits, as the following statements of its Board Chairman, Sir Charles Greenway, show:

- 1) We have surplus assets at end of March 31, 1919, of nearly £6 million (\$30 million).
- 2) During the fiscal years 1921-1923, APOC spent for capital installations £32 million (\$160 million) of which -
£ 12 million (\$60 million) was paid in capital -
£ 12 million (\$60 million) representing earnings and
£ 8 million (\$40 million) representing cash in hand.
- 3) Between fiscal years 1914-1923, Company made capital expenditures of £ 49 million (\$95 million) out of earnings and paid £ 9,500,000 (\$47,500,000) in dividends and interest.

Despite these large profits, the Company paid no royalties to the Iranian Government until 1921.

In 1920, Mr. Armitage-Smith, a British financial expert employed by Iran, was sent to London to settle the question of outstanding royalties. He is reported to have expressed disgust and shame at the evasion of obligations and such conduct by a British Company, and after some discussion a settlement in the neighborhood of \$5 million was reached on past royalties. This was the first royalty payment received. This sum in comparison with the savings of the Admiralty, taxes paid to the United Kingdom and profits distributed or reinvested, does not constitute more than 3% of the Company's profits. Iran, under its concession, was entitled to 16% of profits and thus the "settlement" was grossly inadequate and consequently was never ratified by Iran.

Mr. Armitage-Smith also reached an agreement with the Company on the manner in which the net profits, on which the royalty of 16% was payable, was to be ascertained. This agreement specified that net profits would be determined prior to British income tax and would include the profits of all the Company's operations in Iran and abroad. The single exception was profits arising from the transportation of oil by ship. This exception was a particularly sore point with Iranians who argued that the tanker fleet was built out of oil profits on which the Iranian Government had not received its share of royalty and would now be deprived of its share of the tanker profits.

In addition, this exception provided a ready means for skimming off profits through excessive transportation charges. It is of interest to note that the British Tanker Company -- the wholly owned fleet-arm of APOC -- had earned so much profit during the first World War that in 1918 it purchased \$8.6 million of APOC's debentures. At the same time the Company's investments in and advances to its subsidiaries increased by \$24 millions. Debenture interest is, of course, a charge against profits.

G. APOC Insures Its Monopoly in Iran

After the First World War, the Company extended its control over the Middle East Oil areas formerly under the Ottoman Empire. In conjunction with the Shell interests it obtained the pre-war concessions held by Germans and formed the Iraq Petroleum Oil Company. In order that no outsider would get a toe-hold in Iran, APOC acquired an ex-Russian's title to a spurious claim to a concession in the north and endeavored to pressure Iran into recognizing its validity.

In 1922 the Standard Oil of New Jersey and the Sinclair Company applied for concessions in Northern Iran, but the APOC -- reinforced by its majority stockholder -- claimed Iran as its special preserve. The American Oil Companies suddenly lost interest in Iran. The next development was that, on the insistence of Secretary of State Charles Evans Hughes, the Standard Group was given a 23.75% interest in the Iraq Petroleum Company. In 1938 other attempts by American and other oil interests, such as the Amiranian and Inland Companies, came to naught. These companies were kept out of Iran because APOC wished to assure that its practices could not be compared with those of more liberally-directed companies and thus threaten its monopoly position.

Between the two world wars foreign pressure on Iran eased, and, by exiling the Sheikh to Teheran, the Iranian Government was able to reestablish its authority over the oil-bearing territories. As a consequence, the overt political activities of the Company diminished.

H. Early Attempts to Revise The D'Arcy Concession

While the negotiations regarding overdue royalties and the method of arriving at profits were going on in 1920, the Company approached Mr. Armitage-Smith with a proposal to change the basis of the royalty payment from 16% of the profits to a flat rate on tonnage exported. After consulting experts, Mr. Armitage-Smith advised the Iranian Government against such a change.

The Company nevertheless continued to make similar proposals from time to time. In making these approaches, it had two aims:-

- 1) To eliminate the obligation of giving Iran access to its books and records and thus to insure the secrecy of its real profits; and
- 2) To secure an extension of the period of its concession which by this time had run almost half its course.

A concrete proposal along these lines was embodied in the so-called Three Star Agreement submitted by the Company in 1929. This proposed agreement included a provision that the Iranian Government would be given the opportunity to acquire up to 25% of the stock of the Company. It also provided for an extension of the concession by an additional thirty years. The Three Star proposal received no consideration from the Iranian Government because of distrust of the Company's accounting practices and because of its provision for the extension of the concession to 1989.

I. Annulment of the D'Arcy Concession

In 1930 the first income tax law was enacted in Iran. The Company at first flatly refused to pay and claimed that it was exempt from such a tax. The Company's refusal was not justifiable inasmuch as Article 7 of the Concession only exempted the concessionaire from land tax, export taxes and import duties. It could not have specified exemption against income taxes because no such tax then existed. Finally, in 1931, the Company admitted liability and offered to pay 4% of its profits, but this offer was tied up with other outstanding issues which could not be readily resolved.

Besides refusing to pay income taxes, the Company used the 1929 crisis as justification to show a fifty percent reduction in its net profits. Consequently a royalty payment of only \$655,000 was made for 1931. The low profit figures were neither justified by the volume of production, which declined only by 4% compared with the preceding year, nor by any considerable drop in oil prices. Furthermore, in the following three years from 1932 to 1935 -- the depth of the depression -- the Company paid royalties averaging \$10 million, and yet managed to show average annual profits after royalties of \$20 million. Consequently, the Iranians believe that the 1931 financial statement was deliberately manipulated as part of a plan to precipitate a crisis.

The Iranian Government was naturally greatly concerned about the heavy reduction of the 1931 royalties. At this juncture the Company adopted an attitude of sweet reasonableness and claimed that the fault lay with the terms of the D'Arcy Concession which made payments to Iran dependent on profits.

It suggested that this provision as well as other terms of the concession were not suited to the times and circumstances. It went so far as to say that the Iranian Government was entitled to minimum annual royalty payments, irrespective of the Company's actual profits. Relying on the good faith of these representations, the Iranian Government reacted by annulling the D'Arcy Concession. In retrospect, it would seem that the Company itself engineered the annulment for the reason that with its potential tax liability even the watered-down D'Arcy concession was too favorable to Iran.

J. Stage Set For New Concession

When the Iranian Government annulled the concession it expected only a token protest from the British Government, followed by arbitration in Teheran, as provided for in the concession agreement. To its surprise, however, the British reaction was most severe. It took the form of a Naval demonstration led by the battleship Nelson in the Persian Gulf. It was followed with threats to occupy the oil territories, to incite the southern tribes to revolt, and to establish a separate government. To add legal veneer, the British Government petitioned the Court of International Justice at The Hague and the League of Nations at Geneva. The stage was thus set for the negotiation of a new concession that would further water down the old D'Arcy Concession.

The furor raised by the British over the annulment of the D'Arcy Concession should have led APOC to insist on its reinstatement. Instead, APOC accepted its annulment and insisted on a new agreement.

III. D'ARCY CONCESSION REPLACED BY "THE 1933 AGREEMENT" 1/

A. Negotiations For "The 1933 Agreement".

With this background, negotiations commenced with the following purported objectives:

- 1) To increase the royalties which up to that time had been nominally 16% of the profits but actually much less because of deductions for reserves; and to fix the amount of royalty in such a manner as to avoid dispute in arriving at the actual figure;
- 2) To establish the principle that the Company was liable to income tax and to fix the amount of such a tax;
- 3) To reduce the area of the concession;
- 4) To reduce the price for the sale of oil products in Iran; and
- 5) To settle the claims of the Iranian Government against the Company.

The Company proposed a flat royalty rate per ton equivalent to 14 cents per barrel, on the basis of the current price then ruling in London. At the then current value of about \$5.00 per ton for Crude Oil (about 70 cents per barrel), this was about 20% of the gross value of the crude and therefore ostensibly represented an increase of about 5% or more on the previous royalty of 16% of the profits.

This increase, however, was more of an illusion than a reality. It did not take into consideration the profits on refining and distribution which were subject to royalty under the D'Arcy Concession. When the Iranians objected that the price of crude oil might rise in the future -- the depression was then at its depth -- the Company refused to adjust royalties based on price changes. Instead, it offered an arrangement under which Iran would receive an additional royalty equal to 20 percent of the amount of dividends declared by the Company in excess of \$3,356,250 per annum.

On the matter of Iranian income taxes, APOC had already admitted its liability. To sidestep its impact, the Company proposed in lieu of income taxes to make annual payments at fixed rates over the next thirty years. For the first fifteen years, payments would be determined at the rate of about 2-5/8 cents per barrel on the first six million tons and 1-3/4 cents per barrel on any tonnage in excess of six millions. For the succeeding fifteen year period, the rate would be increased to 3-1/2 and 2-5/6 cents per barrel respectively. These rates were to be frozen despite what might happen to price levels or company profits over the next thirty years.

The area of the concession was reduced and the Company gave up its exclusive rights to lay pipelines to 100,000 square miles. Despite this shrinkage in area, the concession area which still yielded the Company a monopoly over all the proved reserves, was far too great to be compatible with modern conditions.

The proposed agreement included a provision to liquidate all claims of the Iranian Government under the D'Arcy concession. Reference has already been made to the 10% stock interest provided for in that agreement. On the basis of this 10% ownership interest Iran had a claim to one-tenth of the Company assets. This claim was settled for \$5,000,000. Actually, the financial statements of the Company showed assets of a book value of \$46 million (\$230 million) with a real value in excess of \$500 million. Thus Iran received not 10% but 1% for its stock ownership. For giving up its right to other claims, Iran received no consideration. Similarly, Iran received no consideration for giving up the right, under the D'Arcy Agreement to have all of the assets in the Company, both in Iran and abroad, turned over to her without financial obligation in 1961. The termination of the D'Arcy Agreement was then only twenty-eight years away.

APOC promised to insure the training and employment of Iranians in the technical positions of the Company. This was intended to meet the objections raised by Iranians that under the D'Arcy Agreement, the Company employed Iranians only for the unskilled jobs.

As regards the selling price for oil products in Iran, the Company agreed to a reduction of only 10% off prices established in Roumania or the Mexican Gulf.

After evaluating the terms offered by APOC, the Iranian negotiators countered with the following objections:

- 1) Minimum payments were too low to be of consequence;
- 2) The fixed ton rate would not produce higher royalty payments than the 16% profit royalty based on the current price of \$5 a ton. Furthermore Iran could not benefit from any price rises;
- 3) Payments in lieu of income taxes were too low and fixed for thirty years, permitting no increase which would be justified if prices increased and the Company profits were improved;
- 4) Reducing the area of the concession was of no benefit to Iran. The area given up had been fully explored and was considered commercially unproductive;
- 5) The discount of 10% for oil consumed in Iran was discriminatory in comparison with the Admiralty contract;
- 6) The gold clause was chiefly an illusion in that it did not provide for payment in gold -- or even assure convertibility;
- 7) The agreement was loosely drafted in order to afford the Company the means of engaging in self-serving interpretations;
- 8) The exemption of the Company from import duties was unjustified and discriminatory to local industries which had no similar exemption. The Company exemption from royalty on other minerals for use in its operations was similarly discriminatory;
- 9) The Company's exemption from quota regulations in regard to its imports for the consumption of its foreign employees was also discriminatory and prevented the development of local industries to supply such needs;
- 10) Royalty was payable on oil sold or exported whereas it should have been payable on actual production;
- 11) The Government was not given access to the Company's accounts;
- 12) The change in the arbitration clause was disadvantageous, because it guaranteed the Company a status quo position in every case until the elaborate, time-consuming process of arbitration should decide otherwise; and
- 13) No sanctions were provided against the Company in case of failure to comply with its obligations.

The Iranians were convinced that under the proposed terms, the Company had not increased royalty payments as claimed. Rather, based on prices and benefits then current, Iran's position was about the same but with the likely prospect that in the future payments under the new terms would be far less than royalties under the D'Arcy Concession. Two isolated terms proposed were improvements on the D'Arcy Concession: One, the obligation to train and to employ Iranians for technical jobs heretofore reserved for foreigners; the other, the Company's promise to: "...employ all means, customary and proper, to ensure economy in and good returns from its operations; to preserve the deposits of petroleum and to exploit the concession by methods in accordance with the latest scientific progress".

In weighing the benefits and disadvantages of the proposed terms, the Iranian negotiators were struck by having to give up:

- 1) Iran's 10% ownership interest in the Company for one-tenth of its value;
- 2) The right to have the Company's property vest in Iran in 1961; and
- 3) The right to levy income taxes for a period of thirty years.

All factors considered, the new terms appeared patently less favorable to Iran than those of the D'Arcy Concession, consequently the Iranian negotiators demurred acceptance. A last minute demand on the part of the Company for an extension of the period by thirty years to 1991 caused the negotiations to break down completely.

B. Iran Claims "The 1933 Agreement" Signed Under Duress

After the negotiations broke down the political and military facilities of the British Government were marshalled to break the commercial stalemate and force Iran to accept the Company's terms. The powerful force of the British Royal Navy already in the Persian Gulf began to show signs of preparing for the occupation of Southern Iran. In addition, the British threatened to set up a puppet sheikhdom over the oil-bearing area. This had a terrorizing effect on the Iranian people. The dangers to Iran's political security were so imminent that the Shah intervened and ordered the negotiators to accept the Company's terms. An agreement was signed and promptly ratified by the Majles without discussion.

Thus, the 1933 Agreement achieved the long nourished aims of the controlling group of the Company, but it left the Iranians embittered and convinced that this was not a commercial arrangement with the Company but a surrender to the superior political and military power of Britain. The extension of the franchise was particularly resented.

In a speech to the Iranian Majles in 1950, Representative Tagizadeh, then Minister of Finance and now President of the Senate, summed up the events which led to the signature of the 1933 Concession in the following words:

"We were a few helpless men without authority who did not agree with it and we were exceedingly sorrowful that it had to happen. I must say that I had nothing to do with this matter except that my signature was appended to that Agreement but whether that signature was mine or someone else's it would not have made the slightest difference. What happened would have happened in any case. Personally I did not approve the agreement nor did the others who participated in the negotiations."

Eighteen years later, this event stood out prominently in the minds of Iranians. No one can persuade them that the 1933 agreement was valid. The Iranians consider the 1933 agreement void ab initio, the Company having engineered the cancellation of the D'Arcy Concession and having secured the signature of the 1933 Agreement under duress of the military and political power of the British Government. Comparison of the terms of the two agreements and the obvious manipulation by the Company of its 1931 financial statement conclusively prove that the alleged 1933 agreement was economically unsound and to the disadvantage of Iran.

They also cite the following quotation from "A Short History of the Anglo-Iranian Company" published by the Company itself to show how satisfactory it was to the Company to have the D'Arcy Concession replaced by the 1933 Agreement:

(REPLACEMENT OF THE D'ARCY CONCESSION BY A NEW AGREEMENT in 1933)

"By degrees, it came to be felt both by the Company and by the Iranian Government that the original concession granted to Mr. D'Arcy in 1901 was not, in some respects, a suitable instrument to govern circumstances so different and so complex as had developed since then. In 1901-2 the concessionaire was represented only by a few prospectors and engineers, scattered about in remote and undeveloped areas, which in less than thirty years had developed into a great highly-organized industrial concern, employing by then some 30,000 persons in Iran. Negotiations for the modernization of the D'Arcy concession were started accordingly and culminated in the spring of 1933, when a new concession was drawn up on terms agreeable to both parties. Briefly the period of the concession was extended to 1993; the concessionary zone was to be limited to 100,000 square miles chosen by the Company within five years; the annual royalty, which had previously been a percentage of the net profits, was placed on a tonnage basis plus a participation in the distributed profits on all the Company's operations in Iran and elsewhere; the company's operations were exempted from Iranian taxation in return for certain annual payments per ton of oil; and the Iranian Treasury was protected against Sterling depreciation. The Company's adoption of the ancient name of Iran, instead of Persia, in June 1935, was symbolic of the new and closer identification of the interests of the two parties."

C. Operations Under The 1933 Agreement

In contrast to its dissatisfaction with the D'Arcy Agreement, the Company should have viewed the 1933 Agreement as highly favorable. The new Agreement gave the Company every possible incentive to expand production, refining facilities, ocean transportation, and marketing facilities in consuming countries. Iran's only claim for payment under the agreement was based on oil exported or sold, save for the right to 20% of dividends paid to shareholders.

The 1933 Agreement imposed on the Company only two obligations not present in the D'Arcy Agreement. These were elimination of waste by employing the latest techniques of efficient operations and the training and the employment of Iranians. However, the implementation of these two obligations imposed no burden on the Company. On the contrary, the Company, whose name was changed in 1935 to Anglo-Iranian Oil Company (AIOC), had as much to gain the long run as Iran by conserving the oil resources of the country and by employing Iranians to the maximum extent possible.

In its 1950 report the Company claims that the 1933 Agreement caused it to increase production and to invest considerable sums in Iran for the expansion of its refinery and other installations.

The expansion of production between 1933 and 1939 reflected a 40% increase from 7 million to 10 million tons. However, in an earlier seven years period from 1923 to 1930, production increased from 3,000,000 tons to 5 million tons, or an expansion rate of nearly 70%. After 1942 the requirements of Allied forces in World War II caused a further expansion and skyrocketed production up to 17 million tons by 1945. Similarly, in the post-war period of the next five years, the requirements for rehabilitation, the replacement of war-destroyed refineries, and the replacement of Russian-satellite oil, further increased production to 32 million tons, or almost 100% in five years. The increased annual rate of 22 million tons, or 200% more than the last pre-war year of 1939, could not have been foreseen in 1933. Moreover, it cannot be claimed that this additional market was created as a result of the Company's efforts inspired by the favorable terms of the 1933 Agreement.

It is therefore evident that the increased production from 7 to 10 million tons in the pre-war period was not due to the favorable terms of the 1933 agreement, but rather to the normal increased demand. There appears little doubt that the greater output since the beginning of the war was not influenced by the 1933 Agreement but was the result of the war and the post-war requirements. Between 1941 and 1950 the added production amounted to 85 million tons. This additional quantity would have been produced had the D'Arcy concession been preserved, but Iran's share would have been several times higher.

Over 18 years of operation under the 1933 Agreement, prices for petroleum products increased from 200 to 300 percent, while costs tended to decline reflecting operations at the greater volume and improvements in the techniques of production and refining. As a result, AIOC's profits reached unprecedented heights.

By 1950 the Company's facilities were capable of transporting and marketing not only the 32 million tons produced in Iran, but also a substantial production in Kuwait, Qatar and Iraq. It should be noted that this expansion was achieved with no additional investment of capital in the Company.

Thanks to the policy of ploughing its profits into expansion, the AIOC today is the largest Oil Company outside the United States. In total world-wide production, refining, transportation and marketing it is a close second to the Standard Oil Company of New Jersey.

This position has been attained by the Company almost entirely from profits on its integrated operations based on Iranian Oil.^{1/}

D. Violations of "The 1933 Agreement" Claimed By Iran

Despite its incredibly profitable operations the Company displayed an irresistible urge to minimize its obligations in regard to royalty payments and other benefits required by this agreement, and, at every opportunity, to enhance its profits at the expense of Iran.

1. Dividend Policy

The Company's Directors pursued a conscious policy of limiting dividends notwithstanding the fact that, according to its financial statements, profits before depreciation and taxes increased from 24 million in 1933 to 422 million in 1950. It is to be noted that these statements do not include all profits because they exclude 59 distributing subsidiaries and allied companies located outside the United Kingdom. Over this period dividends were increased by 15 million of which Iran's share in any one year was less than 3 million. The conservative nature of the Company's dividend policy is indicated by the distribution of the 1950 profits which amounted to 422 million: British income taxes - 142 million, allocations to reserves and carry forward - 215 million, royalties 45 million and total dividends - 20 million.^{2/} To repeat, these figures do not include the operations of the Company's subsidiaries, the profits of which are not published and are therefore unknown.

It is true that in 1950 the Company was under British law barred from paying dividends of higher than 30%. However, even in 1947 when this law did not apply, the Company paid very small dividends compared with its profits, as the following figures will show:

Total profits before depreciation and royalties:	200 million.
British Income Taxes	61 million ^{3/}
Royalties to Iran	28.5 million
Dividend	28.5 million
Retained by Company as	
Depreciation & Reserves	82 million

^{1/} Appendix F.

^{2/} At 2.80 to 1

^{3/} At 4.02 to 1

In view of these facts, it is clear that the Company did not act in good faith in maintaining a dividend policy consistent with earnings and actually violated the intent of the 1933 Agreement. They point out that this arrangement for sharing dividends was offered by the Company in lieu of adjusting the fixed rate of royalties per ton. This was intended as a means of sharing with Iran the increased profits which might result from higher prices. The Company circumvented the explicit purpose of this arrangement in order to reduce royalty payments to the lowest possible level.

2. Wasteful Operations

The 1933 agreement provides for the payment of royalties and taxes on petroleum sold and exported, instead of on production. This provision of the concession encouraged AIOC to waste large quantities of petroleum under a well-known "mining policy". The oil fields yield over 150 million cubic feet of natural gas per day which is entirely wasted. The Morrison-Knudsen report shows that a pipeline to 7 cities in Iran, including a distribution system, would not have cost more than \$70 million and would have been profitable. Efforts to induce the Company to carry out this project were fruitless, as it had no desire to increase its investment in Iran.

In the refinery itself nearly 7% of crude production (about 1 - 3/4 million tons annually) is lost, whereas a great part of it could be recaptured as gases and used to fuel the refinery, power plant, and other installations. This fuel requirement is close to a million tons. This means that the Company preferred to use additional quantities of petroleum rather than to engage in conservation which would involve capital expenditures for installations. Under this policy the Company had the obligation to pay royalties on the 1 million tons used as fuel. Hundreds of thousands of tons were also recycled on which no royalty was paid -- in similar practices in Venezuela royalties are paid to the Government.

3. Employment of Foreigners

As previously stated, under the 1933 Agreement the British undertook to train and employ Iranians in order that the Company's operations in Iran would be staffed to the maximum extent with Iranian nationals. The Iranians claim that the Company has violated this provision of the agreement by not reducing the number of foreigners employed but by increasing them. For example, in 1934 they report that the Company had 740 British employees as compared with 2,725 in 1950. In 1934 foreign clerks and mechanics, principally Indians, numbered 1,059, and by 1950 this number had increased to 1,778. During this same period the number of Iranian employees also increased from 7800 to 31,875. The Iranians were particularly sensitive to what they regarded as the British policy of keeping Iranians out of technical positions and saw no excuse for the employment of foreign clerks and mechanics in place of available Iranian personnel. A partial explanation given for the large number of British employees after World War II was the British practice of providing sinecures for ex-military personnel.

The AIOC cites expansion in production from 7 million tons in 1933 to 32 million in 1950 and a five to six fold increase in its Iranian labor force as against the four fold increase in the number of British employees.

The Iranians claim that a large proportion of Iranian labor was employed on construction and contract work which had no relation whatsoever to the operations of production and refining. Furthermore, even if a four-fold rise in production justified a similar increase in the number of technicians - which is questionable - this increase had been entirely reflected in British personnel. Consequently, it is obvious that the Company had in no way carried out its obligations to replace British technicians by Iranians.

The Company also discriminated against the Iranian technical and administrative staff in regard to salary, emoluments and promotions. Under these circumstances many of the Iranian staff preferred employment elsewhere rather than be treated as inferiors in their own country.

4. Living Conditions - Wages and Housing of Iranian Personnel.

The Company was under increasing attack by Iranian public opinion for its failure to provide Iranians with decent housing accommodations and a fair wage. This criticism was heightened by a visual comparison of favorable living conditions and amenities provided British and other foreign employees with sub-standard or total lack of accommodations for the Iranian workers. The Iranians point out that two large settlements for Iranian workers are known as Chadorabad and Hasirabad meaning "Tentland" and "Matland" respectively, and indicating that these settlements consist of canvas and mat shelters.

The report of the International Labor Organization on labor conditions states:

"At the end of 1949 about 90% of the salaried staff consisting almost entirely of British nationals had been given accommodation in company houses. On the other hand, out of 31,875 wage earners, only 5,298 or 16.6 percent were in company houses. The great majority of the oil workers live in the older overcrowded sections where more often than not an entire family, or three or four bachelors occupy one room. Rents are very high and an attempt made by the Government to fix a ceiling on rents has utterly failed. Finally, another group of workers live in huts and tents which the Company put up in 1948 to accommodate homeless workers. In the oil fields the situation was somewhat better; 62.5% of the British staff were accommodated in Company housing as against a little over 35% of the Iranians.

"Distressing as these conditions are they are incomparably better than that of the contract labor employed within the Company's area who are excluded from all the schemes which the company operates for its own workers. This exclusion is particularly serious in the field of health and services. Contract workers are not entitled to admission to the only hospital in Abadan, the company hospital."

The AIOC claims that shortages of materials had prevented it from providing more housing. The Iranians, however, consider the alleged shortage of material only as an excuse. They compare the conditions in Abadan with those in Saudi Arabia, where, despite a total lack of local

materials and labor, Aramco has managed to provide adequate housing, hospitals, schools, and other social services for all its workers.

Despite the exceedingly profitable operations of the Company, the wages and social benefits paid to Iranian labor were only one-quarter the wages and social benefits received by comparable workers in Venezuela. The oil industry was established in Venezuela and Iran about the same time; nevertheless, the rate of increase in real wages in Venezuela has by far exceeded that in Iran and consequently today Venezuelan labor enjoys a considerably higher standard of living, while Iranian labor still receives only a subsistence wage based on a low standard of living. The low wages in turn are to a great extent responsible for the low cost of crude which is only 5 cents per barrel in Iran against 70 cents in Venezuela. The low production cost in Iran admittedly is chiefly due to the fact that all of Iran's production is from eighty wells, each of which yields an average of 3 million barrels annually. This however in itself is an additional justification for higher wages and better labor conditions.

The Company states that its scale of wages and salaries was higher than that of industrial concerns in other parts of Iran. It must be pointed out however that the climate of the oil fields and Abadan, high cost of living conditions and the out of residence character of its employment forced the Company to offer a higher scale of wages as an inducement in order to attract labor. Though the Company's wage scale was higher than that current in other cities in Iran, nevertheless, the fact remains that it was only a subsistence wage.

IV. EXPLOITATION OF IRANIAN RESOURCES
UNDER COLONIAL POLICY

A. Unjust Enrichment

In looking back over the forty years of exploitation to evaluate the equity of profit-sharing arrangements between the concessionaires and Iran, it is necessary to rely almost entirely upon estimates to determine the profits, having no access to the unpublished financial accounts of the concessionaires. These estimates are shown in the following two tables:

Estimated Earnings from Iranian Oil, FOB

	<u>Production in Million Bbls.</u>	<u>Average Price per Bbl.</u>	<u>Estimated Sales in Millions</u>
1914/1924	123	\$ 2.50	\$ 369
1925/1929	225	1.50	337
1930/1935	307	1.10	340
1936/1939	291	1.20	349
1940/1945	492	1.30	639
1946/1949	695	2.30	1,598
1950	240	2.50	600
1951 to June	135	2.50	337
	<u>2,508</u>		<u>4,569</u>
Allowance for all costs including depreciation			<u>929</u>
			<u>\$3,640</u>

Estimated Profits from all Operations
(In Millions)

1) Profits on 2,500 million barrels oil products exported from Iran	3,640
2) Profits from distribution and tanker transportation	1,200
3) Profits from Iraq and other enterprises	<u>160</u>
	<u>5,000</u>

The following represents the distribution of these profits:

Distribution of Profits (In Millions)

1) To British Government as difference between Admiralty Contract and market prices	\$ 500
2) British Income Taxes (Including Subsidiary Companies)	<u>1000</u>
TOTAL BRITISH GOVERNMENT	1,500
3) Iranian Government	450 *
4) Shareholders (British Government share 180)	350
5) Retained by the Company	<u>2,700</u>
	<u>5,000</u>

To substantiate the figure of \$2,700 million dollars retained by the Company up to June 1951, the following figures from the 1950 Financial Statement of the Company may be cited:

Assets (In Millions)^{1/}

Refineries, Installations and Tankers & Investment in Subsidiary and Allied Companies)	\$ 920
Oil Exploration (Kuwait)	<u>176</u>
At Cost before Depreciation	1096
Current net assets	<u>382</u>
	<u>1480</u>
1951 Profits from Iranian oil	225
Balance being estimated amount of Profits siphoned into Subsidiaries	<u>995</u>
	<u>2700</u>

* Including payments other than royalty

^{1/} As most of the assets of the Company were acquired before 1948, the sterling dollar conversion rate was taken as £4 to \$1 sterling.

On the basis of these estimates, the Company deprived Iran of some 1,200 million by failing to perform its obligation in good faith under the D'Arcy Concession and by engineering its replacement with the unfavorable agreement in 1933. This figure is supported by the following analysis which assumes compliance with the terms of the D'Arcy Concession applied to the entire forty year period of exploitation.

	(In Millions)
1) Royalties at the rate of 16% of profits	800
2) 10% share of dividends on 50% of gross profits	250
3) Iranian income tax of 15% average rate on total net profits (excluding tanker profits) of say 4,000	600
<u>Total Income due Iran</u>	<u>1650</u>
<u>Total payments actually received by Iran</u>	<u>450</u>
<u>Net Loss to Iran</u>	<u>1200</u>

These estimates can only be checked by a full disclosure of the Company's records and an audit by independent examiners. Believing these figures to be a reasonable appraisal, the concessionaires may be charged with unjust enrichment.

While there may be some argument as to the degree of unjust enrichment, the Company's financial statements covering a segment of its operations tend to support this charge.

For example, AIOC's 1950 Profit and Loss Statement^{1/} already quoted which includes production, transportation and distribution in the United Kingdom only and excludes 59 subsidiary companies abroad, show the following major breakdown:

	(In Millions)
1) Profits before depreciation and taxes	415
2) British Taxes	142
3) Royalty to Iran	45
4) Dividends to Stockholders	15
5) Provision for depreciation and) profits retained by Company)	213
	<u>415</u>
	<u>415</u>

There appears little doubt that AIOC's financial statements grossly understate earnings which are hidden by the following practices:

- 1) Sales to the Admiralty at about cost;
- 2) Sales to subsidiaries at less than commercial prices thereby shifting profits to accounts which are not published; and
- 3) Excessive depreciation allowances charged as costs.

While the amounts lost to Iran by these practices cannot be substantiated, its proportion is suggested by the estimated 500 million discount to the Admiralty and the 1950 depreciation of 168 million deducted as costs. As a result of this high depreciation policy, the original investment cost of about 1,100 million had been written off to almost a third of that figure by 1950. The amount represented by sales discounts made by the reporting company to its non-reporting subsidiaries is not available, but consistent with the Company's practice, this offered a major opportunity to minimize the disclosure of profits.

The 1950 financial statement of the Company, by showing profits of 115 million, including profits on tankers and subsidiaries operating in the United Kingdom, support the above conclusions. The profits derived from Iranian oil alone amounted to 450 million. This estimate is arrived at by valuing all exports from Iran at commercial prices and by making a liberal allowance for costs and depreciation. The computations for 1950 are as follows:

(In Millions)

Total value of Iranian exports at commercial prices -	Total operating costs including allowances for depreciation -	105
190 million barrels refined products @ \$2.70 513	Total payments to Iran	45
50 million barrels Crude @ \$1.75 87.5	Profit	<u>450.5</u>
		<u>600.5</u>

It is clear that if profits on tankers and United Kingdom subsidiaries were added to the 450 million derived from Iranian oil, the total profits would reach the neighborhood of 550 million. What the grand total profit would be if the earnings on 59 subsidiary distributing companies were also included is difficult to predict, but it might run as high as 650 million.

Like the Standard Oil Company (New Jersey), AIOC is a completely integrated producer and marketer of petroleum. A comparison of their 1950 financial reports is revealing:

	<u>JERSEY</u> (IN Millions)	<u>AIOC</u> (In Millions)
1) Net Assets	#3,693	\$ 800
2) Capital invested in or loaned to the Company	1,384	100
3) Property, plant and equipment at cost	3,875	1,096
4) Property, etc. after depreciation	2,125	416
5) Investment in property, etc. per barrel	(\$6.68)	(\$3.50)
6) Crude production	510	313
7) Net Crude Purchases	72	- 77
8) Refinery runs	582	236
9) Tanker Fleet Owned - Number of vessels	(169)	(153)
Dead weight tonnage	(2,250,000)	(1,854,000)
10) Net Income before Income Taxes and depreciation	948	370 *
11) Net income per barrel	(\$1.63)	(\$1.18)

* After royalties

It should be noted in the comparison that the Jersey statement includes all its subsidiaries, whereas the AIOC statement excludes subsidiaries in distribution outside the U.K. as well as its numerous allied companies. Jersey's operations were built upon paid in capital and loans of \$1,384 million as compared with AIOC's performance of turning a paid in capital of \$100 million into an integrated operation capable of handling 54% of Jersey's volume. While Jersey's assets represent considerable invested capital, AIOC's Empire is built almost entirely out of earnings.

To the reviewer not familiar with AIOC practices, AIOC's published statement would give an entirely erroneous impression. Profits of \$370 million after royalties shown by AIOC in 1950 exclude profits on subsidiary and allied companies. Moreover, this figure is understated by the amount of discounts on sales designed to shift profits to subsidiaries and to the British Government on deliveries under the Admiralty Contract, and by concealing profits through excessive depreciation charges.

As a result of these practices, AIOC's financial statements show a profit per barrel of \$1.18 as compared with Jersey's \$1.60. Actually, if AIOC's consolidated statement were comparable to Jersey's, the profit per barrel would be \$2.10, or a total of \$655 million. AIOC's 30% higher estimated profit per barrel is explained by the fact that all of its production was in the low-cost Iranian area; whereas, Jersey's production consisted of 90% in the high-cost Western Hemisphere and only 10% in the low-cost Middle East area.

On a total paid-in investment of \$100 million the Company pyramided its earnings by 1950 into a world-wide Oil Empire consisting of annual crude oil production of 313 million barrels, 13 refineries with a capacity of 236 million barrels, ocean-going tankers of close to 2 million tons

deadweight capacity, and world-wide distributing and marketing facilities. In addition, up to 1950 the Company and its subsidiaries paid out of earnings to the British Government 1,680 million in taxes and dividends, including the discount to the Admiralty amounting to 500 million. Other stockholders received 170 million, while Iran only received 3450 million or less than 9% of total profits.

Iran's case against the Company for unjust enrichment was so apparent that the Company did not deny it in principle. The Company states that it was always ready to consider the Iranian viewpoint. It cites the fact that in 1940 despite the loss of its European markets it agreed to minimum royalty payments during the war period of 16 million per annum.

The Company adds that, because of changed circumstances and the great rise in the price of oil products, it recognized Iran's right to higher royalties and was always willing to negotiate a revision of the 1933 Agreement. The Company claims, moreover, that up to 1943 Iran was receiving as much royalty as any other Caribbean or Middle Eastern country, and that until four or five years ago the Saudi Arabia and Kuwait fields had not come into production, while Iraq production had remained stationary since 1930 owing to pipeline limitations.

Thus in its 1950 Annual Report the AIOC states:

"...that the Company had taken the initiative in 1948 in opening discussions with the Iranian Government,...at the time when the policy of dividend limitation was introduced in this country (United Kingdom)...but the offer was not taken up by the Iranian representative who preferred that it should form part of a more comprehensive settlement.... The aim of the talks leading up to the Supplementary Agreement was a search by both parties for a method whereby the Iranian Government would receive higher payments in recognition of the changed economic conditions which the war had brought about."

The Iranians point out that there was a great volume of production in Venezuela and that the dissatisfaction there with royalty payments resulted in an agreement in 1943 which established the fifty-fifty profit-sharing principle.

Royalty payments to Iraq, Saudi Arabia, and Kuwait cannot be used as a basis of comparison for the share Iran should receive from the exploitation of her oil resources, for the following reasons:

- 1) That Iran is an exporter of refined products while the other Middle Eastern countries are exporters of crude; consequently refining profits must also be taken into consideration in the case of Iran, and
- 2) That the Saudi Arabia and Kuwait fields had just come into production and the heavy capital expenditure had not yet been recouped. The Iranian fields have been exploited for the past forty years, and the AIOC had recovered its initial investment of 100 million twenty-five to thirty years ago. Since then its profits amount to about 25 times the original capital.

During the second World War, Iran was occupied by Russian and British forces and consequently was in no position to demand an equitable share of the profits made by AIOC on Iranian oil.

Not only so, the Iranians claim that the Company had resumed its political activities and interfered actively and openly in the internal affairs of Iran. Its financial power and patronage combined with the prestige which the political support of the British Government gave the Company were such that it openly controlled elections and the appointment and dismissal of Government officials. By 1946, the question of concession terms again became a national issue. At this time, Russia took advantage of its position as one of the allied occupation forces in Iran and pressed for a concession covering the northern provinces. An agreement with the Soviets was signed, but it was so unpopular that it was not ratified by the Majles.

In rejecting the agreement, the Majles added a rider compelling the Iranian Government to enforce its rights against the AIOC and to correct the condition of unjust enrichment. This mandate from the Iranian Parliament brought on the negotiations leading up to the Supplementary Agreement of 1949.

B. The Supplementary Agreement.^{1/}

Iranians claim that despite the mandate of the Majles, AIOC, backed by the British Government, used its influence and power to prevent any action from being taken for some time. Pressure of public opinion eventually forced the Iranian Government to appoint a Commission to start negotiations.

The Commission made the following basic demands:

- 1) A rise in rates of payments in lieu of income tax so that combined with royalty total payments should equal 50% of the profits derived from Iranian oil; the Government's 20% interest in the Company's dividends to remain unchanged;
- 2) Cash payment of 20% of the Company's reserves;
- 3) Implementation of the Company's obligation to replace foreign technicians by Iranians;
- 4) Reduction of prices of oil products sold for consumption in Iran to the levels of the Admiralty contract; and
- 5) Implementation of the Company's obligation to make the most economic use of the oil resources.

Despite the fact that the 50-50 profit-sharing principle had been established in Venezuela since 1943, the Company rejected this basis for royalty payments.

^{1/} Appendix C

After prolonged negotiations, AIOC offered a 50% raise in the rates of royalty and a 25% raise in the payments in lieu of income taxes, increasing total receipts per barrel to 26 cents. In recognition of the dividend provisions of the 1933 Agreement which heretofore had been frustrated by the declaration of small dividends, AIOC offered a cash payment of 20% of its reserves and future minimum annual payments of \$11 million. The Company also offered a discount of 25% on Mexican Gulf prices for oil products sold for national consumption. The Commission considered the Company's offer inadequate and unacceptable. However, pressure was brought to bear upon the Government, an agreement embodying these terms was signed on July 17, 1949, and made retroactive to 1948. This agreement is known as the Supplementary Agreement of 1949.

The signature of this Agreement according to the Iranians was carefully timed to coincide with the adjournment of Parliament required by the Constitution, thus permitting that body only a few days in which to discuss and ratify it. This last minute submission, plus the great urgency associated with the demands for its ratification, caused great suspicion and it became a popular issue in Iran. When the terms became known, so much public dissatisfaction was expressed that the Deputies refused to debate it. Following governments, sensitive to the popular dissatisfaction with the Agreement, did not press the Majles for its ratification, and eventually withdrew it on December 26, 1950.

In mid-1950 it became known that Aramco was inclined to agree to a so-called 50-50 division of profits with Saudi Arabia, producing payments of about 55 cents per barrel. Under these circumstances it was rather incredible that AIOC should expect Iran to accept the 26 cents provided under the Supplementary Agreement. The Iranians say that Aramco previously informed AIOC that it had decided to make this Agreement with Saudi Arabia, and recommended that the same terms be offered to Iran. They claim that AIOC rejected this higher pattern of royalties for the Middle East on the ground that it was too liberal and unnecessary, and AIOC reminded Aramco of its experience and success in dealing with the Iranians over the past fifty years.

By the end of February 1951, AIOC began to appreciate the desirability of amending its policies in recognition of the force of public opinion in Iran. Early in March it informed the Iranian Government that it was now prepared to pay royalties on the basis of 55 cents a barrel under a purported 50-50 profit-sharing formula. This proposal, however, came too late. It was considered such a futile gesture both by the Government and the Company that it was only publicized about a month later.

In the meantime popular demand for nationalization of the oil industry had reached an intense pitch.

V. IRAN'S SOVEREIGNTY REAFFIRMED

A. Nationalization of the Oil Industry^{1/}

On March 15, the Majles decided unanimously to give effect to the recommendation of its Oil Commission to nationalize the Oil industry. Five days later, the Senate unanimously confirmed that resolution.

In taking this momentous action, the Iranian Legislature reacted to the public will. Although it was a popular decision, the legislature was largely influenced by the mature consideration given the problem by its Oil Commission. In summary, this commission made the findings that because of Iran's fifty years experience in dealing with the Company and its unmistakable insistence on continuing its past policies, no confidence could be placed in the Company. This conclusion was based on the following considerations:

- 1) While purporting to be a private Company, the AIOC actually exerted the power of the British Government as well as its own financial power, and interfered extensively in the internal affairs of Iran. This interference threatened the sovereignty and political independence of Iran;
- 2) The Company's power and patronage exerted a baneful and corrupting influence;
- 3) Experience had demonstrated that despite obligations written into Concessions, the Company had managed to evade these obligations in one manner or another. It had contributed very little income to Iran while it had unjustly enriched itself by systematic violations and by extensive exploitation; and
- 4) The Company's operations did not benefit Iran, but actually retarded its economic development through the exercise of political and economic control. The normal growth of other industries was discouraged for the purpose of keeping Iranian labor dependent on the Company and of maintaining their wages at subsistence levels. The Company made no effort to build up by-products industries usually associated with the refining of petroleum. It also discouraged the growth of Iranian industries to supply its requirements which were almost entirely imported. As a result, the Company literally exploited Iranian labor by paying sub-standard wages and providing miserable living conditions. In return, Iran only received a small royalty payment.

Another important consideration was that the Company's highly profitable franchise in Iran and its political influence were coveted by Iran's powerful neighbor.

In view of these considerations the Oil Commission concluded that the exploitation of Iran's oil resources by a foreign company had been a failure

^{1/} Appendix D

so far as resulting in benefits to Iran and that in the future such arrangements could no longer be tolerated. The only practical alternative, in the light of these circumstances, was nationalization, which would provide a sound basis for Iranian control of the industry and sale of oil at a reasonable price. In arriving at this conclusion, the Oil Commission was aware of the existence of the "World Oil Cartel", and fully realized that the implementation of nationalization would be met by the opposition, not only of the AIOC and the British Government, but the other major oil companies as well. This opposition was expected in terms of the boycott of technical assistance, tanker transportation, and intimidation of independent companies who might otherwise consider buying oil from Iran. Against these adverse factors was weighed the prospect of perpetuating the Company's strangle-hold on the Iranian people. The Commission finally concluded that no sacrifice was too great in gaining liberation from the Company's domination.

B. The Legality of Nationalization

The action of Iran in nationalizing its oil industry has aroused in some business circles the fear that this action undermines the faith in contractual undertakings -- the foundation of modern industry and commerce.

Iran heartily subscribes to the universal principle that a bona fide contract must be honored and performed in good faith by the parties. Over a long period of time Iran conscientiously endeavored to obtain the concessionaire's faithful performance of its obligations, and to secure an equitable basis of Iran's participation in the industry's profits. Failing in this effort, nationalization was decided upon as the only policy consistent with the sovereign obligations of the Iranian Government in safeguarding the economic and political integrity of its people and resources.

The basic issue raised by nationalization is not the question of its legality under international law. The sovereign right of a nation to nationalize or condemn private property within its borders for public use is well-established. But the issue is whether Iran's action in the eyes of the world is morally justified.

Was Iran's action motivated by the desire to achieve objectives to which she is entitled? Was Iran's action directed against a bona fide contract or was it designed to correct a basic wrong which the concessionaire attempted to perpetuate? Was Iran's action provoked by the concessionaire's malfeasance of such gravity as to destroy faith in the basis of the relationship? And, was Iran's action a reasonable exercise of sovereign power and compatible with its obligation to protect its people and resources?

This paper has attempted to marshal the evidence bearing on these as well as other questions. In summary, evidence supports Iran's conclusion that:

- 1) While the D'Arcy Concession was negotiated at arm's length - neither party being under duress - and was an agreement mutually beneficial to the parties, its terms and intentions were aborted by the concessionaire's malfeasance and bad faith;

- 2) Under that Agreement, the Company acted not as a commercial organization but as a political and military power by employing the force of the British Government which had been given a majority interest for that very purpose;
- 3) The Company, reinforced with British political and military power, could and did render Iran powerless to enforce an equitable performance of the terms;
- 4) Not satisfied with the great profits yielded by the D'Arcy Concession, the Company employed British political and military power to engineer the replacement of that concession with the 1933 Agreement under which its operations would be even more profitable;
- 5) By misrepresenting profits under the D'Arcy Concession and by false promises of profits to Iran flowing from a proposed new agreement, the Company beguiled Iran into annulling the D'Arcy Concession which the Company for years had violated and made every effort to change;
- 6) Instead of referring to arbitration the major question under the D'Arcy Agreement of how profits were to be defined and of how Iran was to realize the benefits of its 10 percent ownership participation, the Company freed itself from royalty payments on its profits from world-wide operations of refining and distribution, as well as production, by insisting on a new concession which would limit royalties to a fixed rate per ton on Iran's oil production;
- 7) Despite the refusal of Iran to accept these new terms, the Company, reinforced by the political and military might of the British Empire, succeeded in forcing the Shah to capitulate. Aware of the hopelessness in opposing this force and the ability of the British to carry out its threats of occupation and coercion, the Iranian Parliament, under duress, supported the Shah in capitulating to the new terms and ratified the Agreement without discussion;
- 8) The Company failed to comply with the terms of the 1933 Agreement as well as the D'Arcy Concession, and unjustly enriched itself to such an extent as to vitiate the basis on which Iran could continue the relationship;
- 9) After World War II and up to the enactment of the Nationalization Law, Iran's plea for terms as favorable as those obtained by Venezuela (the only producing area in a comparable situation) met with the uncompromising attitude of the Company which insisted on perpetuating arrangements under which it would continue to be unjustly enriched by limiting royalty payments;
- 10) In securing its profits position, the Company pursued policies and practices which took the form not only of external political and military coercion, but of a comprehensive system of interference and domination in the internal affairs of Iran;

- 11) In the two years preceding nationalization negotiations with the Company brought out its insistence on preserving the system under which its policies of interference and domination would be continued, to ensure its unjust enrichment in the future;
- 12) Faced with these conditions and the unrelenting policy of the Company, Iran concluded that a mutuality of interest with the Company could not exist and that an agreement could not be made with the Company without the destruction of Iranian integrity and the unconscionable abdication of her sovereign obligations; and
- 13) Nationalization of the oil industry was an action of last resort, but in its enactment Iran provided legal safeguards by which the Company was assured compensation for property in Iran and also a prior claim to Iranian oil supplies for its markets.

The chief argument made against Nationalization is that it violates the clauses in the 1933 Agreement which provide that Iran shall not annul the Concession by general or special legislative action, and that issues in dispute shall be submitted to arbitration. It is argued, therefore, that Iran's action in nationalizing the oil industry violated that agreement.

The Iranian answer to this argument is that nationalization is not a dispute arising out of the alleged 1933 agreement but that nationalization was an action taken under Iran's sovereign right to commit private property within its borders to public use. This absolute sovereign right, universally recognized, could not be compromised by any commercial agreements, because such agreements could not delegate authority over subjects involving national sovereignty to any arbiter. This explains Iran's stand on arbitration.

With respect to Britain's petition to the World Court, Iran's case is quite clear. No jurisdiction was granted by Iran under its general conditions of recognition given to the World Court. In that recognition, Iran made a reservation excluding all matters within its domestic jurisdiction. This reservation is similar to that made by the United States, Great Britain and other governments.

The only other possible basis of the court's jurisdiction is that the controversy is international and between two nations. This basis has no legal foundation because there is no privity of contract between Great Britain and Iran as regards the oil industry. AIOC's rights derive from a concession granted by Iran to private individuals and at no time was Great Britain recognized by Iran as the successor of these concession rights. The purchase by Great Britain of the majority interest in APOC, AIOC's predecessor, was the acquisition of commercial rights, equal to and no greater than those of the private individuals to whom the concession was originally granted. By no stretch of legal construction could it be held that that purchase vested rights in Great Britain comparable to those which would exist in a treaty between two nations.

VI. PROBLEMS OF RESTORING PRODUCTION
UNDER NATIONALIZATION

A. Negotiations Between Iran and the British

Immediately following nationalization, the British Government came forward to deal with Iran. Former efforts by Iran to solicit the British Government's participation in working out satisfactory terms with the Company had failed because the British Government stated that it would not interfere in the affairs of a private company. After nationalization, however, the British Government not only intervened in the negotiations between Iran and the Company but also backed up its demands by dispatching units of the Royal Navy to Iranian waters, and threatened the occupation of Abadan by paratroopers for the ostensible reason of protecting British lives. The British Government went further, it openly suggested the overthrow of the Mossadegh Government and sponsored the rise to power of a more "reasonable" leader with whom negotiations could be conducted. To encourage this result, economic sanctions were imposed against Iran, including the freezing of Iranian funds, the boycott of exports to Iran, and the threat of legal and economic reprisals against independent marketers who might be tempted to purchase oil from Iran. In the pattern of 1932, the British Government invoked the alleged jurisdiction of the International Court of Justice at The Hague and the Security Council in New York.

With the closing down of Abadan in June over the minor issue of tanker receipts demanded by Iran, plans which had been carefully worked out in advance with the American Oil Companies to supply AIOC with oil were put into operation.

The Foreign Petroleum Committee was established in the Petroleum Administration for Defense following an exemption given by the Justice Department from later prosecution of the industry under the anti-trust laws. This committee is composed of 19 companies, all subsidiaries of the six major oil companies. In pooling the world-wide facilities of these 19 companies, AIOC was assured of supplies required to replace those formerly exported from Iran. This arrangement not only assured supplies to consumers but also protected AIOC from losing its markets. This solicitude for a competitor's misfortune can be understood only in the oil industry in which the major companies over a long period of time have been in accord on major questions of concession payments, prices, expansion and the sharing of markets.

The pooling arrangement, including shipments from the U.S., and Caribbean sources, has been working smoothly with the exception of shortages in aviation gasoline and temporary tightness in the supply of bunkers and fuel oil. However, this has been accomplished at the expense of dollar payments from the British Treasury at the rate of 600 million annually. This drain on the slim British dollar reserve is one of the principal reasons for the British dollar deficits which the American people are now underwriting by an additional dollar grant to Great Britain. The first installment of 300 million was paid in January 1952.

The American oil companies' position in this controversy is not altruistic. By supporting AIOC they remove the economic pressure on the Company to make a settlement in Iran. American companies are anxious to

avoid a liberal settlement by AIOC in Iran which would tend to undermine their royalty arrangements with other producing countries. In this attitude, the American oil companies overlook the fact that Iran is in a different position from other Middle East countries in that it is essentially an exporter of refined products, whereas other Middle East countries are wholly or principally exporters of crude. By virtue of the Abadan refinery - the largest in the world - the value of Iran's exports are several times greater than those of neighboring countries, and the sharing of profits on an equitable basis would unavoidably give Iran a higher yield.

B. U.S. Government's Efforts to Achieve a Settlement

Thus far the efforts of the Iranian Government and the Company to achieve a settlement based on nationalization proved fruitless. The Jackson proposal offered to accept nationalization in principle, but insisted that the industry be operated and controlled through an Iranian subsidiary to be organized by AIOC. This offer was rejected because of the continued control of the British and the required acceptance of a so-called profit-sharing formula. Negotiations with the British thus became stalemated.

As a result of Ambassador Grady's position that the U.S. should lend its good offices as a mediator, the President sent Mr. Averill Harriman to Teheran. Through Mr. Harriman's efforts the British sent a mission headed by the Right Hon. Richard Stokes, Lord Privy Seal, who resubmitted the Jackson proposal with the clarification that it would produce £50 million, or \$140 million. Iranians believe that Mr. Stokes cited this figure to impress them that they would obtain three times more than the royalties received under the 1933 Agreement. This offer was also rejected for the same reason as the Jackson proposal. Both offers purported to be on a 50-50 profit-sharing basis, but actually they amounted to only 55 cents a barrel - the same granted to other Middle East countries, which, as previously explained, export crude and not refined products of higher value. It has already been shown that the profits on Iranian oil exports are estimated at about \$450 million. The Iranians, therefore, are of the opinion that the Stokes proposal was not even made in good faith, because half the profits would amount to \$225 million instead of \$140 million annually.

C. Iranian Efforts for a Settlement

Following the Stokes offer an effort was made by Mr. Hussein Ala, former Prime Minister and now Minister to the Court, to reopen negotiations.

The British Ambassador made disparaging remarks about this proposal on the ground that it indicated no change of attitude, and that it was neither signed nor on official paper. When the last 350 technicians left Abadan, the British Press attacked the Atlee Government for lack of good faith in having refrained from taking advantage of the Ala proposal to reopen negotiations, pointing out that it did represent a concession on the part of Iran because it did not even preclude the appointment of a British General Manager.

After his successful repudiation of the British thesis in the Security Council in New York, Dr. Mossadegh remained three weeks in Washington and made repeated overtures to reopen negotiations. Despite the efforts of the State Department, however, the British displayed no interest.

The Iranians are therefore convinced that the British have no desire for a settlement except on their own terms.

The British terms as expressed in the Jackson and Stokes offers, though purporting to accept nationalization in principle, did not propose to give effect to it in practice.

D. The Oil Industry in The Iranian Economy

Over the past 40 years, Iran's 13-18 million people have been engaged principally in agriculture and to a limited extent in commerce and the manufacture of textiles. No heavy industry or raw material production or processing, other than oil, exists, despite the availability of raw materials, labor, and access to the sea.

There is probably no country in the world with comparable resources so retarded in its economic development as Iran. Yet it contains undoubtedly the largest single integrated oil operation with the lowest production cost in the world.

What contribution has this oil industry made to the Iranian economy?

1. Oil Royalties

Over a 40-year period of oil production, Iran received total royalties of \$113 million, say about, \$135 million. From 1911 through 1920 no royalties were received from; from 1921 through 1930, Iran received about \$60 million. This amounted to approximately 15% of total Government revenues in this period. From 1931 to 1941 Iran's royalties amounted to about \$125 million which, however, were earmarked for the purchase of military equipment from abroad. During World War II this equipment was delivered almost intact to the British and Russian forces which occupied the country. Since no payment was received for this military equipment, Iran did not benefit from these royalties which were in effect her contribution to the war effort. In the last decade, the total amount of royalties paid by the Company amounted to some \$250 million. In the first six years of this decade these royalties were used by the government for general expenses and constituted about 10% of total government receipts. In the last four years the total oil revenues were allocated for development projects of the Seven-Year Plan which should have amounted to about \$125 million, although some portion of this amount was used for relief and other purposes.

At no time during this 40-year period did royalty payments exceed 15% of total government revenues. The 1950 oil royalties, the highest annual payment received, represented 12% of total government revenue and about 4% of national income.

2. Company Spending for Services in Iran

From 1911 to 1920 the labor force was Indian and very few Iranians were employed by the Company. As the employment of foreign labor was contrary to the terms of the D'Arcy Agreement, after considerable pressure the Company stopped importing Indian labor, and towards the end of the twenties employed Iranian labor almost exclusively. Payments for Iranian

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services during these two decades amounted to some 10 million.

Sales of sterling from 1930 to 1941 to provide local currency for local expenditures averaged about £375,000 per annum, say a total of about 16 million for the period. With the outbreak of World War II the expansion in the industry resulted in a great increase in the number of Iranians employed and sales of sterling by the Company for 1941-1950 totaled about £90 million, or about 300 million for the decade. The Company's sterling sales provided valuable foreign exchange to the Iranian economy and, in the postwar period, constituted a substantial part of the foreign exchange earnings of Iran. In 1950, for example, oil royalties, plus sterling received in payment for local currency, accounted for approximately 60% of Iran's 160 million total foreign exchange earnings.

The figures quoted here refer to sales of sterling only. The actual expenditure of the Company in Iran was more because the Company also earned rials through the sale of petroleum products and lubricants for internal consumption which by 1950 had increased to over 800,000 tons per annum.

3. Impact of the Oil Industry on Iran

Under its "mining" and exploitation policy, the AIOC contributed relatively little to Iran; and moreover, through political interference and domination AIOC prevented the normal development of local industries. The free importation of supplies by AIOC stifle the growth of domestic production. For example, the Company imported 70,000 tons of cement which could have been produced locally and competitively. The low wage policy of AIOC dictated preservation of a low standard of living. In order to concentrate on the highly profitable operation of exporting oil, the Company refused to establish any by-product industries, normally associated with oil refining, which were unavoidably less profitable. And, finally, it obstructed the growth of industries which would compete for local labor and thereby raise wages. As a result, Iran suffered the loss of industrial development. The full result of the Company's domination is pointed out by Iranians in the comparison of the economic progress made in the last thirty years by Turkey -- less bountifully endowed with resources, but free from big-company control.

4. Can Iran Endure the British Sanctions?

The out-of-pocket loss to Iran by the stoppage of oil exports though of some consequence can be endured. As previously stated, the pinch is felt primarily in the loss of foreign exchange which will require a revision of Iran's import policy. This revision, cutting down imports by 50 million annually, will necessarily eliminate the import of luxuries. It will also curtail the imports of sugar, textiles, tea and machinery. It will not affect the supply of basic food staples, fuel and housing which are produced locally. With some belt-tightening, Iran should be able to endure the economic hardships resulting from the stoppage of oil exports and other sanctions imposed by the British. The marked rise in the value of Iranian exports during the past year will alleviate that hardship to some extent.

Since oil exports were cut off, the National Oil Company of Iran has taken full possession of the industry's plants and facilities. Foreign experts, who have inspected the Abadan refinery and other facilities, report that they are being maintained in spick and span condition. The obligation of maintaining the facilities and operating them challenges the honor and the ability of the Iranians, and, "By God, they are going to do a good job of keeping the thing in order". The Kermanshah refinery has been kept in continuous operation -- 20,000 barrels daily; also, some units of the huge Abadan refinery have been in operation to supply local consumption. Iranian employees of the former Oil Company have been kept on the job and paid. Those not engaged in production are assigned to maintenance and repairs.

Foreign experts also concede that without foreign technical assistance, Iran can immediately produce at the annual rate of 5 million tons (1/5 of capacity) and with some foreign technical assistance up to 15 million tons (3/5 of capacity). Any sizable production cannot be undertaken by Iran without first establishing sales outlets and ocean transportation. While the opportunities are limited and difficult to develop, over a period of time Iran will undoubtedly make some export sales despite the opposition of the major oil companies. The principal weapon at Iran's disposal in her struggle for markets is the ability to sell at low prices, based on a low cost of production, and to accept soft currencies in payment. Conversely, the major oil companies are somewhat vulnerable by reason of relatively higher costs and their insistence on payments in dollars and sterling.

In view of these circumstances the Company may in the long run find it advantageous either to purchase Iranian oil themselves or to assign certain markets to Iran.

E. Importance of Iranian Oil In World Supplies

The value of the Iranian oil industry and its huge proven resources must be measured in terms of strategic interests, as well as its relation to the world oil industry.

1. Strategic Interests

The Iranian oil industry is as large as the entire estimated reserves, production and refinery capacity of Russia and her satellites. Because of this fact, British and American petroleum policy must appraise the risk of alienating Iranian supplies, formerly consumed almost entirely outside the Russian markets. If the major oil companies succeed in continuing to shut Iranian oil out of its former markets, it is unavoidable that this oil may commence to flow in an ever-increasing stream to Russian and satellite markets outside British and American company control.

2. Iran's Part of World Supplies

In the short-run view, the world is well established with respect to proven reserves estimated to be over 10-1/2 billion metric tons. At the current rate of production of about half a billion metric tons annually, a 20 year supply is readily available. Over 1 billion tons of the world's proven reserves are located in Iran and about 4-1/2 billion tons in the Middle East generally. The balance of the world's reserves are located as follows: United States and other Western Hemisphere 5.1, and other

Eastern Hemisphere .9 billion tons.

In the long-run view of more than 20 years, it is apparent that the adequacy of the world's reserves are highly uncertain, and Iran's 1 billion tons may become critical.

The crude production capacity of the world is highly flexible. In the Middle East, each additional well will bring in from 2 to 3 million barrels annually. In the last 12 months a demonstration of this flexibility was given when Iran's total crude output in 1950 of 240 million barrels was replaced by increasing crude production in other Middle East countries. However, the greatest short-run production flexibility is in the United States. With a normal production rate of 2 billion barrels annually, a system of "allowables" shuts in approximately 50 percent of that rate. Therefore, in an emergency, an additional 1 billion barrel rate of production can be achieved almost immediately by lifting the "allowables". In general, it may be stated that the petroleum industry is well-equipped to meet any foreseeable crisis of short-run duration by the production of crude from present proven reserves.

The refining segment of the oil industry represents the production bottleneck. This is the governor used by the industry to stabilize the petroleum market by limiting production, despite available reserves and crude producing capacity. The well-established policy of the oil industry is to avoid unused refinery capacity and to assume that in the event of an emergency, rationing will be imposed to limit civilian consumption in order to make adequate supplies available to the military. While this policy has worked in the past, it promises to run into difficulties in the prolonged period of a cold war in which military consumption is above normal levels, and civilian consumption continues to increase year by year.

In the short-run, the Iranian oil industry is of major importance, primarily by reason of the Abadan refinery and its huge capacity of 200 million barrels per year. This capacity is about 3% of the total world refineries and about 18% of refinery capacity in the Eastern Hemisphere, excluding Russia. The Abadan refinery capacity is critical in view of the demand for petroleum products which keeps the world's refineries operating at full capacity. In the event of increased military demands, supplies would fall short of meeting both military and civilian requirements. Although an accelerated refinery expansion program is now under way, it has limitations. Machinery and materials are not in free supply because of the military preparedness program undertaken by the United States and Western Europe. It may be stated that the expansion program in the next five years can hardly do more than keep pace with increased civilian requirements, if that; and any inordinate demands of the military must be met by a rationing of supplies to civilians.

3. Iranian Industry Strategically Located

Iranian oil has a greater importance than that indicated by comparing its capacity as a percentage of the world industry. It is strategically located to serve the rapidly expanding markets of Pakistan, India and the Far East on a more efficient basis than any other source of supply. Its proximity to these markets, its low cost of production, and the ability to take local currencies in payment, place the industry in a formidable long-run position. In the short run, British and American companies may succeed in blocking Iranian oil sales to these markets by virtue of their control of transportation and distribution, and their

willingness to incur the exorbitant expense of obtaining supplies from the United States. However, in the long run, these obstacles may eventually be overcome by the common interest of Iran and the consuming countries.

F. The Issues Involved in Reaching a Settlement

The Iranians insist that the settlement of the dispute hinges upon an unqualified recognition of nationalization, to be effectuated by providing for Iranian control of its oil industry and by the sale of its oil at seaboard. Negotiations have broken down because of the British refusal to accept the new pattern of a buyer-seller relationship and by their adherence to the historical royalty or profit-sharing pattern. If this new pattern of buyer-seller relationship is accepted by the British, there are three issues to be resolved: (1) sales terms, (2) compensation, and (3) management.

1. Sales Terms

The Iranians recognize their dependence on British tankers and marketing facilities if exports are to be restored to capacity levels. In order to obtain these facilities Iranians are prepared to accept sales terms which would compensate the British and reward the use of these facilities in the marketing of Iranian refined products. The Iranians are ready to offer terms on refined products below the levels now being paid by the AIOC. They are also willing to give recognition to long-term purchase contracts and volume sales by allowing reasonable discounts. While Iranians are sensitive to the granting of a sales monopoly to any one company, this point may be resolved by appropriate safeguards permitting Iran the option to reserve a percentage of output for its own distribution.

2. Compensation

The nationalization law makes it mandatory that the Government make compensation for the oil installations acquired by nationalization. The Iranian Government has proposed that compensation be determined in accordance with the following three alternative methods:

- 1) Market value of the shares of the Company prior to nationalization. It is to be noted that, because of the relatively small dividends it has been paying throughout its history, the market value of the Company's shares do not exceed £150 million or \$420 million at the current rate of exchange of 2.80 to a £/;

The Iranians assume the value of the Company's installations in Iran to be one-fifth of its total assets. The compensation due to the Company would then be about £30 million or \$84 million; and

- 2) The method followed by other Governments including the British Government itself in compensating private interests whose properties have been condemned for public use. If the book value of the installations in Iran is adopted as a basis, the compensation payable by the Iranian Government would be, cost (£57 million) less depreciation to date (£29 million) as shown by the Company's own books. This would amount to £28 million or \$78 million. If replacement value is taken into consideration, the amount would not exceed £75 million or \$210 million.

3) Any other method which may be mutually agreed upon.

Against the compensation determined by any of the above methods, the Iranian Government claims a valid and recognized right to 20% of the Company's reserves as well as increased royalties retroactive to 1948 under the Supplementary Agreement. These claims exceed \$140 million. It is to be noted that in its 1950 financial statement the Company has set up a special contingency reserve of \$40,487,440 or \$113,326,832 for these claims.

The Company's attitude is that it is entitled to compensation for the value of the unexpired term of the concession, as well as for the replacement value of the property nationalized. Not one single case exists where the value of a contract has been capitalized and paid for consequent to nationalization. It is generally accepted that the expected future earning ability of a concern is reflected in the market value of its shares. Thus Iran by paying compensation according to the market value of the shares will have necessarily paid for the value of the unexpired term of the concession. No figure has been given as to how much is represented by these claims. It is the opinion of informed observers that the compensation question can be amicably resolved if appropriate sales terms can be negotiated. It would appear that both sides would wish to avoid the Mexican experience of a long-drawn out controversy resulting in little compensation for the companies and in the stoppage of oil exports.

3. Management

When this question is isolated from political consideration, it becomes readily apparent that it is in the interests of both Iran and the purchasing company to promote the efficient management of Iran's internal oil operations. While Iranians insist that the control of the industry cannot be delegated to a foreign oil company, they recognize the need for the employment of foreign experts to undertake the management of the major technical and administrative operations of the industry. The number of such foreign experts is estimated to be 500 to 600. Problems of organization, management, and the efficient use of such foreign technicians under Iranian control, present some difficulties; however, they are not insurmountable. The solution to these problems can be facilitated by a gesture of goodwill on the part of the British to inspire the confidence of the Iranians, and thus bring about a genuine cooperation based on their mutual interdependence.

VII. CONCLUSION

The stalemate of the last seven months is in fact a bargaining contest between Britain and Iran. In this contest, the British have put up a blockade against Iran made possible by their anticipation of American dollar aid of 600 million annually -- the amount necessary to make up the drain of dollars on British reserves caused by AIOC purchases of dollar oil to replace Abadan exports. Consequently the exercise of this pressure involves a tremendous cost; however, it cannot be relied on to produce a solution, because Iran can endure the blockade by curtailing imports which require foreign exchange. So long as the staples of life in Iran are produced locally, the blockade cannot succeed in starving the country into submission.

The strategic and economic interests of the free world are dependent on Iranian oil. The Abadan daily capacity of 550 thousand barrels cannot be replaced despite the increased refinery expansion throughout the world. With material shortages and production facilities committed to defense it would be difficult if not impossible to increase refinery expansion to a rate high enough to keep pace with rising civilian and military demands and at the same time replace the huge capacity of Abadan.

No solution appears to be in sight unless the British give up their historical approach and genuinely recognize the fact of nationalization. If Britain can proceed to negotiate on a purely commercial basis, a sales agreement can be reached with Iran under which the Abadan refinery can again operate at capacity to the benefit of both Britain and Iran. In the absence of a commercial settlement, Iran has no recourse but to operate the industry on a limited basis, supplying the requirements of local consumption, and exporting oil to markets not controlled by the major British and American oil companies.

In recent weeks, the International Bank for Reconstruction and Development has attempted to find a basis on which its facilities and good offices could be used for the resumption of the flow of Iranian oil.

The Iranians are hopeful that the Bank will be able to propose an interim plan, mutually acceptable to Iran and Great Britain which will break the stalemate.

In order to comply with Iran's national policy, this interim plan cannot divorce the Iranian Government from control over the industry but it should pave the way for efficient management under a competent administration and provide for maximum production and the sale of oil by Iran on a commercial basis to a distributing organization.

APPENDIX A

THE D'ARCY CONCESSION

BETWEEN THE GOVERNMENT OF HIS IMPERIAL MAJESTY THE SHAH OF PERSIA of the one part and WILLIAM KNOX D'ARCY of independent means residing in London at No. 42 Grosvenor Square (hereinafter called "the Concessionnaire") of the other part.

The following has by these presents been agreed on and arranged, viz.:-

ARTICLE 1.

The Government of His Imperial Majesty the Shah grants to the Concessionnaire by these presents a special and exclusive privilege to search for obtain exploit develop render suitable for trade carry away and sell natural gas petroleum asphalte and ozokerite throughout the whole extent of the Persian Empire for a term of 60 years as from the date of these presents.

ARTICLE 2.

This privilege shall comprise the exclusive right of laying the pipe lines necessary from the deposits where there may be found one or several of the said products up to the Persian Gulf as also the necessary distributing branches. It shall also comprise the right of constructing and maintaining all and any wells reservoirs stations and pump services accumulation services and distribution services factories and other works and arrangements that may be deemed necessary.

ARTICLE 3.

The Imperial Persian Government grants gratuitously to the Concessionnaire all uncultivated lands belonging to the State which the Concessionnaire's engineers may deem necessary for the construction of the whole or any part of the above-mentioned works. As for cultivated lands belonging to the State the Concessionnaire must purchase them at the fair and current price of the Province.

The Government also grants to the Concessionnaire the right of acquiring all and any other lands or buildings necessary for the said purpose with the consent of the proprietors on such conditions as may be arranged between him and them without their being allowed to make demands of a nature to surcharge the prices ordinarily current for lands situate in their respective localities. Holy places with all their dependencies within a radius of 200 Persian archines are formally excluded.

ARTICLE 4.

As three petroleum mines situate at Schouster Kassre-Chirine in the Province of Kermanschahan and Daleki near Bouchir are at present let to private persons and produce an annual revenue of two thousand tomans for the benefit of

the Government it has been agreed that the three aforesaid mines shall be comprised in the Deed of Concession in conformity with Article 1 on condition that over and above the 16 per cent. mentioned in Article 10 the Concessionnaire shall pay every year the fixed sum of 2,000 (two thousand) tomans to the Imperial Government.

ARTICLE 5.

The course of the pipe lines shall be fixed by the Concessionnaire and his engineers.

ARTICLE 6.

Notwithstanding what is above set forth the privilege granted by these presents shall not extend to the Provinces of Azerbadjan Ghilan Mazendaran Asdrabad and Khorassan but on the express condition that the Persian Imperial Government shall not grant to any other person the right of constructing a pipe line to the southern rivers or to the South Coast of Persia.

ARTICLE 7.

All lands granted by these presents to the Concessionnaire or that may be acquired by him in the manner provided for in Articles 3 and 4 of these presents as also all products exported shall be free of all imposts and taxes during the term of the present Concession. All material and apparatuses necessary for the exploration working and development of the deposits and for the construction and development of the pipe lines shall enter Persia free of all taxes and Custom House duties.

ARTICLE 8.

The Concessionnaire shall immediately send out to Persia and at his own cost one or several experts with a view to their exploring the region in which there exist as he believes the said products and in the event of the report of the expert being in the opinion of the Concessionnaire of a satisfactory nature the latter shall immediately send to Persia and at his own cost all the technical staff necessary with the working plant and machinery required for boring and sinking wells and ascertaining the value of the property.

ARTICLE 9.

The Imperial Persian Government authorises the Concessionnaire to found one or several Companies for the working of the Concession.

The names "statutes" and capital of the said Companies shall be fixed by the Concessionnaire and the Directors shall be chosen by him on the express condition that on the formation of each Company the Concessionnaire shall give official notice of such formation to the Imperial Government through the medium of the Imperial Commissioner and shall forward the "statutes" with information as to the places at which such Company is to operate. Such Company or

Companies shall enjoy all the rights and privileges granted to the Concessionnaire but they must assume all his engagements and responsibilities.

ARTICLE 10.

It shall be stipulated in the contract between the Concessionnaire of the one part and the Company of the other part that the latter is within the term of one month as from the date of the formation of the first exploitation Company to pay the Imperial Persian Government the sum of £20,000 sterling in cash and an additional sum of £20,000 sterling in paid-up shares of the first Company founded by virtue of the foregoing Article. It shall also pay the said Government annually a sum equal to 16 per cent. of the annual net profits of any Company or Companies that may be formed in accordance with the said Article.

ARTICLE 11.

The said Government shall be free to appoint an Imperial Commissioner who shall be consulted by the Concessionnaire and the Directors of the Companies to be formed. He shall supply all and any useful information at his disposal and he shall inform them of the best course to be adopted in the interest of the undertaking. He shall establish by agreement with the Concessionnaire such supervision as he may deem expedient to safeguard the interests of the Imperial Government.

The aforesaid powers of the Imperial Commissioner shall be set forth in the "statutes" of the Companies to be created.

The Concessionnaire shall pay the Commissioner thus appointed an annual sum of £1,000 sterling for his services as from the date of the formation of the first Company.

ARTICLE 12.

The workmen employed in the service of the Company shall be subjects of His Imperial Majesty the Shah except the technical staff such as the Managers Engineers Borers and Foremen.

ARTICLE 13.

At any place in which it may be proved that the inhabitants of the country now obtain petroleum for their own use the Company must supply them gratuitously with the quantity of petroleum that they themselves got previously.

Such quantity shall be fixed according to their own declarations subject to the supervision of the local authority.

ARTICLE 14.

The Imperial Government binds itself to take all and any necessary measures to secure the safety and the carrying out of the object of this Concession of the plant and of the apparatuses of which mention is made for the purposes of the undertaking of the Company and to protect the representatives agents and servants of the Company. The Imperial Government having thus fulfilled its engagements the Concessionaire and the Companies created by him shall not have power under any pretext whatever to claim damages from the Persian Government.

ARTICLE 15.

On the expiration of the term of the present Concession all materials buildings and apparatuses then used by the Company for the exploitation of its industry shall become the property of the said Government and the Company shall have no right to any indemnity in this connexion.

ARTICLE 16.

If within the term of two years as from the present date the Concessionaire shall not have established the first of the said Companies authorised by Article 9 of the present Agreement the present Concession shall become null and void.

ARTICLE 17.

In the event of there arising between the parties to the present Concession any dispute or difference in respect of its interpretation or the rights or responsibilities of one or the other of the parties therefrom resulting such dispute or difference shall be submitted to two Arbitrators at Teheran one of whom shall be named by each of the parties and to an Umpire who shall be appointed by the Arbitrators before they proceed to arbitrate. The decision of the Arbitrators or in the event of the latter disagreeing that of the Umpire shall be final.

ARTICLE 18.

This Act of Concession made in duplicate is written in the French language and translated into Persian with the same meaning.

But in the event of there being any dispute in relation to such meaning the French text shall alone prevail. Teheran Sefer 1319 of the Hegire that is to say May 1901.

APPENDIX B

(No. 1)

CONVENTION CONCLUDED BETWEEN THE IMPERIAL GOVERNMENT OF PERSIA AND THE
ANGLO-PERSIAN OIL COMPANY, LIMITED, AT TEHRAN ON 29TH APRIL, 1933.

~~(Translation)~~

Preamble

For the purpose of establishing a new Concession to replace that which was granted in 1901 to William Knox D'Arcy, the present Concession is granted by the Persian Government and accepted by the Anglo-Persian Oil Company Limited.

This Concession shall regulate in the future the relations between the two parties above-mentioned.

Definitions

The following definitions of certain terms used in the present Agreement are applicable for the purposes hereof without regard to any different meaning which may or might be attributed to those terms for other purposes.

"The Government"

means the Imperial Government of Persia.

"The Company"

means the Anglo-Persian Oil Company Limited and all its subordinate companies.

"The Anglo-Persian Oil Company Limited"

means the Anglo-Persian Oil Company Limited or any other body corporate to which, with the consent of the Government (Article 26), this Concession might be transferred.

"Subordinate Company"

means any company for which the Company has the right to nominate directly or indirectly more than one-half of the directors, or in which the Company holds, directly or indirectly, a number of shares sufficient to assure it more than 50% of all voting rights at the General Meetings of such a company.

"Petroleum"

means crude oil, natural gases, asphalt, ozokerite, as well as all products obtained either from these substances or by mixing these substances with other substances.

"Operations of the Company in Persia"

means all industrial, commercial and technical operations carried on by the Company exclusively for the purposes of this Concession.

Article 1

The Government grants to the Company, on the terms of this Concession, the exclusive right, within the territory of the Concession, to search for an extract petroleum as well as to refine or treat in any other manner and render suitable for commerce the petroleum obtained by it.

The Government also grants to the Company, throughout Persia, the non-exclusive right to transport petroleum, to refine or treat it in any other manner and to render it suitable for commerce, as well as to sell it in Persia and to export it.

Article 2

(A) The territory of the Concession, until 31st December, 1938, shall be the territory to the south of the violet line drawn on the map* signed by both parties and annexed to the present Agreement.

(B) The Company is bound, at latest by 31st December, 1938, to select on the territory above-mentioned one or several areas of such shape and such size and so situated as the Company may deem suitable. The total area of the area or areas selected must not exceed one hundred thousand English square miles (100,000 square miles), each linear mile being equivalent to 1,609 metres.

The Company shall notify to the Government in writing on 31st December, 1938, or before that date, the area or areas which it shall have selected as above provided. The maps and data necessary to identify and define the area or areas which the Company shall have selected shall be attached to each notification.

(C) After 31st December, 1938, the Company shall no longer have the right to search for an extract petroleum except on the area or areas selected by it under paragraph (B) above and the territory of the Concession, after that date, shall mean only the area or areas so selected and the selection of which shall have been notified to the Government as above provided.

Article 3

The Company shall have the non-exclusive right to construct and to own pipe-lines. The Company may determine the position of its pipe-lines and operate them.

Article 4

(A) Any utilised lands belonging to the Government, which the Company shall deem necessary for its operations in Persia and which the Government shall not require for purposes of public utility, shall be handed over gratuitously to the Company.

The manner of acquiring such lands shall be the following: whenever any land becomes necessary to the Company, it is bound to send to the Ministry of Finance a map or maps on which the land which the Company needs shall be shown in colour. The Government undertakes, if it has no objection to make, to give its approval within a period of three months after receipt of the Company's request.

(B) Lands belonging to the Government, of which use is being made, and which the Company shall need, shall be requested of the Government in the manner prescribed in the preceding paragraph, and the Government, in case it should not itself need these lands and should have no objection to make, shall give, within a period of three months, its approval to the sale asked for by the Company.

The price of these lands shall be paid by the Company; such price must be reasonable and not exceed the current price of lands of the same kind and utilised in the same manner in the district.

(C) In the absence of a reply from the Government to requests under paragraphs (A) and (B) above, after the expiry of two months from the date of receipt of the said requests, a reminder shall be sent by the Company to the Government; should the Government fail to reply to such reminder within a period of one month, its silence shall be regarded as approval.

(D) Lands which do not belong to the Government and which are necessary to the Company shall be acquired by the Company, by agreement with the parties interested, and through the medium of the Government

*Not printed

In case agreement should not be reached as to the prices, the Government shall not allow the owners of such lands to demand a price higher than the prices commonly current for neighboring lands of the same nature. In valuing such lands, no regard shall be paid to the use to which the Company may wish to put them.

(E) Holy places and historical monuments, as well as all places and sites of historical interest are excluded from the foregoing provisions, as well as their immediate surroundings for a distance of at least 200 metres.

(F) The Company has the non-exclusive right to take within the territory of the Concession, but not elsewhere, on any unutilised land belonging to the State, and to utilise gratuitously for all the operations of the Company, any kinds of soil, sand, lime, gypsum, stone and other building materials. It is understood that if the utilisation of the said materials were prejudicial to any rights whatever of third parties, the Company should indemnify those whose rights were infringed.

Article 5

The operations of the Company in Persia shall be restricted in the following manner:

- (1) the construction of any new railway line and of any new port shall be subject to a previous agreement between the Government and the Company.
- (2) If the Company wishes to increase its existing service of telephone, telegraphs, wireless and aviation in Persia, it shall only be able so to do with the previous consent of the Government.

If the Government requires to utilise the means of transport and communication of the Company for national defence or in other critical circumstances, it undertakes to impede as little as possible the operations of the Company, and to pay it fair compensation for all damages caused by the utilisation above-mentioned.

Article 6

(A) The Company is authorised to effect, without special licence, all imports necessary for the exclusive needs of its employees on payment of the Custom duties and other duties and taxes in force at the time of importation.

The Company shall take the necessary measures to prevent the sale or the handing over of products imported to persons not employed by the Company.

(B) The Company shall have the right to import, without special licence, the equipment material, medical and surgical instruments and pharmaceutical products necessary for its dispensaries and hospitals in Persia, and shall be exempt in respect thereof from any Custom duties and other duties and taxes in force at the time of importation, or payments of any nature whatever to the Persian State or to local authorities.

(C) The Company shall have the right to import, without any licence and exempt from any Custom duties and from any taxes or payments of any nature whatever to the Persian State or to local authorities, anything necessary exclusively for the operations of the Company in Persia.

(D) The exports of petroleum shall enjoy Customs immunity and shall be exempt from any taxes or payments of any nature whatever to the Persian State or to local authorities.

Article 7

(A) The Company and its employees shall enjoy the legal protection of the Government.

(B) The Government shall give, within the limits of the laws and regulations of the country, all possible facilities for the operations of the Company in Persia.

(C) If the Government grants concessions to third parties for the purpose of exploiting other mines within the territory of the concession, it must cause the necessary precautions to be taken in order that these exploitations do not cause any damage to the installations and works of the Company.

(D) The Company shall be responsible for the determination of dangerous zones for the construction of habitations, shops and other buildings, in order that the Government may prevent the inhabitants from settling there.

Article 8

The Company shall not be bound to convert into Persian currency any part whatsoever of its funds, in particular any proceeds of the sale of its exports from Persia.

Article 9

The Company shall immediately make its arrangements to proceed with its operations in the province of Kermanshah through a subsidiary company with a view to producing and refining petroleum there.

Article 10

(I) The sums to be paid to the Government by the Company in accordance with this Agreement (besides those provided in other articles) are fixed as follows:

- (a) an annual royalty, beginning on 1st January, 1933, of four shillings per ton of petroleum sold for consumption in Persia or exported from Persia;
- (b) Payment of a sum equal to twenty per cent. (20%) of the distribution to the ordinary stockholders of the Anglo-Persian Oil Company Limited, in excess of the sum of six hundred and seventy-one thousand two hundred and fifty pounds sterling (£671,250) whether that distribution be made as dividends for any one year or whether it relates to the reserves of that company, exceeding the reserves which, according to its books, existed on 31st December, 1932.
- (c) The total amount to be paid by the Company for each calendar (Christian) year under sub-clauses (a) and (b) shall never be less than seven hundred and fifty thousand pounds sterling (£750,000).

(II) Payments by the Company under this Article shall be made as follows:

- (a) On 31st March, 30th June, 30th September and 31st December of each year, on each occasion one hundred and eighty-seven thousand five hundred pounds sterling (£187,500). (The payment relating to 31st March, 1933, shall be made immediately after the ratification of the present Agreement.)
- (b) On 28th February, 1934, and thereafter on the same date in each year, the amount of the tonnage royalty for the previous year provided for in sub-clause (I)(a) less the sum of seven hundred and fifty thousand pounds sterling (£750,000), already paid under sub-clause (II)(a).
- (c) Any sums due to the Government under sub-clause (I)(b) of this Article shall be paid simultaneously with any distributions to the ordinary stockholders.

(III) On the expiration of this Concession, as well as in the case of surrender by the Company under Article 25 the Company shall pay to the Government a sum equal to twenty per cent. (20%) of:

- (a) the surplus difference between the amount of the reserves (General Reserve) of the Anglo-Persian Oil Company Limited, at the date of the expiration of the Concession or of its surrender, and the amount of the same reserves at 31st December, 1932;
- (b) the surplus difference between the balance carried forward by the Anglo-Persian Oil Company Limited at the date of the expiration of the Concession or of its surrender and the balance carried forward by that Company at 31st December, 1932. Any payment due to the Government under this clause shall be made within a period of one month from the date of the General Meeting of the Company following the expiration or the surrender of the Concession.

(IV) The Government shall have the right to check the returns relating to sub-clause (I)(a) which shall be made to it at latest on 28th February for the preceding year.

(V) To secure the Government against any loss which might result from fluctuations in the value of English currency, the parties have agreed as follows:

- (a) if, at any time, the price of gold in London exceeds six pounds sterling per ounce (ounce troy) the payments to be made by the Company in accordance with the present Agreement (with the exception of sums due to the Government under sub-clause (I)(b) and clause (III (a) and (b) of this Article and sub-clause (I)(a) of Article 23) shall be increased by one thousand four hundred and fortieth part ($1-1/440$) for each penny of increase of the price of gold above six pounds sterling (~~16~~) per ounce (ounce troy) on the due date of the payments.
- (b) if, at any time, the Government considers that gold has ceased to be the general basis of values and that the payments above mentioned no longer give it the security which is intended by the parties, the parties shall come to an agreement as to a modification of the nature of the security above mentioned or, in default of such an arrangement, shall submit the question to the Arbitration Court (Article 22) which shall decide whether the security provided in sub-clause (a) above ought to be altered and if so, shall settle the provisions to be substituted therefor and shall fix the period to which such provisions shall apply.

(VI) In case of a delay, beyond the dates fixed in the present Agreement, which might be made by the Company in the payment of sums due by it to the Government, interest at five per cent. (5%) per annum shall be paid for the period of delay.

Article 11

(I) The Company shall be completely exempt, for its operations in Persia, for the first thirty years, from any taxation present or future of the State and of local authorities; in consideration therefor the following payments shall be made to the Government:-

- (a) During the first fifteen years of this Concession, on 28th February of each year and for the first time on 28th February, 1934, nine pence for each of the first six million (6,000,000) tons of petroleum, on which the royalty provided for in Article 10(I)(a) is payable for the preceding calendar (Christian) year, and six pence for each ton in excess of the figure of six million (6,000,000) tons above defined.
- (b) The Company guarantees that the amount paid under the preceding sub-clause shall never be less than two hundred and twenty-five thousand pounds sterling (~~£225,000~~).
- (c) During the fifteen years following, one shilling for each of the first six million (6,000,000) tons of petroleum, on which the royalty provided for in Article 10(I)(a) is payable for the preceding calendar year, and nine pence for each ton in excess of the figure of 6,000,000 tons above defined.

- (d) The Company guarantees that the amount paid under the preceding sub-clause (c) shall never be less than three hundred thousand pounds sterling (£300,000).

(II) Before the year 1963 the parties shall come to an agreement as to the amounts of the annual payments to be made, in consideration of the complete exemption of the Company for its operations in Persia from any taxation of the State and of local authorities, during the second period of thirty years extending until 31st December, 1993.

Article 12

(A) The Company, for its operations in Persia in accordance with the present Agreement, shall employ all means customary and proper, to ensure economy in and good returns from its operations, to preserve the deposits of petroleum and to exploit its Concession by methods in accordance with the latest scientific progress.

(B) If, within the territory of the Concession, there exist other mineral substances than petroleum or woods and forests belonging to the Government, the Company may not exploit them in accordance with the present Concession, nor object to their exploitation by other persons (subject to the due compliance with the terms of clause (C) of Article 7); but the Company shall have the right to utilise the said substances or the woods and forests above-mentioned if they are necessary for the exploration or the extraction of petroleum.

(C) All boreholes which, not having resulted in the discovery of petroleum, produce water or precious substances, shall be reserved for the Government which shall immediately be informed of these discoveries by the Company, and the Government shall inform the Company as soon as possible if it wishes to take possession of them. If it wishes to take possession it shall watch that the operations of the Company be not impeded.

Article 13

The Company undertakes to send, at its own expense and within a reasonable time, to the Ministry of Finance, whenever the representative of the Government shall request it, accurate copies of all plans, maps, sections and any other data whether topographical, geological or of drilling, relating to the territory of the Concession, which are in its possession.

Furthermore, the Company shall communicate to the Government throughout the duration of the Concession all important scientific and technical data resulting from its work in Persia.

All these documents shall be considered by the Government as confidential.

Article 14

(A) The Government shall have the right to cause to be inspected at its wish, at any reasonable time, the technical activity of the Company in Persia, and to nominate for this purpose technical specialist experts.

(B) The Company shall place at the disposal of the specialist experts nominated to this end by the Government, the whole of its records relative to scientific and technical data, as well as all measuring apparatus and means of measurement, and these specialist experts shall, further, have the right to ask for any information in all the offices of the Company and on all the territories in Persia.

Article 15

The Government shall have the right to appoint a Representative who shall be designated "Delegate of the Imperial Government." This Representative shall have the right--

- (1) to obtain from the Company all the information to which the stockholders of the Company are entitled;
- (2) to be present at all the meetings of the Board of Directors, of its committees and at all the meetings of stockholders, which have been convened to consider any question arising out of the relations between the Government and the Company;
- (3) to preside ex-officio, with a casting vote, over the Committee to be set up by the Company for the purpose of distributing the grant for and supervising the professional education in Great Britain of Persian nationals referred to in Article 16;
- (4) to request that special meetings of the Board of Directors be convened at any time, to consider any proposal that the Government shall submit to it. These meetings shall be convened within 15 days from the date of the receipt by the Secretary of the Company of a request in writing to that end.

The Company shall pay to the Government to cover the expenses to be borne by it in respect of the salary and expenses of the above-mentioned Delegate a yearly sum of two thousand pounds sterling (£2,000). The Government shall notify the Company in writing of the appointment of this Delegate and of any changes in such appointment.

Article 16

(I) Both parties recognise and accept as the principle governing the performance of this Agreement the supreme necessity, in their mutual interest, of maintaining the highest degree of efficiency and of economy in the administration and the operations of the Company in Persia.

(II) It is, however, understood that the Company shall recruit its artisans as well as its technical and commercial staff from among Persian nationals to the extent that it shall find in Persia persons who possess the requisite competence and experience. It is likewise understood that the unskilled staff shall be composed exclusively of Persian nationals.

(III) The parties declare themselves in agreement to study and prepare a general plan of yearly and progressive reduction of the non-Persian employees with a view to replacing them in the shortest possible time and progressively by Persian nationals.

(IV) The Company shall make a yearly grant of ten thousand pounds sterling in order to give in Great Britain, to Persian nationals, the professional education necessary for the oil industry.

The said grant shall be expended by a Committee which shall be constituted as provided in Article 15.

Article 17

The Company shall be responsible for organising and shall pay the cost of the provision, control and upkeep of, sanitary and public health services, according to the requirements of the most modern hygiene practised in Persia, on all the lands of the Company and in all buildings and dwellings, destined by the Company for the use of its employees, including the workmen employed within the territory of the Concession.

Article 18

Whenever the Company shall make issues of shares to the public, the subscription lists shall be opened at Tehran at the same time as elsewhere.

Article 19

The Company shall sell for internal consumption in Persia, including the needs of the Government, motor spirit, kerosene and fuel oil, produced from Persian petroleum, on the following basis:-

- (a) On the first of June in each year the Company shall ascertain the average Roumanian f.o.b. prices for motor spirit, kerosene and fuel oil and the average Gulf of Mexico f.o.b. prices for each of these products during the preceding period of twelve months ending on 30th April. The lowest of these average prices shall be selected. Such prices shall be the "basic prices" for a period of one year beginning on 1st June. The "basic prices" shall be regarded as being the prices at the refinery.
- (b) The Company shall sell: (1) to the Government for its own needs, and not for resale, motor spirit, kerosene and fuel oil at the basic prices, provided in sub-clause (a) above, with a deduction of twenty-five per cent. (25%); (2) to other consumers at the basic prices with a deduction of ten per cent. (10%).
- (c) The Company shall be entitled to add to the basic prices mentioned in sub-clause (a), all actual costs of transport and of distribution and of sale, as well as any imposts and taxes on the said products.
- (d) The Government shall forbid the export of the petroleum products sold by the Company under the provisions of this article.

Article 20

(I)--(a) During the last ten years of the Concession or during the two years from the notice preceding the surrender of the Concession provided in Article 25, the Company shall not sell or otherwise alienate, except to subordinate companies, any of its immovable properties in Persia. During the

same period the Company shall not alienate or export any of its movable property whatever except such as has become unutilisable.

(b) During the whole of the period preceding the last ten years of the Concession, the Company shall not alienate any land obtained by it gratuitously from the Government; it shall not export from Persia any movable property except in the case when such property shall have become unutilisable or shall be no longer necessary for the operations of the Company in Persia.

(II) At the end of the Concession, whether by expiration of time or otherwise, all the property of the Company in Persia shall become the property of the Government in proper working order and free of any expenses and of any encumbrances.

(III) The expression "all the property" comprises all the lands, buildings and workshops, constructions, wells, jetties, roads, pipe-lines, bridges, drainage and water supply systems, engines, installations and equipments (including tools) of any sort, all means of transport and communication in Persia (including for example automobiles, carriages, aeroplanes), any stocks and any other objects in Persia which the Company is utilising in any manner whatsoever for the objects of the Concession.

Article 21

The contracting parties declare that they base the performance of the present Agreement on principles of mutual good will and good faith as well as on a reasonable interpretation of this Agreement.

The Company formally undertakes to have regard at all times and in all places to the rights, privileges and interests of the Government and shall abstain from any action or omission which might be prejudicial to them.

This Concession shall not be annulled by the Government and the terms therein contained shall not be altered either by general or special legislation in the future, or by administrative measures or any other acts whatever of the executive authorities.

Article 22

(A) Any differences between the parties of any nature whatever and in particular any differences arising out of the interpretation of this Agreement and of the rights and obligations therein contained as well as any differences of opinion which may arise relative to questions for the settlement of which, by the terms of this Agreement, the agreement of both parties is necessary, shall be settled by arbitration.

(B) The party which requests arbitration shall so notify the other party in writing. Each of the parties shall appoint an arbitrator, and the two arbitrators, before proceeding to arbitration, shall appoint an umpire. If the two arbitrators cannot, within two months, agree on the person of the umpire, the latter shall be nominated, at the request of either of the parties, by the President of the Permanent Court of International Justice. If the President of the Permanent Court of International Justice belongs to a nationality or a country which, in accordance with clause (C), is not qualified

to furnish the umpire, the nomination shall be made by the Vice-President of the said Court.

(C) The umpire shall be of a nationality other than Persian or British; furthermore, he shall not be closely connected with Persia or with Great Britain as belonging to a dominion, a protectorate, a colony, a mandated country or other country administered or occupied by one of the two countries above mentioned or as being or having been in the service of one of these countries.

(D) If one of the parties does not appoint its arbitrator or does not advise the other party of its appointment, within sixty days of having received notification of the request for arbitration, the other party shall have the right to request the President of the Permanent Court of International Justice (or the Vice-President in the case provided at the end of clause (B)) to nominate a sole arbitrator, to be chosen from among persons qualified as above mentioned, and in this case the difference shall be settled by this sole arbitrator.

(E) The procedure of arbitration shall be that followed, at the time of arbitration, by the Permanent Court of International Justice. The place and time of arbitration shall be fixed by the umpire or by the sole arbitrator provided for in clause (D), as the case may be.

(F) The award shall be based on the juridical principles contained in Article 38 of the Statutes of the Permanent Court of International Justice.⁽¹⁾ There shall be no appeal against the award.

(G) The expenses of arbitration shall be borne in the manner determined by the award.

Article 23

(I) In full settlement of all the claims of the Government of any nature in respect of the past until the date of coming into force of this Agreement (except in regard to Persian taxation), the Company: (a) shall pay within a period of thirty days from the said date the sum of one million pounds sterling (£1,000,000) and besides (b) shall settle the payments due to the Government for the financial years 1931 and 1932 on the basis of Article 10 of this Agreement and not on that of the former D'Arcy Concession, after deduction of two hundred thousand pounds sterling (£200,000) paid in 1932 to the Government as an advance against the royalties and £113,403 3s. 10d. placed on deposit at the disposal of the Government.

(II) Within the same period, the Company shall pay to the Government in full settlement of all its claims in respect of taxation for the period from 21st March, 1930, to 31st December, 1932, a sum calculated on the basis of sub-clause (a) of clause I of Article 11, but without the guarantee provided in sub-clause (b) of the same clause.

⁽¹⁾ Treaty Series No. 67 (1946) Cmd. 7015.

Article 24

If, by reason of the annulment of the D'Arcy Concession, litigation should arise between the Company and private persons on the subject of the duration of leases made in Persia before 1st December, 1932, within the limits allowed by the D'Arcy Concession, the litigation shall be decided according to the rules of interpretation following:

- (a) If the lease is to determine, according to its terms, at the end of the D'Arcy Concession, it shall retain its validity until 28th May, 1961, notwithstanding the annulment of the said Concession.
- (b) If it has been provided in the lease that it shall be valid for the duration of the D'Arcy Concession and in the event of its renewal for the duration of the renewed Concession, the lease shall retain its validity until 31st December, 1993.

Article 25

The Company shall have the right to surrender this Concession at the end of any Christian calendar year, on giving to the Government notice in writing two years previously.

On the expiry of the period above provided, the whole of the property of the Company in Persia, defined in Article 20, (III) shall become free of cost and without encumbrances the property of the Government in proper working order and the Company shall be released from any engagement for the future. In case there should be disputes between the parties concerning their engagements before the expiry of the period above provided the differences shall be settled by arbitration as provided in Article 22.

Article 26

This Concession is granted to the Company for the period beginning on the date of its coming into force and ending on 31st December, 1993.

Before the date of the 31st December, 1993, this Concession can only come to an end in the case that the Company should surrender the Concession (Article 25) or in the case that the Arbitration Court should declare the Concession annulled as a consequence of default of the Company in the performance of the present Agreement.

The following cases only shall be regarded as default in that sense:

- (a) If any sum awarded to Persia by the Arbitration Court has not been paid within one month of the date of the award.
- (b) If the voluntary or compulsory liquidation of the Company be decided upon.

In any other cases of breach of the present Agreement by one party or the other the Arbitration Court shall establish the responsibilities and determine their consequences.

Any transfer of the Concession shall be subject to confirmation by the Government.

Article 27

This Agreement shall come into force after ratification by the Majlis and promulgation by Decree of His Imperial Majesty the Shah. The Government undertakes to submit this Agreement, as soon as possible, for ratification by the Majlis.

Made at Tehran the twenty-ninth April one thousand nine hundred and thirty-three.

APPENDIX C

(No. 2)

SUPPLEMENTAL AGREEMENT BETWEEN THE IMPERIAL IRANIAN GOVERNMENT AND THE
ANGLO-IRANIAN OIL COMPANY, LIMITED, MADE AT TEHRAN ON 17TH JULY, 1949

Whereas on 29th April, 1933, an Agreement (herein called "the Principal Agreement") was entered into between the Imperial Government of Persia (now known as "the Imperial Iranian Government") of the one part and the Anglo-Persian Oil Company, Limited (now known as the "Anglo-Iranian Oil Company, Limited") of the other part which established a Concession for the regulation of the relations between the two parties above mentioned

And whereas the Government and the Company have after full and friendly discussion agreed that in view of the changes in economic conditions brought about by the World War of 1939-1945 the financial benefits accruing to the Government under the Principal Agreement should be increased to the extent and in the manner hereinafter appearing

And whereas for this purpose the parties have agreed to enter into a Supplemental Agreement:-

Now it is hereby agreed between the Imperial Iranian Government and the Anglo-Iranian Oil Company, Limited, as follows:-

1. This Agreement is supplemental to and shall be read with the Principal Agreement.

2. Any of the terms used herein which have been defined in the Principal Agreement shall have the same meaning as in the Principal Agreement, save that, for the purposes of this Agreement, all references in the Principal Agreement to Persia, Persian, the Imperial Government of Persia and the Anglo-Persian Oil Company, Limited, shall be read as references to Iran, Iranian, the Imperial Iranian Government and the Anglo-Iranian Oil Company, Limited, respectively and the references to the Permanent Court of International Justice shall be read as references to the International Court of Justice established by the United Nations.

3.--(a) In respect of the calendar year ended 31st December, 1948, and thereafter, the rate of the annual royalty payable to the Government under sub-clause (I) (a) of Article 10 of the Principal Agreement shall be increased from four shillings to six shillings per ton of petroleum sold for consumption in Iran or exported from Iran.

(b) The Company shall within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of three million three hundred and sixty-four thousand four hundred and fifty-nine pounds sterling (£3,364,459), as a retrospective application to cover the calendar year ended 31st December, 1948, of the modification introduced by sub-clause (a) of this Clause 3, taking into account

the provisions of sub-clause (V) (a) of Article 10 of the Principal Agreement.

4.--(a) In order that the Government may receive a greater and more certain and more immediate benefit in respect of amounts placed to the General Reserve of the Anglo-Iranian Oil Company, Limited, than that provided by sub-clause (I) (b) and sub-clause (III) (a) of Article 10 of the Principal Agreement, the Company shall pay to the Government in respect of each amount placed to the General Reserve of the Anglo-Iranian Oil Company, Limited, in respect of each financial period for which the accounts of that company are made up (starting with the financial period ended 31st December, 1948) a sum equal to twenty per cent (20%) of a figure to be arrived at by increasing the amount placed to General Reserve (as shown by the published accounts for the financial period in question) in the same proportion as twenty shillings sterling (s.20/-) bear the difference between twenty shillings sterling (s.20/-) and the Standard Rate of British Income Tax in force at the relevant date.

The relevant date shall be the date of the final distribution to the Ordinary Stockholders in respect of the financial period in question, or, in the event of there being no such final distribution, a date one calendar month after the date of the Annual General Meeting at which the accounts in question were presented.

Examples of the implementation of the principle set out in this sub-clause (a) have been agreed between the parties hereto and are set out in the Schedule to this Agreement.

(b) If in respect of any financial period for which the accounts of the Anglo-Iranian Oil Company, Limited, are made up (starting with the financial period ended 31st December, 1948) the total amount payable by the Company to the Government under sub-clause (a) of this Clause 4 and sub-clause (I) (b) of Article 10 of the Principal Agreement shall be less than four million pounds sterling (£4,000,000) the Company shall pay to the Government the difference between the said total amount and four million pounds sterling (£4,000,000). Provided, however, that if during any such financial period the Company shall have ceased, owing to events outside its control, to export petroleum from Iran, the amount payable by the Company in respect of such period in accordance with the foregoing provisions of this sub-clause (b) shall be reduced by a sum which bears the same proportion to such amount as the period of such cessation bears to such financial period.

(c) Any sum due to the Government in respect of any financial period under sub-clause (a) or sub-clause (b) of this Clause 4 shall be paid on the relevant date appropriate to that financial period.

(d) The provisions of Clause (V) of Article 10 of the Principal Agreement shall not apply to any payments made by the Company to the Government in accordance with sub-clause (a) or sub-clause (b) of this Clause 4.

5.--(a) In respect of the sum of fourteen million pounds sterling (£14,000,000) shown in the Balance Sheet of the Anglo-Iranian Oil Company, Limited, dated 31st December, 1947, as constituting the General Reserve of that company, the Company shall, within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of five million and ninety thousand nine hundred and nine pounds sterling (£5,090,909).

(b) The provisions of Clause (V) of Article 10 of the Principal Agreement shall not apply to the payment to be made by the Company in accordance with sub-clause (a) of this Clause 5.

6. The payments to be made by the Company under Clauses 4 and 5 of this Agreement shall be in lieu of and in substitution for--

(i) any payments to the Government under sub-clause (I) (b) of Article 10 of the Principal Agreement in respect of any distribution relating to the General Reserve of the Company, and

(ii) any payment which might become payable by the Company to the Government in respect of the General Reserve under sub-clause (III) (a) of Article 10 of the Principal Agreement on the expiration of the Concession or in the case of surrender by the Company under Article 25 of the Principal Agreement.

7.--(a) In respect of the calendar year ended 31st December, 1948, and thereafter, the rate of payment to be made by the Company to the Government in accordance with sub-clause (I) (c) of Article 11 of the Principal Agreement which relates to the payment to be made in respect of the excess over 6,000,000 tons shall be increased from ninepence to one shilling.

(b) The Company shall, within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of three hundred and twelve thousand nine hundred pounds sterling (£312,900), as a retrospective application to cover the calendar year ended 31st December, 1948, of the modification introduced by sub-clause (a) of this Clause 7, taking into account the provisions of sub-clause (V) of Article 10 of the Principal Agreement.

8.--(a) At the end of sub-clause (a) of Article 19 of the Principal Agreement there shall be added a paragraph in the following terms: "If at any time either party shall consider that either Roumanian prices or Gulf of Mexico prices no longer provide suitable standards for fixing 'basic prices,' then the 'basic prices' shall be determined by mutual agreement of the parties, or in default of such agreement by arbitration under the provisions of Article 22. The 'basic prices' so determined shall become binding on both parties by an agreement effected by exchange of letters between the Government (which shall have full capacity to enter into such an agreement) and the Company."

(b) As from 1st June, 1949, the prices at which the Company shall sell motor spirit, kerosene and fuel oil, produced from Iranian petroleum to consumers other than the Government for internal consumption in Iran, shall be the basic prices with a deduction of twenty-five per cent. (25%), instead of a deduction of ten per cent (10%) as provided in sub-clause (b) of Article 19 of the Principal Agreement.

9. In consideration of the payment of the above sums by the Company the Government and the Company agree that all their obligations one to another accrued up to 31st December, 1948, in respect of sub-clause 1 (a) and sub-clause 1 (b) of Article 10 and in respect of Article 11 of the Principal Agreement and also in respect of the General Reserve have been fully discharged.

10. Subject to the provisions of this Agreement, the provisions of the Principal Agreement shall remain in full force and effect.

11. This Agreement shall come into force after ratification by the Majlis and on the date of its promulgation by Decree of His Imperial Majesty the Shah. The Government undertakes to submit this Agreement, as soon as possible, for ratification by the Majlis.

APPENDIX D

TEXT OF LAW REGULATING THE NATIONALIZATION OF THE OIL INDUSTRY

1. For the purpose of regulating the execution of the Law of 24th and 29th Esfand which nationalizes the Oil Industry throughout the country, a Mixed Board shall be formed. This Board shall consist of 5 members of the Senate and 5 Deputies of the Majles to be elected by each of these two Houses, the Minister of Finance or his deputy, and one other person to be selected by the Government.
2. Under the supervision of the Mixed Board the Government is charged to remove forthwith the former Anglo-Iranian Oil Company from control of the Oil Industry of the country; should the Company make its claim for compensation an excuse to forestall prompt delivery, the Government may deposit up to 25% of the current income, less cost of production, in the Bank Melli or any Bank acceptable to both parties to secure the claim.
3. Under the supervision of the Mixed Board the Government is charged to investigate the lawful and rightful claims of the Government, as well as those of the Company, to report its views thereon to the two Houses of Parliament and upon approval give effect thereto.
4. From Esfand 20th 1329 (March 20th, 1951), when the Bill for the nationalization of the Oil Industry received the ratification of the Senate, the Iranian nation being lawfully entitled to the entire earnings derived from Oil and Oil Products, the Government, under the supervision of the Mixed Board, is charged to investigate and check the accounts of the Company; similarly, the Mixed Board must meticulously supervise the exploitation of the Oil resources from the date this Law went into effect until the appointment of a Board of Management.
5. As soon as possible, the Mixed Board shall prepare the Charter of the National Oil Company including therein provision for the appointment of a Board of Management and a Board of Technical Experts; such Charter shall be submitted to the two Houses for their approval.
6. For the purpose of gradually replacing foreign technicians by Iranian technicians, the Mixed Board is charged to draw up regulations for the annual selection, through competitive examinations, of students to be sent abroad for education, training and experience in the various branches of the Oil Industry; these regulations after being approved by the two Houses shall be put into effect by the Ministry of Education. The cost of training these students shall be paid out of the oil earnings.
7. Purchasers of the products of the Oil Fields from which the former Anglo-Iranian Oil Company has been removed can hereafter purchase

annually at current world market prices the same quantities purchased by them annually during the period commencing from the beginning of 1948 up to 29th Esfand 1329 (20th March, 1951). For additional quantities they shall enjoy priority, other conditions being equal.

8. All proposals of the Mixed Board shall be delivered to the Majles and if approved by its Oil Commission the latter shall submit a report thereon to the Majles for ratification.

9. The Mixed Board must complete its work within three months of the approval of this Law and submit a report of its actions to the Majles in accordance with Article 8. Should the Board need a longer period of time it may ask for an extension, giving adequate reasons therefor.

APPENDIX E

ANGLO-IRANIAN OIL GROUP

Consolidated balance-sheets of the Anglo-Iranian Oil Company for the past two years (at December 31), together with group profit and loss accounts, are compared in the following tables:--

CONSOLIDATED PROFIT AND LOSS
ACCOUNTS

	1949	1950
	£	£
Trading profit (a)	38,666,485	81,300,622
Divs. from sub. cos. not cons.	925,205	950,223
Divs. and int. from allied cos., etc.	1,253,207	2,018,563
Int. on British Govt. etc., securities ...	439,493	196,934
	<hr/>	<hr/>
Profit before U.K. tax	41,284,390	84,466,342
Deduct U.K. tax	22,840,181	50,706,880
	<hr/>	<hr/>
Net profit	18,444,209	33,759,462
Deduct: Minority interest	75,996	84,048
Retained by sub. cos.	(b) 21,803	572,842
	<hr/>	<hr/>
Net profit of Anglo-Iranian	18,390,016	33,102,572
To Preference stock reserve	1,000,000	1,000,000
To general reserve	10,000,000	25,000,000
	<hr/>	<hr/>
	7,390,016	7,102,572
Brought in	1,608,438	1,885,970
	<hr/>	<hr/>
Available balance	8,998,454	8,988,542
Dividends paid:		
Preference	1,071,234	1,071,234
Ordinary	6,041,250	6,041,250
	<hr/>	<hr/>
Carried forward by Anglo-Iranian	1,885,970	1,876,058
Add balances of sub. cos.	666,701	1,120,231
	<hr/>	<hr/>
Carried forward by group	2,552,671	2,996,289

(a) After charging royalty and provision for special contingencies, administration and other expenditure, including: depreciation on fixed assets £20,146,117 in 1950 (£17,773,216); amount written off oil exploration interests £11,299,255 (£5,580,704); and provision for survey repairs £2,750,000 (£1,000,000). (b) Credit.

CONSOLIDATED BALANCE-SHEETS

	1949	1950
	£	£
LIABILITIES--		
Issued capital	32,843,752	32,843,752
Pref. stock reserve	7,000,000	8,000,000
Revenue reserve and surplus:		
General	40,000,000	65,000,000
Development and other res. sub. cos.	448,414	567,849
Profit and loss accounts	2,552,671	2,996,289
Excess on consolidation	1,226,696	1,222,718
Minority interest	169,606	171,301
Future tax	17,288,515	41,059,457
Special contingencies	--	40,487,440
Current liabilities and provisions:		
Creditors and tax	98,395,295	65,553,477
Provisions, contingencies	4,654,111	7,470,959
Dividends (net)	3,253,950	3,121,178
ASSETS--		
Land, oil wells, refineries, etc. (a)	37,870,816	42,081,585
Tankers, etc. (b)	10,087,306	13,350,334
Sub. cos. not consolidated and allied cos.	27,182,868	35,966,228
Investments in exploration and producing cos. (c)	22,658,828	12,505,078
Current assets:		
Stocks of stores and materials	25,469,650	26,372,492
Stocks of crude oil, products, etc.	12,446,090	15,645,028
Debtors, etc.	30,371,324	37,365,993
Int. and divs. accrued	701,264	693,107
Tax certs.	8,311,625	30,000,000
Quoted investments (d)	4,209,365	3,553,828
Cash	28,523,874	50,960,747
Balance-sheet totals	207,833,010	268,494,420

(a) After £84,220,913 depreciation in 1950 (£72,353,012); (b) After £47,682,583 (£40,016,215) depreciation; (c) After deducting £31,716,488 (£20,420,450) written off; (d) Market value £3,789,616 (£4,664,884).

APPENDIX F

Anglo-Iranian Oil Co., Assets.

Refineries: - Abadan, Iran, 24,000,000 tons annual capacity; Haifa, Palestine, 4,000,000 tons, operated by Consolidated Refineries, Ltd., an allied company in which Anglo-Iranian hold half interest; L'Avera, near Martigues, Southern France, 1,400,000 tons, and Dunkirk, Northern France, 300,000 tons, controlled by Societe Generale des Huiles de Petrole, an allied company; Hamburg, Germany, 600,000 tons; Porto Marghera, Venice, Italy, controlled by Industria Raffinazione Olii Minerali, an allied company; Llandarcy, near Swansea, 2,100,000 tons, operated by National Oil Refineries, Ltd., a subsidiary company; Grangemouth, Scotland, 650,000 tons operated by Scottish Oils, Ltd., a subsidiary company. A new refinery for the manufacture of chemicals from petroleum is being built adjacent to the Grangemouth refinery by British Petroleum Chemicals, Ltd., in which Anglo-Iranian hold half interest; Laverton, near Melbourne, 120,000 tons, operated by Commonwealth Oil Refineries, Ltd., in which Anglo-Iranian hold half interest; Kermanshah, Iran, 100,000 tons, operated by Kermanshah Petroleum Co., Ltd., a subsidiary; Alwand, Iraq, 320,000 tons, operated by Khanaqin Oil Co., Ltd., a subsidiary. Arrangements have been completed for the construction of a new refinery of 2,000,000 tons per annum throughput capacity with a full range of products, on the Thames Estuary in the Isle of Grain area of Kent.

Share Interests: - The company, through its subsidiary, the D'Arcy Exploration Co., Ltd., (of which the company holds all the capital) holds 23 3/4 per cent of the shares of the Iraq Petroleum Co., Ltd., also of Petroleum Concessions, Ltd., and associated companies such as Petroleum Development (Qatar), Ltd., Petroleum Development (Trucial Coast), Ltd., Petroleum Development (Oman and Dhofar) Ltd., and either by itself or through subsidiary companies holds the whole of the issued share capital of British Tanker Co., Ltd., Tanker Insurance Co., Ltd., Anglo-Bahamian Petroleum Co., Ltd., Anglo-Iranian Oil Co. (Australia), Ltd., Anglo-Iranian Oil Co. (India), Ltd., Anglo-Iranian Oil Co. (Pakistan), Ltd., Anglo-Iranian Oil Co. (China), Ltd., Anglo-Iranian Oil Co. (Aden), Ltd., Britannic Estates, Ltd., Irano Products, Ltd., Petroleum Steamship Co., Ltd., National Oil Refineries, Ltd., Khanaqin Oil Co., Ltd., Kermanshah Petroleum Co., Ltd., Maritime Refineries, Ltd., Rafidain Oil Co., Ltd., and Scottish Oils, Ltd. (and subsidiaries), and also several distributing companies on the European Continent. They have also a large interest in British Petroleum Chemicals, Ltd., Forth Chemicals, Ltd., Australasian Petroleum Co., Proprietary Ltd., British Petroleum Co. of New Zealand, Ltd., Shell Mex and B.P., Ltd. (the marketing organization in Great Britain of the Shell and Anglo-Iranian groups), Consolidated Petroleum Co. Ltd., Consolidated Refineries, Ltd., First Exploitation Co., Ltd., Kuwait Oil Co., Ltd., (A.I.O.C., 50% and Gulf Exploration Co. 50%), Middle East Pipelines, Ltd., Societe Generale des Huiles de Petrole, Norsk Braendseolje, Steau Romana (British), Ltd., and various other smaller investments.

Transport: - A fleet of, at present, 159 tankers (including those building and on order) aggregating approximately 1,992,077 tons d.w. under the flag of its subsidiary the British Tanker Co., Ltd., is controlled by the company.

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WBG ARCHIVES

NATIONALIZATION OF THE IRANIAN OIL INDUSTRY --

AN OUTLINE OF ITS ORIGIN

AND ISSUES

February 19, 1952

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I. INTRODUCTION & SUMMARY OF THE ISSUES

The Iranian oil dispute has been given world-wide publicity because it highlights the problem of foreign exploitation of weak underdeveloped countries and the curtailment of the flow of oil for the defense and industry of the free world. Although world-wide attention has been focussed on the dispute for only a year, the basis of the controversy goes back as far as 1909. If the current issues are to be understood, they must be put in the perspective of their historical development. An understanding of these issues will throw light on the reasons for the failure of Iran and the Anglo-Iranian Oil Company to reach a settlement despite their obvious common interests as supplier and marketer.

The heart of the dispute lies in the relationship of The Anglo-Iranian Oil Company and its predecessors with the Iranian Government over the past forty years. The Iranian Government accuses the Company of having violated concession terms, unjustly enriched itself, and interfered in the internal affairs of the country to suits its purposes. The Company's colonial attitude in its relations with the Iranian Government and people, its deliberate efforts to evade or reduce its royalty payments, and its policy to ignore the feelings of the people and the interest of the country from which its vast profits have been derived, have left an indelible imprint on the Iranian mind. It has destroyed their confidence in the AIOC as a commercial organization which can be relied upon to perform its obligations in good faith. Indeed, it has destroyed their confidence in any plan by which a foreign company would control the Iranian Oil industry.

Under these circumstances Iranians are firmly convinced that the nationalization of the oil industry is the only practical policy. They are in no mood to compromise the principle of nationalization. Any scheme for the resumption of Iranian exports which implies control of the oil industry by a foreign operating company is considered contrary to the philosophy underlying nationalization and will consequently be rejected, no matter how attractive the financial terms may be. The only type of plan acceptable is one by which oil is produced and refined with the assistance of foreign technicians and is sold by Iran at seaboard to would-be purchasers.

Proposals to settle the dispute which fail to give full recognition to this irrevocable national policy are doomed to failure. Whether the Stokes and other proposals provided reasonable bases for the settlement of the dispute can be judged only in the light of this national policy and of all facts, both historical and current, which brought that policy into being.

II. THE D'ARCY CONCESSION AND ITS EXECUTION ^{1/}

A. The D'Arcy Concession

The original concession granted in 1901 to William Knox D'Arcy, a British subject, included an area of about 400,000 square miles, or all of Iran except the five northern provinces. Under this concession D'Arcy

obtained exclusive rights to the exploration, production and refining of petroleum for sixty years, as well as exclusive rights to lay pipelines within the area of the concession. In return, the concessionaire agreed to make a cash payment of \$100,000 and to issue to Iran paid-up shares representing a 10% ownership of the "First Exploitation Company". In addition, the concessionaire agreed to pay Iran a royalty of 16% of the profits. At the end of the concession, all the assets of the company, both in Iran and abroad, were to be vested in the Iranian Government. Lands granted by the Government or acquired by the Company, in addition to oil products exported, were to be free of all imposts and taxes. All materials and apparatus needed for exploration and development and for construction of a pipeline were to be imported free of all taxes and custom duties.

The terms of the agreement -- if carried out in good faith by the concessionaire -- were very favorable, and in fact no better terms have since been offered to Iran. The concession provided an arrangement by which D'Arcy could build up an oil industry in return for giving Iran a 10% ownership and 16% of the profits, or a claim approximating one quarter of total earnings. Over a sixty-year period, the concessionaire would have enjoyed about 75% of the profits. In 1961 Iran would have obtained ownership and control of the Company's properties, both in Iran and elsewhere. In 1950 these properties amounted to over one billion dollars on the basis of original cost and stood in the Company's books at about \$400 million after depreciation and write-offs.

The concession terms did not exempt the Company from payment of Iranian income taxes. Such taxes first imposed in 1931 at low levels were gradually increased to 50% in 1942.

B. Formation of the Anglo-Persian Oil Company

During the first few years, oil was found only in relatively small fields and far from seaboard. Finally, in 1908, a rich strike was made about a hundred miles from the Persian Gulf.

Iranians believe that about that time D'Arcy's successors took the view that the terms of the concession were far too liberal to Iran. The London Economist termed the D'Arcy concession "a naive document in light of the place Iranian oil was to take in the world market". In 1909 the concessionaire set up a new company with the participation of the Burma Oil Company. The new company -- the Anglo-Persian Oil Company (later Anglo-Iranian Oil Company) -- was established with a capital of \$5 million. The concessionaire transferred the production, refining, and marketing rights from the First Exploitation Company to the new company in consideration of a token royalty.^{1/} Iran suddenly found that she no longer had a 10% interest in the operating concern, but only a 10% interest in the royalties received by the First Exploitation Company from the Anglo-Persian Oil Company (APOC).

^{1/} In 1950 the First Exploitation Company received from the Anglo-Iranian Oil Company \$1,596,000 and gave Iran 10% thereof, i.e., \$159,600.

Furthermore, royalties paid by APOC to the First Exploitation Company were charged off as costs and thereby reduced profits on which royalties of 16% were due. This dual company device was the first step in watering down what was considered an overly generous agreement.

C. The British Government Becomes The Major Shareholder

Within a year or two, the size of the oil reserves had been well established and APOC was ready for major expansion.

After the establishment of the Iranian Constitution in 1906, the concessionaire's dealings with Iran had taken on a different character. It could no longer deal solely with the Shah and his immediate advisors. Now it had to reckon with the Iranian Parliament and with public opinion.

The commencement of active operations and the construction of the pipeline and refinery had involved numerous problems on local levels, for the solution of which the Company dealt directly with the local chiefs and authorities. To win support of these local chiefs, the Company engaged in a systematic program of encouraging their insubordination and supporting them against the central government under a policy of divide and rule.

The desire of the APOC to consolidate and perpetuate its political position vis-a-vis the Iranian Parliament and public opinion, coincided with the decision of the British Admiralty to substitute oil for coal as fuel in all its vessels. As a result of this double coincidence shortly before the outbreak of World War I, the British Government, by investing \$10 million in the APOC, acquired two million shares and consequently control of the company, which it has maintained ever since. Additional investments by former shareholders, together with annual payments by the British Government on the shares issued to it in 1914, resulted in a substantial increase in APOC's capital. By the end of the First World War approximately \$25 million worth of shares had been paid up, and the Company raised its capital by authorizing a total capital issue of \$100 million.^{1/} Simultaneously with the shares issued to the government the British Admiralty entered into a thirty-year contract with the Company, which according to the Press gave the British Navy:

"...an automatic reduction in price down to an agreed minimum, to the equivalent of 25% of any profits earned by APOC in excess of the amount required to pay the preference dividend and a dividend of 10% per annum upon the ordinary shares."

^{1/} At present the capital of the Company is £33,000,000; issued £32,843,752 in £7,232,838 eight per cent, cumulative first preference stock, £5,473,414 nine per cent cumulative second preference stock, £20,137,500 ordinary stock, all in £1 units. £11,250,000 ordinary and £1000 first preference stock held by the British Government. Thus although the British Government holdings of stock amounts to only 32.4% of the value of the total shares, it commands 52.6% of total votes.

As a result of this contract, the cost of oil to the British Navy during the past forty years may be estimated to have ranged between 30 and 40 U.S. cents per barrel as against market prices fluctuating between 90 U.S. cents and \$2.43 per barrel. In 1923 the British Government's ownership of a majority interest in APOC was attacked in the British Parliament as being socialistic. In reply, Mr. Winston Churchill declared that as a result of its oil-at-about cost feature, this contract saved the Admiralty \$40 million during the first World War. Savings to the Admiralty represent, necessarily, an equal reduction in the profits of the Company in which Iran had a 16% share. Consequently, Iran suffered a loss of \$6 million in royalties. Estimating Admiralty consumption at an average of 15 million barrels a year, the contract probably saved the British Government as much as \$500 million during the past forty years or about fifteen percent more than the total amount received by the Iranian Government.

Iranians have always insisted that neither the investment by the British Government of \$10 million nor the cheap contract with the Admiralty was commercially necessary. The Company could easily have raised as much capital as it required from private investors both in England and abroad. As early as 1917 preference shares commanded a premium which became increasingly greater. By 1923 share premiums alone had supplied nearly \$18 million of capital. While the British Government's initial subscription of \$10 million was made in 1914, only slightly more than \$5 million had actually been paid in by 1917. By this same date, write-offs and reserves out of current revenues exceeded \$3 million. The contract with the Admiralty was not profitable to the Company. Indeed, but for the strengthened bargaining position resulting from having the British Government as a majority stockholder and active participant, the contract was not economic rationale.

D. Systematic Violation of the D'Arcy Concession

Iran resented the control of the Company by the British Government but at that time was unable to utter even a feeble protest. The Iranian Government was subjected to tremendous pressure from both the British and Tsarist Governments, as described by W. Morgan Schuster, the American financial adviser, in his book "The Strangling of Iran".

Further evidence can be found in British official publications. The following quotations from Vincent Sheean's "The New Persia" (1927), pages 162-175, are also illuminating:

"No chapter in the history of British diplomacy would supply a better theme for an Anglophobe than the story of the relations of the British Empire with Persia. Almost every action of the British Government with respect to Persia since the beginning of the nineteenth century can be interpreted as the result of aggressive or acquisitive ambitions. Especially is this so in the present century, when the progress of British influence in Persia has very often appeared to strike at the independence of that unfortunate nation".

.....

"And although British trade in the gulf goes back to the eighteenth century, and British special privilege dates from earlier still, it was not until 1901 that the concession was granted which was to result (1908) in the formation of the Anglo-Persian Oil Company for the exploitation of the petroleum fields of Khuzistan. British adventurers had long been in commercial control of the Mohammerah and Bushire districts, and the Anglo-Persian concessions made of that control a true 'economic hegemony'."

.....

"So long as the British Government carries the majority of the shareholders' votes, it is apparent that the Anglo-Persian Oil Company is to a large extent, under political control."

.....

"Persia was filled with British agents, and bribery was the accepted means of persuasion. The expenses of the British establishment in Teheran were enormous, and British agents quite openly worked in elections, in Parliament, and in every political activity. This form of action was defined as 'fighting with the enemy's weapons'. The British legation at Teheran is very large (larger than some embassies in Europe), and the British business men and traders throughout the country may be considered, in a sense, 'agents'."

The British Government had barely got into the picture before the Company began exerting pressure to amend the D'Arcy concession. Its first move was to withhold payments of royalties to Iran. This was done on the grounds that a neighboring government had incited the sabotage of the pipelines. Although the actual damage did not exceed 100,000, the Company used this as a pretext to withhold royalty payments for 5 years and even claimed some 2 million in compensation. Article 14 of the Concession provided that Iran was only obligated to protect the property of the company and the lives of its employees, but was not liable for any loss or damage caused by acts beyond its control. Another reason given for withholding payments was that the Company had to pay a 3% royalty to the owners of the land on which the wells had been drilled. Article 3 of the Concession provided that the concessionaire was to recompense landowners for private lands taken for this purpose.

The Company also frustrated Iran's efforts to inspect its accounts although this was called for in the Concession. Nor was the Iranian Government alone in lacking adequate information to safeguard its interest. Commenting on the published financial reports which lumped together the investments and advances to subsidiaries, the London Economist insisted upon the right of the British people to adequate knowledge of the Company's operations:

"The public which is interested through the Government's holding has the right to protest against the cloaking of these important financial operations by one single unintelligible item in the parent company's balance sheet."

Since the Company was diverting an abnormally large share of profits into various reserves used to finance its phenomenal expansion abroad, Iran's concern was obvious. Fed by an increasing stream of profits, these reserve accounts continued to grow rapidly. The extent to which the Company was built up out of profits from Iranian oil was bluntly stated in the annual report of the Chairman of the Board for 1924:

"Since we first became a revenue producing concession in 1914, we have provided out of earnings no less than £19,000,000 for expenditures of a capital nature...."

Four years earlier, the Chairman declared:

"We have surplus assets at the end of the last financial year (1919) amounting to nearly £6,000,000. These are, of course, being drawn upon from time to time by the capital outlay...but on the other hand this is being met, to a substantial extent, by surplus (current) revenue".

Profits were also siphoned into subsidiary companies. The combined effect of these practices, Iran concluded, was to evade or minimize royalty payments and use the funds so withheld for the expansion of the Company. Refusal of the Company to make full disclosure of its earnings, and the fact that its published accounts obviously showed only a fraction of the real profits, created an intense distrust of the Company and its accounting methods.

E. Political Control Over Iran

The Iranians assert that from the very outset the Company, with the aid of British Government officials stationed in Iran, established itself as an independent power in the territories surrounding its concession. Reference has already been made to the Company's policy of establishing political relations with the tribal chiefs in these areas. To cite an example, APOC created as a subsidiary the Bakhtiari Oil Company for the purpose of issuing free stock to the chiefs of the Bakhtiari tribe. In addition, the feudal Sheikh of Mohammerah was encouraged to disregard the Iranian Government and to establish an autonomous Sheikdom in Khuzestan and so to bring the oil-bearing territories under British suzerainty and control. The Iranians cite the following passage from "The Pageant of Persia" by H. Filmer:-

"Consideration would appear to have been given for a time by the British Authorities to the safeguarding of its interests in the south under an independent southern Persia confederation."

The Iranian Government has also published the text of a letter from the British Resident and Consul General to Sheikh Khazal of Mohammerah guaranteeing him protection against the central Iranian Government. Iran was convinced that the Company patterned its policies after those of the British East India Company.

Throughout its history the Company directed, if not dictated, the policy of the British Government in its relations with Iran. Few Iranian officials or individuals would risk the displeasure of the Company, and those who dared to do so were liable to disgrace or dismissal, and the Company fostered the belief in its omnipotence in order to strengthen its influence and domination.

These political activities destroyed the confidence of the Iranian people in the good faith of the Company and engendered an ever-growing conviction that it was carrying out with impunity a policy of colonial exploitation with the full support of the British Government.

This conviction explains the present uncompromising insistence of Iran to control its oil industry and to reject any proposal involving the revival of British influence.

F. The Armitage-Smith Agreement

Despite cut-rate fuel oil supplied to the Admiralty and profits siphoned off into subsidiaries, the Company accounts disclose sizable profits, as the following statements of its Board Chairman, Sir Charles Greenway, show:

- 1) We have surplus assets at end of March 31, 1919, of nearly £6 million (\$30 million).
- 2) During the fiscal years 1921-1923, APOC spent for capital installations £32 million (\$160 million) of which -
£ 12 million (\$60 million) was paid in capital -
£ 12 million (\$60 million) representing earnings and
£ 8 million (\$40 million) representing cash in hand.
- 3) Between fiscal years 1914-1923, Company made capital expenditures of £ 19 million (\$95 million) out of earnings and paid £ 9,500,000 (\$47,500,000) in dividends and interest.

Despite these large profits, the Company paid no royalties to the Iranian Government until 1921.

In 1920, Mr. Armitage-Smith, a British financial expert employed by Iran, was sent to London to settle the question of outstanding royalties. He is reported to have expressed disgust and shame at the evasion of obligations and such conduct by a British Company, and after some discussion a settlement in the neighborhood of \$5 million was reached on past royalties. This was the first royalty payment received. This sum in comparison with the savings of the Admiralty, taxes paid to the United Kingdom and profits distributed or reinvested, does not constitute more than 3% of the Company's profits. Iran, under its concession, was entitled to 16% of profits and thus the "settlement" was grossly inadequate and consequently was never ratified by Iran.

Mr. Armitage-Smith also reached an agreement with the Company on the manner in which the net profits, on which the royalty of 16% was payable, was to be ascertained. This agreement specified that net profits would be determined prior to British income tax and would include the profits of all the Company's operations in Iran and abroad. The single exception was profits arising from the transportation of oil by ship. This exception was a particularly sore point with Iranians who argued that the tanker fleet was built out of oil profits on which the Iranian Government had not received its share of royalty and would now be deprived of its share of the tanker profits.

In addition, this exception provided a ready means for skimming off profits through excessive transportation charges. It is of interest to note that the British Tanker Company -- the wholly owned fleet-arm of APOC -- had earned so much profit during the first World War that in 1918 it purchased \$8.6 million of APOC's debentures. At the same time the Company's investments in and advances to its subsidiaries increased by \$24 millions. Debenture interest is, of course, a charge against profits.

G. APOC Insures Its Monopoly in Iran

After the First World War, the Company extended its control over the Middle East Oil areas formerly under the Ottoman Empire. In conjunction with the Shell interests it obtained the pre-war concessions held by Germans and formed the Iraq Petroleum Oil Company. In order that no outsider would get a toe-hold in Iran, APOC acquired an ex-Russian's title to a spurious claim to a concession in the north and endeavored to pressure Iran into recognizing its validity.

In 1922 the Standard Oil of New Jersey and the Sinclair Company applied for concessions in Northern Iran, but the APOC -- reinforced by its majority stockholder -- claimed Iran as its special preserve. The American Oil Companies suddenly lost interest in Iran. The next development was that, on the insistence of Secretary of State Charles Evans Hughes, the Standard Group was given a 23.75% interest in the Iraq Petroleum Company. In 1938 other attempts by American and other oil interests, such as the Amiranian and Inland Companies, came to naught. These companies were kept out of Iran because APOC wished to assure that its practices could not be compared with those of more liberally-directed companies and thus threaten its monopoly position.

Between the two world wars foreign pressure on Iran eased, and, by exiling the Sheikh to Teheran, the Iranian Government was able to reestablish its authority over the oil-bearing territories. As a consequence, the overt political activities of the Company diminished.

H. Early Attempts to Revise The D'Arcy Concession

While the negotiations regarding overdue royalties and the method of arriving at profits were going on in 1920, the Company approached Mr. Armitage-Smith with a proposal to change the basis of the royalty payment from 16% of the profits to a flat rate on tonnage exported. After consulting experts, Mr. Armitage-Smith advised the Iranian Government against such a change.

The Company nevertheless continued to make similar proposals from time to time. In making these approaches, it had two aims:-

- 1) To eliminate the obligation of giving Iran access to its books and records and thus to insure the secrecy of its real profits; and
- 2) To secure an extension of the period of its concession which by this time had run almost half its course.

A concrete proposal along these lines was embodied in the so-called Three Star Agreement submitted by the Company in 1929. This proposed agreement included a provision that the Iranian Government would be given the opportunity to acquire up to 25% of the stock of the Company. It also provided for an extension of the concession by an additional thirty years. The Three Star proposal received no consideration from the Iranian Government because of distrust of the Company's accounting practices and because of its provision for the extension of the concession to 1989.

I. Annulment of the D'Arcy Concession

In 1930 the first income tax law was enacted in Iran. The Company at first flatly refused to pay and claimed that it was exempt from such a tax. The Company's refusal was not justifiable inasmuch as Article 7 of the Concession only exempted the concessionaire from land tax, export taxes and import duties. It could not have specified exemption against income taxes because no such tax then existed. Finally, in 1931, the Company admitted liability and offered to pay 4% of its profits, but this offer was tied up with other outstanding issues which could not be readily resolved.

Besides refusing to pay income taxes, the Company used the 1929 crisis as justification to show a fifty percent reduction in its net profits. Consequently a royalty payment of only \$655,000 was made for 1931. The low profit figures were neither justified by the volume of production, which declined only by 4% compared with the preceding year, nor by any considerable drop in oil prices. Furthermore, in the following three years from 1932 to 1935 -- the depth of the depression -- the Company paid royalties averaging \$10 million, and yet managed to show average annual profits after royalties of \$20 million. Consequently, the Iranians believe that the 1931 financial statement was deliberately manipulated as part of a plan to precipitate a crisis.

The Iranian Government was naturally greatly concerned about the heavy reduction of the 1931 royalties. At this juncture the Company adopted an attitude of sweet reasonableness and claimed that the fault lay with the terms of the D'Arcy Concession which made payments to Iran dependent on profits.

It suggested that this provision as well as other terms of the concession were not suited to the times and circumstances. It went so far as to say that the Iranian Government was entitled to minimum annual royalty payments, irrespective of the Company's actual profits. Relying on the good faith of these representations, the Iranian Government reacted by annulling the D'Arcy Concession. In retrospect, it would seem that the Company itself engineered the annulment for the reason that with its potential tax liability even the watered-down D'Arcy concession was too favorable to Iran.

J. Stage Set For New Concession

When the Iranian Government annulled the concession it expected only a token protest from the British Government, followed by arbitration in Teheran, as provided for in the concession agreement. To its surprise, however, the British reaction was most severe. It took the form of a Naval demonstration led by the battleship Nelson in the Persian Gulf. It was followed with threats to occupy the oil territories, to incite the southern tribes to revolt, and to establish a separate government. To add legal veneer, the British Government petitioned the Court of International Justice at The Hague and the League of Nations at Geneva. The stage was thus set for the negotiation of a new concession that would further water down the old D'Arcy Concession.

The furor raised by the British over the annulment of the D'Arcy Concession should have led APOC to insist on its reinstatement. Instead, APOC accepted its annulment and insisted on a new agreement.

III. D'ARCY CONCESSION REPLACED BY "THE 1933 AGREEMENT" 1/

A. Negotiations For "The 1933 Agreement".

With this background, negotiations commenced with the following purported objectives:

- 1) To increase the royalties, which up to that time had been nominally 16% of the profits but actually much less because of deductions for reserves; and to fix the amount of royalty in such a manner as to avoid dispute in arriving at the actual figure;
- 2) To establish the principle that the Company was liable to income tax and to fix the amount of such a tax;
- 3) To reduce the area of the concession;
- 4) To reduce the price for the sale of oil products in Iran; and
- 5) To settle the claims of the Iranian Government against the Company.

1/ appendix B

The Company proposed a flat royalty rate per ton equivalent to $1\frac{1}{4}$ cents per barrel, on the basis of the current price then ruling in London. At the then current value of about \$5.00 per ton for Crude Oil (about 70 cents per barrel), this was about 20% of the gross value of the crude and therefore ostensibly represented an increase of about 5% or more on the previous royalty of 16% of the profits.

This increase, however, was more of an illusion than a reality. It did not take into consideration the profits on refining and distribution which were subject to royalty under the D'Arcy Concession. When the Iranians objected that the price of crude oil might rise in the future -- the depression was then at its depth -- the Company refused to adjust royalties based on price changes. Instead, it offered an arrangement under which Iran would receive an additional royalty equal to 20 percent of the amount of dividends declared by the Company in excess of \$3,356,250 per annum.

On the matter of Iranian income taxes, APOC had already admitted its liability. To sidestep its impact, the Company proposed in lieu of income taxes to make annual payments at fixed rates over the next thirty years. For the first fifteen years, payments would be determined at the rate of about $2\text{-}5/8$ cents per barrel on the first six million tons and $1\text{-}3/4$ cents per barrel on any tonnage in excess of six millions. For the succeeding fifteen year period, the rate would be increased to $3\text{-}1/2$ and $2\text{-}5/6$ cents per barrel respectively. These rates were to be frozen despite what might happen to price levels or company profits over the next thirty years.

The area of the concession was reduced and the Company gave up its exclusive rights to lay pipelines to 100,000 square miles. Despite this shrinkage in area, the concession area which still yielded the Company a monopoly over all the proved reserves, was far too great to be compatible with modern conditions.

The proposed agreement included a provision to liquidate all claims of the Iranian Government under the D'Arcy concession. Reference has already been made to the 10% stock interest provided for in that agreement. On the basis of this 10% ownership interest Iran had a claim to one-tenth of the Company assets. This claim was settled for \$5,000,000. Actually, the financial statements of the Company showed assets of a book value of \$46 million (\$230 million) with a real value in excess of \$500 million. Thus Iran received not 10% but 1% for its stock ownership. For giving up its right to other claims, Iran received no consideration. Similarly, Iran received no consideration for giving up the right, under the D'Arcy Agreement to have all of the assets in the Company, both in Iran and abroad, turned over to her without financial obligation in 1961. The termination of the D'Arcy Agreement was then only twenty-eight years away.

APOC promised to insure the training and employment of Iranians in the technical positions of the Company. This was intended to meet the objections raised by Iranians that under the D'Arcy Agreement, the Company employed Iranians only for the unskilled jobs.

AS regards the selling price for oil products in Iran, the Company agreed to a reduction of only 10% off prices established in Roumania or *the* Mexican Gulf.

After evaluating the terms offered by APOC, the Iranian negotiators countered with the following objections:

- 1) Minimum payments were too low to be of consequence;
- 2) The fixed ton rate would not produce higher royalty payments than the 16% profit royalty based on the current price of \$5 a ton. Furthermore Iran could not benefit from any price rises;
- 3) Payments in lieu of income taxes were too low and fixed for thirty years, permitting no increase which would be justified if prices increased and the Company profits were improved;
- 4) Reducing the area of the concession was of no benefit to Iran. The area given up had been fully explored and was considered commercially unproductive;
- 5) The discount of 10% for oil consumed in Iran was discriminatory in comparison with the Admiralty contract;
- 6) The gold clause was chiefly an illusion in that it did not provide for payment in gold -- or even assure convertibility;
- 7) The agreement was loosely drafted in order to afford the Company the means of engaging in self-serving interpretations;
- 8) The exemption of the Company from import duties was unjustified and discriminatory to local industries which had no similar exemption. The Company exemption from royalty on other minerals for use in its operations was similarly discriminatory;
- 9) The Company's exemption from quota regulations in regard to its imports for the consumption of its foreign employees was also discriminatory and prevented the development of local industries to supply such needs;
- 10) Royalty was payable on oil sold or exported whereas it should have been payable on actual production;
- 11) The Government was not given access to the Company's accounts;
- 12) The change in the arbitration clause was disadvantageous, because it guaranteed the Company a status quo position in every case until the elaborate, time-consuming process of arbitration should decide otherwise; and
- 13) No sanctions were provided against the Company in case of failure to comply with its obligations.

The Iranians were convinced that under the proposed terms, the Company had not increased royalty payments as claimed. Rather, based on prices and benefits then current, Iran's position was about the same but with the likely prospect that in the future payments under the new terms would be far less than royalties under the D'Arcy Concession. Two isolated terms proposed were improvements on the D'Arcy Concession: One, the obligation to train and to employ Iranians for technical jobs heretofore reserved for foreigners; the other, the Company's promise to: "...employ all means, customary and proper, to ensure economy in and good returns from its operations; to preserve the deposits of petroleum and to exploit the concession by methods in accordance with the latest scientific progress".

In weighing the benefits and disadvantages of the proposed terms, the Iranian negotiators were struck by having to give up:

- 1) Iran's 10% ownership interest in the Company for one-tenth of its value;
- 2) The right to have the Company's property vest in Iran in 1961; and
- 3) The right to levy income taxes for a period of thirty years.

All factors considered, the new terms appeared patently less favorable to Iran than those of the D'Arcy Concession, consequently the Iranian negotiators demurred acceptance. A last minute demand on the part of the Company for an extension of the period by thirty years to 1991 caused the negotiations to break down completely.

B. Iran Claims "The 1933 Agreement" Signed Under Duress

After the negotiations broke down the political and military facilities of the British Government were marshalled to break the commercial stalemate and force Iran to accept the Company's terms. The powerful force of the British Royal Navy already in the Persian Gulf began to show signs of preparing for the occupation of Southern Iran. In addition, the British threatened to set up a puppet sheikhdom over the oil-bearing area. This had a terrorizing effect on the Iranian people. The dangers to Iran's political security were so imminent that the Shah intervened and ordered the negotiators to accept the Company's terms. An agreement was signed and promptly ratified by the Majles without discussion.

Thus, the 1933 Agreement achieved the long nourished aims of the controlling group of the Company, but it left the Iranians embittered and convinced that this was not a commercial arrangement with the Company but a surrender to the superior political and military power of Britain. The extension of the franchise was particularly resented.

In a speech to the Iranian Majles in 1950, Representative Tagizadeh, then Minister of Finance and now President of the Senate, summed up the events which led to the signature of the 1933 Concession in the following words:

"We were a few helpless men without authority who did not agree with it and we were exceedingly sorrowful that it had to happen. I must say that I had nothing to do with this matter except that my signature was appended to that Agreement but whether that signature was mine or someone else's it would not have made the slightest difference. What happened would have happened in any case. Personally I did not approve the agreement nor did the others who participated in the negotiations."

Eighteen years later, this event stood out prominently in the minds of Iranians. No one can persuade them that the 1933 agreement was valid. The Iranians consider the 1933 agreement void ab initio, the Company having engineered the cancellation of the D'Arcy Concession and having secured the signature of the 1933 Agreement under duress of the military and political power of the British Government. Comparison of the terms of the two agreements and the obvious manipulation by the Company of its 1931 financial statement conclusively prove that the alleged 1933 agreement was economically unsound and to the disadvantage of Iran.

They also cite the following quotation from "A Short History of the Anglo-Iranian Company" published by the Company itself to show how satisfactory it was to the Company to have the D'Arcy Concession replaced by the 1933 Agreement:

(REPLACEMENT OF THE D'ARCY CONCESSION BY A NEW AGREEMENT in 1933)

"By degrees, it came to be felt both by the Company and by the Iranian Government that the original concession granted to Mr. D'Arcy in 1901 was not, in some respects, a suitable instrument to govern circumstances so different and so complex as had developed since then. In 1901-2 the concessionaire was represented only by a few prospectors and engineers, scattered about in remote and undeveloped areas, which in less than thirty years had developed into a great highly-organized industrial concern, employing by then some 30,000 persons in Iran. Negotiations for the modernization of the D'Arcy concession were started accordingly and culminated in the spring of 1933, when a new concession was drawn up on terms agreeable to both parties. Briefly the period of the concession was extended to 1993; the concessionary zone was to be limited to 100,000 square miles chosen by the Company within five years; the annual royalty, which had previously been a percentage of the net profits, was placed on a tonnage basis plus a participation in the distributed profits on all the Company's operations in Iran and elsewhere; the company's operations were exempted from Iranian taxation in return for certain annual payments per ton of oil; and the Iranian Treasury was protected against Sterling depreciation. The Company's adoption of the ancient name of Iran, instead of Persia, in June 1935, was symbolic of the new and closer identification of the interests of the two parties."

C. Operations Under The 1933 Agreement

In contrast to its dissatisfaction with the D'Arcy Agreement, the Company should have viewed the 1933 Agreement as highly favorable. The new agreement gave the Company every possible incentive to expand production, refining facilities, ocean transportation, and marketing facilities in consuming countries. Iran's only claim for payment under the agreement was based on oil exported or sold, save for the right to 20% of dividends paid to shareholders.

The 1933 Agreement imposed on the Company only two obligations not present in the D'Arcy Agreement. These were elimination of waste by employing the latest techniques of efficient operations and the training and the employment of Iranians. However, the implementation of these two obligations imposed no burden on the Company. On the contrary, the Company, whose name was changed in 1935 to Anglo-Iranian Oil Company (AIOC), had as much to gain the long run as Iran by conserving the oil resources of the country and by employing Iranians to the maximum extent possible.

In its 1950 report the Company claims that the 1933 Agreement caused it to increase production and to invest considerable sums in Iran for the expansion of its refinery and other installations.

The expansion of production between 1933 and 1939 reflected a 40% increase from 7 million to 10 million tons. However, in an earlier seven years period from 1923 to 1930, production increased from 3,000,000 tons to 5 million tons, or an expansion rate of nearly 70%. After 1942 the requirements of Allied forces in World War II caused a further expansion and skyrocketed production up to 17 million tons by 1945. Similarly, in the post-war period of the next five years, the requirements for rehabilitation, the replacement of war-destroyed refineries, and the replacement of Russian-satellite oil, further increased production to 32 million tons, or almost 100% in five years. The increased annual rate of 22 million tons, or 200% more than the last pre-war year of 1939, could not have been foreseen in 1933. Moreover, it cannot be claimed that this additional market was created as a result of the Company's efforts inspired by the favorable terms of the 1933 Agreement.

It is therefore evident that the increased production from 7 to 10 million tons in the pre-war period was not due to the favorable terms of the 1933 agreement, but rather to the normal increased demand. There appears little doubt that the greater output since the beginning of the war was not influenced by the 1933 Agreement but was the result of the war and the post-war requirements. Between 1941 and 1950 the added production amounted to 85 million tons. This additional quantity would have been produced had the D'Arcy concession been preserved, but Iran's share would have been several times higher.

Over 18 years of operation under the 1933 Agreement, prices for petroleum products increased from 200 to 300 percent, while costs tended to decline reflecting operations at the greater volume and improvements in the techniques of production and refining. As a result, AIOC's profits reached unprecedented heights.

By 1950 the Company's facilities were capable of transporting and marketing not only the 32 million tons produced in Iran, but also a substantial production in Kuwait, Qatar and Iraq. It should be noted that this expansion was achieved with no additional investment of capital in the Company.

Thanks to the policy of ploughing its profits into expansion, the AIOC today is the largest Oil Company outside the United States. In total world-wide production, refining, transportation and marketing it is a close second to the Standard Oil Company of New Jersey.

This position has been attained by the Company almost entirely from profits on its integrated operations based on Iranian Oil.^{1/}

D. Violations of "The 1933 Agreement" Claimed By Iran

Despite its incredibly profitable operations the Company displayed an irresistible urge to minimize its obligations in regard to royalty payments and other benefits required by this agreement, and, at every opportunity, to enhance its profits at the expense of Iran.

1. Dividend Policy

The Company's Directors pursued a conscious policy of limiting dividends notwithstanding the fact that, according to its financial statements, profits before depreciation and taxes increased from 24 million in 1933 to 422 million in 1950. It is to be noted that these statements do not include all profits because they exclude 59 distributing subsidiaries and allied companies located outside the United Kingdom. Over this period dividends were increased by 15 million of which Iran's share in any one year was less than 3 million. The conservative nature of the Company's dividend policy is indicated by the distribution of the 1950 profits which amounted to 422 million: British income taxes - 142 million, allocations to reserves and carry forward - 215 million, royalties 45 million and total dividends - 20 million.^{2/} To repeat, these figures do not include the operations of the Company's subsidiaries, the profits of which are not published and are therefore unknown.

It is true that in 1950 the Company was under British law barred from paying dividends of higher than 30%. However, even in 1947 when this law did not apply, the Company paid very small dividends compared with its profits, as the following figures will show:

Total profits before depreciation and royalties:	200 million.
British Income Taxes	61 million ^{3/}
Royalties to Iran	28.5 million
Dividend	28.5 million
Retained by Company as Depreciation & Reserves	82 million

^{1/} Appendix F

^{2/} At \$2.80 to £1

^{3/} At \$4.02 to £1

In view of these facts, it is clear that the Company did not act in good faith in maintaining a dividend policy consistent with earnings and actually violated the intent of the 1933 Agreement. They point out that this arrangement for sharing dividends was offered by the Company in lieu of adjusting the fixed rate of royalties per ton. This was intended as a means of sharing with Iran the increased profits which might result from higher prices. The Company circumvented the explicit purpose of this arrangement in order to reduce royalty payments to the lowest possible level.

2. Wasteful Operations

The 1933 agreement provides for the payment of royalties and taxes on petroleum sold and exported, instead of on production. This provision of the concession encouraged AIOC to waste large quantities of petroleum under a well-known "mining policy". The oil fields yield over 150 million cubic feet of natural gas per day which is entirely wasted. The Morrison-Knudsen report shows that a pipeline to 7 cities in Iran, including a distribution system, would not have cost more than \$70 million and would have been profitable. Efforts to induce the Company to carry out this project were fruitless, as it had no desire to increase its investment in Iran.

In the refinery itself nearly 7% of crude production (about 1 -3/4 million tons annually) is lost, whereas a great part of it could be recaptured as gases and used to fuel the refinery, power plant, and other installations. This fuel requirement is close to a million tons. This means that the Company preferred to use additional quantities of petroleum rather than to engage in conservation which would involve capital expenditures for installations. Under this policy the Company had the obligation to pay royalties on the 1 million tons used as fuel. Hundreds of thousands of tons were also recycled on which no royalty was paid -- in similar practices in Venezuela royalties are paid to the Government.

3. Employment of Foreigners

As previously stated, under the 1933 Agreement the British undertook to train and employ Iranians in order that the Company's operations in Iran would be staffed to the maximum extent with Iranian nationals. The Iranians claim that the Company has violated this provision of the agreement by not reducing the number of foreigners employed but by increasing them. For example, in 1934 they report that the Company had 740 British employees as compared with 2,725 in 1950. In 1934 foreign clerks and mechanics, principally Indians, numbered 1,059, and by 1950 this number had increased to 1,778. During this same period the number of Iranian employees also increased from 7800 to 31,875. The Iranians were particularly sensitive to what they regarded as the British policy of keeping Iranians out of technical positions and saw no excuse for the employment of foreign clerks and mechanics in place of available Iranian personnel. A partial explanation given for the large number of British employees after World War II was the British practice of providing sinecures for ex-military personnel.

The AIOC cites expansion in production from 7 million tons in 1933 to 32 million in 1950 and a five to six fold increase in its Iranian labor force as against the four fold increase in the number of British employees.

The Iranians claim that a large proportion of Iranian labor was employed on construction and contract work which had no relation whatsoever to the operations of production and refining. Furthermore, even if a four-fold rise in production justified a similar increase in the number of technicians - which is questionable - this increase had been entirely reflected in British personnel. Consequently, it is obvious that the Company had in no way carried out its obligations to replace British technicians by Iranians.

The Company also discriminated against the Iranian technical and administrative staff in regard to salary, emoluments and promotions. Under these circumstances many of the Iranian staff preferred employment elsewhere rather than be treated as inferiors in their own country.

4. Living Conditions - Wages and Housing of Iranian Personnel.

The Company was under increasing attack by Iranian public opinion for its failure to provide Iranians with decent housing accommodations and a fair wage. This criticism was heightened by a visual comparison of favorable living conditions and amenities provided British and other foreign employees with sub-standard or total lack of accommodations for the Iranian workers. The Iranians point out that two large settlements for Iranian workers are known as Chadorabad and Hasirabad meaning "Tentland" and "Matland" respectively, and indicating that these settlements consist of canvas and mat shelters.

The report of the International Labor Organization on labor conditions states:

"At the end of 1949 about 90% of the salaried staff consisting almost entirely of British nationals had been given accommodation in company houses. On the other hand, out of 31,875 wage earners, only 5,298 or 16.6 percent were in company houses. The great majority of the oil workers live in the older overcrowded sections where more often than not an entire family, or three or four bachelors occupy one room. Rents are very high and an attempt made by the Government to fix a ceiling on rents has utterly failed. Finally, another group of workers live in huts and tents which the Company put up in 1948 to accommodate homeless workers. In the oil fields the situation was somewhat better; 62.5% of the British staff were accommodated in Company housing as against a little over 35% of the Iranians.

"Distressing as these conditions are they are incomparably better than that of the contract labor employed within the Company's area who are excluded from all the schemes which the company operates for its own workers. This exclusion is particularly serious in the field of health and services. Contract workers are not entitled to admission to the only hospital in Abadan, the company hospital."

The AIOC claims that shortages of materials had prevented it from providing more housing. The Iranians, however, consider the alleged shortage of material only as an excuse. They compare the conditions in Abadan with those in Saudi Arabia, where, despite a total lack of local

materials and labor, Aramco has managed to provide adequate housing, hospitals, schools, and other social services for all its workers.

Despite the exceedingly profitable operations of the Company, the wages and social benefits paid to Iranian labor were only one-quarter the wages and social benefits received by comparable workers in Venezuela. The oil industry was established in Venezuela and Iran about the same time; nevertheless, the rate of increase in real wages in Venezuela has by far exceeded that in Iran and consequently today Venezuelan labor enjoys a considerably higher standard of living, while Iranian labor still receives only a subsistence wage based on a low standard of living. The low wages in turn are to a great extent responsible for the low cost of crude which is only 5 cents per barrel in Iran against 70 cents in Venezuela. The low production cost in Iran admittedly is chiefly due to the fact that all of Iran's production is from eighty wells, each of which yields an average of 3 million barrels annually. This however in itself is an additional justification for higher wages and better labor conditions.

The Company states that its scale of wages and salaries was higher than that of industrial concerns in other parts of Iran. It must be pointed out however that the climate of the oil fields and Abadan, high cost of living conditions and the out of residence character of its employment forced the Company to offer a higher scale of wages as an inducement in order to attract labor. Though the Company's wage scale was higher than that current in other cities in Iran, nevertheless, the fact remains that it was only a subsistence wage.

IV. EXPLOITATION OF IRANIAN RESOURCES
UNDER COLONIAL POLICY

A. Unjust Enrichment

In looking back over the forty years of exploitation to evaluate the equity of profit-sharing arrangements between the concessionaires and Iran, it is necessary to rely almost entirely upon estimates to determine the profits, having no access to the unpublished financial accounts of the concessionaires. These estimates are shown in the following two tables:

Estimated Earnings from Iranian Oil, FOB

	<u>Production in Million Bbls.</u>	<u>Average Price per Bbl.</u>	<u>Estimated Sales in Millions</u>
1914/1924	123	\$ 2.50	\$ 369
1925/1929	225	1.50	337
1930/1935	307	1.10	340
1936/1939	291	1.20	349
1940/1945	492	1.30	639
1946/1949	695	2.30	1,598
1950	240	2.50	600
1951 to June	135	2.50	337
	<u>2,508</u>		<u>4,569</u>
Allowance for all costs including depreciation			929
			<u>\$3,640</u>

Estimated Profits from all Operations
(In Millions)

1) Profits on 2,500 million barrels oil products exported from Iran	\$3,640	
2) Profits from distribution and tanker transportation	1,200	
3) Profits from Iraq and other enterprises	<u>160</u>	<u>\$5,000</u>

The following represents the distribution of these profits:

Distribution of Profits (In Millions)

1) To British Government as difference between Admiralty Contract and market prices	\$ 500	
2) British Income Taxes (Including Subsidiary Companies)	<u>1000</u>	
TOTAL BRITISH GOVERNMENT		1,500
3) Iranian Government		450 *
4) Shareholders (British Government share 180)		350
5) Retained by the Company	<u>2,700</u>	<u>\$5,000</u>

To substantiate the figure of \$2,700 million dollars retained by the Company up to June 1951, the following figures from the 1950 Financial Statement of the Company may be cited:

Assets (In Millions)^{1/}

Refineries, Installations and Tankers) & Investment in Subsidiary and Allied Companies)	\$ 920	
Oil Exploration (Kuwait)	<u>176</u>	
At Cost before Depreciation	1096	
Current net assets	<u>381</u>	
	<u>1480</u>	
1951 Profits from Iranian oil		225
Balance being estimated amount of Profits siphoned into Subsidiaries		<u>995</u>
		<u><u>\$2700</u></u>

* Including payments other than royalty

^{1/} As most of the assets of the Company were acquired before 1948, the sterling dollar conversion rate was taken as £4 to \$1 sterling.

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(In Millions)

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	<u>\$2700</u>

* Including payments other than royalty

^{1/} As most of the assets of the Company were acquired before 1948, the sterling dollar conversion rate was taken as 4 to £1 sterling.

On the basis of these estimates, the Company deprived Iran of some 1,200 million by failing to perform its obligation in good faith under the D'Arcy Concession and by engineering its replacement with the unfavorable agreement in 1933. This figure is supported by the following analysis which assumes compliance with the terms of the D'Arcy Concession applied to the entire forty year period of exploitation.

	(In Millions)
1) Royalties at the rate of 16% of profits	800
2) 10% share of dividends on 50% of gross profits	250
3) Iranian income tax of 15% average rate on total net profits (excluding tanker profits) of say 4,000	600
<u>Total Income due Iran</u>	<u>1650</u>
<u>Total payments actually received by Iran</u>	<u>450</u>
<u>Net Loss to Iran</u>	<u>1200</u>

These estimates can only be checked by a full disclosure of the Company's records and an audit by independent examiners. Believing these figures to be a reasonable appraisal, the concessionaires may be charged with unjust enrichment.

While there may be some argument as to the degree of unjust enrichment, the Company's financial statements covering a segment of its operations tend to support this charge.

For example, AIOC's 1950 Profit and Loss Statement^{1/} already quoted which includes production, transportation and distribution in the United Kingdom only and excludes 59 subsidiary companies abroad, show the following major breakdown:

	(In Millions)	
1) Profits before depreciation and taxes	1415	1415
2) British Taxes	142	
3) Royalty to Iran	45	
4) Dividends to Stockholders	15	
5) Provision for depreciation and profits retained by Company)	213	
	<u>415</u>	<u>415</u>

There appears little doubt that AIOC's financial statements grossly understate earnings which are hidden by the following practices:

- 1) Sales to the Admiralty at about cost;
- 2) Sales to subsidiaries at less than commercial prices thereby shifting profits to accounts which are not published; and
- 3) Excessive depreciation allowances charged as costs.

^{1/} Appendix E

While the amounts lost to Iran by these practices cannot be substantiated, its proportion is suggested by the estimated 500 million discount to the Admiralty and the 1950 depreciation of 168 million deducted as costs. As a result of this high depreciation policy, the original investment cost of about 1,100 million had been written off to almost a third of that figure by 1950. The amount represented by sales discounts made by the reporting company to its non-reporting subsidiaries is not available, but consistent with the Company's practice, this offered a major opportunity to minimize the disclosure of profits.

The 1950 financial statement of the Company, by showing profits of 415 million, including profits on tankers and subsidiaries operating in the United Kingdom, support the above conclusions. The profits derived from Iranian oil alone amounted to 450 million. This estimate is arrived at by valuing all exports from Iran at commercial prices and by making a liberal allowance for costs and depreciation. The computations for 1950 are as follows:

(In Millions)

Total value of Iranian exports at commercial prices -	Total operating costs including allowances for depreciation -	\$105
190 million barrels refined products @ \$2.70 513	Total payments to Iran	45
50 million barrels Crude @ \$1.75 87.5	Profit	<u>450.5</u>
		<u>600.5</u>
		<u>600.5</u>

It is clear that if profits on tankers and United Kingdom subsidiaries were added to the 450 million derived from Iranian oil, the total profits would reach the neighborhood of 550 million. What the grand total profit would be if the earnings on 59 subsidiary distributing companies were also included is difficult to predict, but it might run as high as 650 million.

Like the Standard Oil Company (New Jersey), AIOC is a completely integrated producer and marketer of petroleum. A comparison of their 1950 financial reports is revealing:

	<u>JERSEY</u> (IN Millions)	<u>AIOC</u> (In Millions)
1) Net Assets	#3,693	\$ 800
2) Capital invested in or loaned to the Company	1,384	100
3) Property, plant and equipment at cost	3,875	1,096
4) Property, etc. after depreciation	2,125	416
5) Investment in property, etc. per barrel	(\$6.68)	(\$3.50)
6) Crude production	510	313
7) Net Crude Purchases	72	- 77
8) Refinery runs	582	236
9) Tanker Fleet Owned - Number of vessels	(169)	(153)
Dead weight tonnage	(2,250,000)	(1,854,000)
10) Net Income before Income Taxes and depreciation	948	370 *
11) Net income per barrel	(\$1.63)	(\$1.18)

* After royalties

It should be noted in the comparison that the Jersey statement includes all its subsidiaries, whereas the AIOC statement excludes subsidiaries in distribution outside the U.K. as well as its numerous allied companies. Jersey's operations were built upon paid in capital and loans of \$1,384 million as compared with AIOC's performance of turning a paid in capital of \$100 million into an integrated operation capable of handling 54% of Jersey's volume. While Jersey's assets represent considerable invested capital, AIOC's Empire is built almost entirely out of earnings.

To the reviewer not familiar with AIOC practices, AIOC's published statement would give an entirely erroneous impression. Profits of \$370 million after royalties shown by AIOC in 1950 exclude profits on subsidiary and allied companies. Moreover, this figure is understated by the amount of discounts on sales designed to shift profits to subsidiaries and to the British Government on deliveries under the Admiralty Contract, and by concealing profits through excessive depreciation charges.

As a result of these practices, AIOC's financial statements show a profit per barrel of \$1.18 as compared with Jersey's \$1.60. Actually, if AIOC's consolidated statement were comparable to Jersey's, the profit per barrel would be \$2.10, or a total of \$655 million. AIOC's 30% higher estimated profit per barrel is explained by the fact that all of its production was in the low-cost Iranian area; whereas, Jersey's production consisted of 90% in the high-cost Western Hemisphere and only 10% in the low-cost Middle East area.

On a total paid-in investment of \$100 million the Company pyramided its earnings by 1950 into a world-wide Oil Empire consisting of annual crude oil production of 313 million barrels, 13 refineries with a capacity of 236 million barrels, ocean-going tankers of close to 2 million tons

deadweight capacity, and world-wide distributing and marketing facilities. In addition, up to 1950 the Company and its subsidiaries paid out of earnings to the British Government 1,680 million in taxes and dividends, including the discount to the Admiralty amounting to 500 million. Other stockholders received 170 million, while Iran only received 1450 million or less than 9% of total profits.

Iran's case against the Company for unjust enrichment was so apparent that the Company did not deny it in principle. The Company states that it was always ready to consider the Iranian viewpoint. It cites the fact that in 1940 despite the loss of its European markets it agreed to minimum royalty payments during the war period of 16 million per annum.

The Company adds that, because of changed circumstances and the great rise in the price of oil products, it recognized Iran's right to higher royalties and was always willing to negotiate a revision of the 1933 Agreement. The Company claims, moreover, that up to 1943 Iran was receiving as much royalty as any other Caribbean or Middle Eastern country, and that until four or five years ago the Saudi Arabia and Kuwait fields had not come into production, while Iraq production had remained stationary since 1930 owing to pipeline limitations.

Thus in its 1950 Annual Report the AIOC states:

"...that the Company had taken the initiative in 1948 in opening discussions with the Iranian Government....at the time when the policy of dividend limitation was introduced in this country (United Kingdom)...but the offer was not taken up by the Iranian representative who preferred that it should form part of a more comprehensive settlement.... The aim of the talks leading up to the Supplementary Agreement was a search by both parties for a method whereby the Iranian Government would receive higher payments in recognition of the changed economic conditions which the war had brought about."

The Iranians point out that there was a great volume of production in Venezuela and that the dissatisfaction there with royalty payments resulted in an agreement in 1943 which established the fifty-fifty profit-sharing principle.

Royalty payments to Iraq, Saudi Arabia, and Kuwait cannot be used as a basis of comparison for the share Iran should receive from the exploitation of her oil resources, for the following reasons:

- 1) That Iran is an exporter of refined products while the other Middle Eastern countries are exporters of crude; consequently refining profits must also be taken into consideration in the case of Iran, and
- 2) That the Saudi Arabia and Kuwait fields had just come into production and the heavy capital expenditure had not yet been recouped. The Iranian fields have been exploited for the past forty years, and the AIOC had recovered its initial investment of 100 million twenty-five to thirty years ago. Since then its profits amount to about 25 times the original capital.

During the second World War, Iran was occupied by Russian and British forces and consequently was in no position to demand an equitable share of the profits made by AIOC on Iranian oil.

Not only so, the Iranians claim that the Company had resumed its political activities and interfered actively and openly in the internal affairs of Iran. Its financial power and patronage combined with the prestige which the political support of the British Government gave the Company were such that it openly controlled elections and the appointment and dismissal of Government officials. By 1946, the question of concession terms again became a national issue. At this time, Russia took advantage of its position as one of the allied occupation forces in Iran and pressed for a concession covering the northern provinces. An agreement with the Soviets was signed, but it was so unpopular that it was not ratified by the Majles.

In rejecting the agreement, the Majles added a rider compelling the Iranian Government to enforce its rights against the AIOC and to correct the condition of unjust enrichment. This mandate from the Iranian Parliament brought on the negotiations leading up to the Supplementary Agreement of 1949.

B. The Supplementary Agreement.^{1/}

Iranians claim that despite the mandate of the Majles, AIOC, backed by the British Government, used its influence and power to prevent any action from being taken for some time. Pressure of public opinion eventually forced the Iranian Government to appoint a Commission to start negotiations.

The Commission made the following basic demands:

- 1) A rise in rates of payments in lieu of income tax so that combined with royalty total payments should equal 50% of the profits derived from Iranian oil; the Government's 20% interest in the Company's dividends to remain unchanged;
- 2) Cash payment of 20% of the Company's reserves;
- 3) Implementation of the Company's obligation to replace foreign technicians by Iranians;
- 4) Reduction of prices of oil products sold for consumption in Iran to the levels of the Admiralty contract; and
- 5) Implementation of the Company's obligation to make the most economic use of the oil resources.

Despite the fact that the 50-50 profit-sharing principle had been established in Venezuela since 1943, the Company rejected this basis for royalty payments.

^{1/} Appendix C

After prolonged negotiations, AIOC offered a 50% raise in the rates of royalty and a 25% raise in the payments in lieu of income taxes, increasing total receipts per barrel to 26 cents. In recognition of the dividend provisions of the 1933 Agreement which heretofore had been frustrated by the declaration of small dividends, AIOC offered a cash payment of 20% of its reserves and future minimum annual payments of \$11 million. The Company also offered a discount of 25% on Mexican Gulf prices for oil products sold for national consumption. The Commission considered the Company's offer inadequate and unacceptable. However, pressure was brought to bear upon the Government, an Agreement embodying these terms was signed on July 17, 1949, and made retroactive to 1948. This agreement is known as the Supplementary Agreement of 1949.

The signature of this Agreement according to the Iranians was carefully timed to coincide with the adjournment of Parliament required by the Constitution, thus permitting that body only a few days in which to discuss and ratify it. This last minute submission, plus the great urgency associated with the demands for its ratification, caused great suspicion and it became a popular issue in Iran. When the terms became known, so much public dissatisfaction was expressed that the Deputies refused to debate it. Following governments, sensitive to the popular dissatisfaction with the Agreement, did not press the Majles for its ratification, and eventually withdrew it on December 26, 1950.

In mid-1950 it became known that Aramco was inclined to agree to a so-called 50-50 division of profits with Saudi Arabia, producing payments of about 55 cents per barrel. Under these circumstances it was rather incredible that AIOC should expect Iran to accept the 26 cents provided under the Supplementary Agreement. The Iranians say that Aramco previously informed AIOC that it had decided to make this Agreement with Saudi Arabia, and recommended that the same terms be offered to Iran. They claim that AIOC rejected this higher pattern of royalties for the Middle East on the ground that it was too liberal and unnecessary, and AIOC reminded Aramco of its experience and success in dealing with the Iranians over the past fifty years.

By the end of February 1951, AIOC began to appreciate the desirability of amending its policies in recognition of the force of public opinion in Iran. Early in March it informed the Iranian Government that it was now prepared to pay royalties on the basis of 55 cents a barrel under a purported 50-50 profit-sharing formula. This proposal, however, came too late. It was considered such a futile gesture both by the Government and the Company that it was only publicized about a month later.

In the meantime popular demand for nationalization of the oil industry had reached an intense pitch.

V. IRAN'S SOVEREIGNTY REAFFIRMED

A. Nationalization of the Oil Industry^{1/}

On March 15, the Majles decided unanimously to give effect to the recommendation of its Oil Commission to nationalize the Oil industry. Five days later, the Senate unanimously confirmed that resolution.

In taking this momentous action, the Iranian Legislature reacted to the public will. Although it was a popular decision, the legislature was largely influenced by the mature consideration given the problem by its Oil Commission. In summary, this commission made the findings that because of Iran's fifty years experience in dealing with the Company and its unmistakable insistence on continuing its past policies, no confidence could be placed in the Company. This conclusion was based on the following considerations:

- 1) While purporting to be a private Company, the AIOC actually exerted the power of the British Government as well as its own financial power, and interfered extensively in the internal affairs of Iran. This interference threatened the sovereignty and political independence of Iran;
- 2) The Company's power and patronage exerted a baneful and corrupting influence;
- 3) Experience had demonstrated that despite obligations written into Concessions, the Company had managed to evade these obligations in one manner or another. It had contributed very little income to Iran while it had unjustly enriched itself by systematic violations and by extensive exploitation; and
- 4) The Company's operations did not benefit Iran, but actually retarded its economic development through the exercise of political and economic control. The normal growth of other industries was discouraged for the purpose of keeping Iranian labor dependent on the Company and of maintaining their wages at subsistence levels. The Company made no effort to build up by-products industries usually associated with the refining of petroleum. It also discouraged the growth of Iranian industries to supply its requirements which were almost entirely imported. As a result, the Company literally exploited Iranian labor by paying sub-standard wages and providing miserable living conditions. In return, Iran only received a small royalty payment.

Another important consideration was that the Company's highly profitable franchise in Iran and its political influence were coveted by Iran's powerful neighbor.

In view of these considerations the Oil Commission concluded that the exploitation of Iran's oil resources by a foreign company had been a failure

^{1/} Appendix D

so far as resulting in benefits to Iran and that in the future such arrangements could no longer be tolerated. The only practical alternative, in the light of these circumstances, was nationalization, which would provide a sound basis for Iranian control of the industry and sale of oil at a reasonable price. In arriving at this conclusion, the Oil Commission was aware of the existence of the "World Oil Cartel", and fully realized that the implementation of nationalization would be met by the opposition, not only of the AIOC and the British Government, but the other major oil companies as well. This opposition was expected in terms of the boycott of technical assistance, tanker transportation, and intimidation of independent companies who might otherwise consider buying oil from Iran. Against these adverse factors was weighed the prospect of perpetuating the Company's strangle-hold on the Iranian people. The Commission finally concluded that no sacrifice was too great in gaining liberation from the Company's domination.

B. The Legality of Nationalization

The action of Iran in nationalizing its oil industry has aroused in some business circles the fear that this action undermines the faith in contractual undertakings -- the foundation of modern industry and commerce.

Iran heartily subscribes to the universal principle that a bona fide contract must be honored and performed in good faith by the parties. Over a long period of time Iran conscientiously endeavored to obtain the concessionaire's faithful performance of its obligations, and to secure an equitable basis of Iran's participation in the industry's profits. Failing in this effort, nationalization was decided upon as the only policy consistent with the sovereign obligations of the Iranian Government in safeguarding the economic and political integrity of its people and resources.

The basic issue raised by nationalization is not the question of its legality under international law. The sovereign right of a nation to nationalize or condemn private property within its borders for public use is well-established. But the issue is whether Iran's action in the eyes of the world is morally justified.

Was Iran's action motivated by the desire to achieve objectives to which she is entitled? Was Iran's action directed against a bona fide contract or was it designed to correct a basic wrong which the concessionaire attempted to perpetuate? Was Iran's action provoked by the concessionaire's malfeasance of such gravity as to destroy faith in the basis of the relationship? And, was Iran's action a reasonable exercise of sovereign power and compatible with its obligation to protect its people and resources?

This paper has attempted to marshal the evidence bearing on these as well as other questions. In summary, evidence supports Iran's conclusion that:

- 1) While the D'Arcy Concession was negotiated at arm's length - neither party being under duress - and was an agreement mutually beneficial to the parties, its terms and intentions were aborted by the concessionaire's malfeasance and bad faith;

- 2) Under that Agreement, the Company acted not as a commercial organization but as a political and military power by employing the force of the British Government which had been given a majority interest for that very purpose;
- 3) The Company, reinforced with British political and military power, could and did render Iran powerless to enforce an equitable performance of the terms;
- 4) Not satisfied with the great profits yielded by the D'Arcy Concession, the Company employed British political and military power to engineer the replacement of that concession with the 1933 Agreement under which its operations would be even more profitable;
- 5) By misrepresenting profits under the D'Arcy Concession and by false promises of profits to Iran flowing from a proposed new agreement, the Company beguiled Iran into annulling the D'Arcy Concession which the Company for years had violated and made every effort to change;
- 6) Instead of referring to arbitration the major question under the D'Arcy Agreement of how profits were to be defined and of how Iran was to realize the benefits of its 10 percent ownership participation, the Company freed itself from royalty payments on its profits from world-wide operations of refining and distribution, as well as production, by insisting on a new concession which would limit royalties to a fixed rate per ton on Iran's oil production;
- 7) Despite the refusal of Iran to accept these new terms, the Company, reinforced by the political and military might of the British Empire, succeeded in forcing the Shah to capitulate. Aware of the hopelessness in opposing this force and the ability of the British to carry out its threats of occupation and coercion, the Iranian Parliament, under duress, supported the Shah in capitulating to the new terms and ratified the Agreement without discussion;
- 8) The Company failed to comply with the terms of the 1933 Agreement as well as the D'Arcy Concession, and unjustly enriched itself to such an extent as to vitiate the basis on which Iran could continue the relationship;
- 9) After World War II and up to the enactment of the Nationalization Law, Iran's plea for terms as favorable as those obtained by Venezuela (the only producing area in a comparable situation) met with the uncompromising attitude of the Company which insisted on perpetuating arrangements under which it would continue to be unjustly enriched by limiting royalty payments;
- 10) In securing its profits position, the Company pursued policies and practices which took the form not only of external political and military coercion, but of a comprehensive system of interference and domination in the internal affairs of Iran;

- 11) In the two years preceding nationalization negotiations with the Company brought out its insistence on preserving the system under which its policies of interference and domination would be continued, to ensure its unjust enrichment in the future;
- 12) Faced with these conditions and the unrelenting policy of the Company, Iran concluded that a mutuality of interest with the Company could not exist and that an Agreement could not be made with the Company without the destruction of Iranian integrity and the unconscionable abdication of her sovereign obligations; and
- 13) Nationalization of the oil industry was an action of last resort, but in its enactment Iran provided legal safeguards by which the Company was assured compensation for property in Iran and also a prior claim to Iranian oil supplies for its markets.

The chief argument made against Nationalization is that it violates the clauses in the 1933 Agreement which provide that Iran shall not annul the Concession by general or special legislative action, and that issues in dispute shall be submitted to arbitration. It is argued, therefore, that Iran's action in nationalizing the oil industry violated that agreement.

The Iranian answer to this argument is that nationalization is not a dispute arising out of the alleged 1933 agreement but that nationalization was an action taken under Iran's sovereign right to commit private property within its borders to public use. This absolute sovereign right, universally recognized, could not be compromised by any commercial agreements, because such agreements could not delegate authority over subjects involving national sovereignty to any arbiter. This explains Iran's stand on arbitration.

With respect to Britain's petition to the World Court, Iran's case is quite clear. No jurisdiction was granted by Iran under its general conditions of recognition given to the World Court. In that recognition, Iran made a reservation excluding all matters within its domestic jurisdiction. This reservation is similar to that made by the United States, Great Britain and other governments.

The only other possible basis of the court's jurisdiction is that the controversy is international and between two nations. This basis has no legal foundation because there is no privity of contract between Great Britain and Iran as regards the oil industry. AIOC's rights derive from a concession granted by Iran to private individuals and at no time was Great Britain recognized by Iran as the successor of these concession rights. The purchase by Great Britain of the majority interest in APOC, AIOC's predecessor, was the acquisition of commercial rights, equal to and no greater than those of the private individuals to whom the concession was originally granted. By no stretch of legal construction could it be held that that purchase vested rights in Great Britain comparable to those which would exist in a treaty between two nations.

VI. PROBLEMS OF RESTORING PRODUCTION
UNDER NATIONALIZATION

A. Negotiations Between Iran and the British

Immediately following nationalization, the British Government came forward to deal with Iran. Former efforts by Iran to solicit the British Government's participation in working out satisfactory terms with the Company had failed because the British Government stated that it would not interfere in the affairs of a private company. After nationalization, however, the British Government not only intervened in the negotiations between Iran and the Company but also backed up its demands by dispatching units of the Royal Navy to Iranian waters, and threatened the occupation of Abadan by paratroopers for the ostensible reason of protecting British lives. The British Government went further, it openly suggested the overthrow of the Mossadeqh Government and sponsored the rise to power of a more "reasonable" leader with whom negotiations could be conducted. To encourage this result, economic sanctions were imposed against Iran, including the freezing of Iranian funds, the boycott of exports to Iran, and the threat of legal and economic reprisals against independent marketers who might be tempted to purchase oil from Iran. In the pattern of 1932, the British Government invoked the alleged jurisdiction of the International Court of Justice at The Hague and the Security Council in New York.

With the closing down of Abadan in June over the minor issue of tanker receipts demanded by Iran, plans which had been carefully worked out in advance with the American Oil Companies to supply AIOC with oil were put into operation.

The Foreign Petroleum Committee was established in the Petroleum Administration for Defense following an exemption given by the Justice Department from later prosecution of the industry under the anti-trust laws. This committee is composed of 19 companies, all subsidiaries of the six major oil companies. In pooling the world-wide facilities of these 19 companies, AIOC was assured of supplies required to replace those formerly exported from Iran. This arrangement not only assured supplies to consumers but also protected AIOC from losing its markets. This solicitude for a competitor's misfortune can be understood only in the oil industry in which the major companies over a long period of time have been in accord on major questions of concession payments, prices, expansion and the sharing of markets.

The pooling arrangement, including shipments from the U.S., and Caribbean sources, has been working smoothly with the exception of shortages in aviation gasoline and temporary tightness in the supply of bunkers and fuel oil. However, this has been accomplished at the expense of dollar payments from the British Treasury at the rate of 600 million annually. This drain on the slim British dollar reserve is one of the principal reasons for the British dollar deficits which the American people are now underwriting by an additional dollar grant to Great Britain. The first installment of 300 million was paid in January 1952.

The American oil companies' position in this controversy is not altruistic. By supporting AIOC they remove the economic pressure on the Company to make a settlement in Iran. American companies are anxious to

avoid a liberal settlement by AIOC in Iran which would tend to undermine their royalty arrangements with other producing countries. In this attitude, the American oil companies overlook the fact that Iran is in a different position from other Middle East countries in that it is essentially an exporter of refined products, whereas other Middle East countries are wholly or principally exporters of crude. By virtue of the Abadan refinery - the largest in the world - the value of Iran's exports are several times greater than those of neighboring countries, and the sharing of profits on an equitable basis would unavoidably give Iran a higher yield.

B. U.S. Government's Efforts to Achieve a Settlement

Thus far the efforts of the Iranian Government and the Company to achieve a settlement based on nationalization proved fruitless. The Jackson proposal offered to accept nationalization in principle, but insisted that the industry be operated and controlled through an Iranian subsidiary to be organized by AIOC. This offer was rejected because of the continued control of the British and the required acceptance of a so-called profit-sharing formula. Negotiations with the British thus became stalemated.

As a result of Ambassador Grady's position that the U.S. should lend its good offices as a mediator, the President sent Mr. Averill Harriman to Teheran. Through Mr. Harriman's efforts the British sent a mission headed by the Right Hon. Richard Stokes, Lord Privy Seal, who resubmitted the Jackson proposal with the clarification that it would produce \$50 million, or \$140 million. Iranians believe that Mr. Stokes cited this figure to impress them that they would obtain three times more than the royalties received under the 1933 Agreement. This offer was also rejected for the same reason as the Jackson proposal. Both offers purported to be on a 50-50 profit-sharing basis, but actually they amounted to only 55 cents a barrel - the same granted to other Middle East countries, which, as previously explained, export crude and not refined products of higher value. It has already been shown that the profits on Iranian oil exports are estimated at about \$450 million. The Iranians, therefore, are of the opinion that the Stokes proposal was not even made in good faith, because half the profits would amount to \$225 million instead of \$140 million annually.

C. Iranian Efforts for a Settlement

Following the Stokes offer an effort was made by Mr. Hussein Ala, former Prime Minister and now Minister to the Court, to reopen negotiations.

The British Ambassador made disparaging remarks about this proposal on the ground that it indicated no change of attitude, and that it was neither signed nor on official paper. When the last 350 technicians left Abadan, the British Press attacked the Atlee Government for lack of good faith in having refrained from taking advantage of the Ala proposal to reopen negotiations, pointing out that it did represent a concession on the part of Iran because it did not even preclude the appointment of a British General Manager.

After his successful repudiation of the British thesis in the Security Council in New York, Dr. Mossadegh remained three weeks in Washington and made repeated overtures to reopen negotiations. Despite the efforts of the State Department, however, the British displayed no interest.

The Iranians are therefore convinced that the British have no desire for a settlement except on their own terms.

The British terms as expressed in the Jackson and Stokes offers, though purporting to accept nationalization in principle, did not propose to give effect to it in practice.

D. The Oil Industry in The Iranian Economy

Over the past 40 years, Iran's 13-18 million people have been engaged principally in agriculture and to a limited extent in commerce and the manufacture of textiles. No heavy industry or raw material production or processing, other than oil, exists, despite the availability of raw materials, labor, and access to the sea.

There is probably no country in the world with comparable resources so retarded in its economic development as Iran. Yet it contains undoubtedly the largest single integrated oil operation with the lowest production cost in the world.

What contribution has this oil industry made to the Iranian economy?

1. Oil Royalties

Over a 40-year period of oil production, Iran received total royalties of \$113 million, say about, \$435 million. From 1911 through 1920 no royalties were received from; from 1921 through 1930, Iran received about \$60 million. This amounted to approximately 15% of total Government revenues in this period. From 1931 to 1941 Iran's royalties amounted to about \$125 million which, however, were earmarked for the purchase of military equipment from abroad. During World War II this equipment was delivered almost intact to the British and Russian forces which occupied the country. Since no payment was received for this military equipment, Iran did not benefit from these royalties which were in effect her contribution to the war effort. In the last decade, the total amount of royalties paid by the Company amounted to some \$250 million. In the first six years of this decade these royalties were used by the government for general expenses and constituted about 10% of total government receipts. In the last four years the total oil revenues were allocated for development projects of the Seven-Year Plan which should have amounted to about \$125 million, although some portion of this amount was used for relief and other purposes.

At no time during this 40-year period did royalty payments exceed 15% of total government revenues. The 1950 oil royalties, the highest annual payment received, represented 12% of total government revenue and about 4% of national income.

2. Company Spending for Services in Iran

From 1911 to 1920 the labor force was Indian and very few Iranians were employed by the Company. As the employment of foreign labor was contrary to the terms of the D'Arcy Agreement, after considerable pressure the Company stopped importing Indian labor, and towards the end of the twenties employed Iranian labor almost exclusively. Payments for Iranian

services during these two decades amounted to some 10 million.

Sales of sterling from 1930 to 1941 to provide local currency for local expenditures averaged about £375,000 per annum, say a total of about £16 million for the period. With the outbreak of World War II the expansion in the industry resulted in a great increase in the number of Iranians employed and sales of sterling by the Company for 1941-1950 totaled about £90 million, or about £300 million for the decade. The Company's sterling sales provided valuable foreign exchange to the Iranian economy and, in the postwar period, constituted a substantial part of the foreign exchange earnings of Iran. In 1950, for example, oil royalties, plus sterling received in payment for local currency, accounted for approximately 60% of Iran's £160 million total foreign exchange earnings.

The figures quoted here refer to sales of sterling only. The actual expenditure of the Company in Iran was more because the Company also earned rials through the sale of petroleum products and lubricants for internal consumption which by 1950 had increased to over 800,000 tons per annum.

3. Impact of the Oil Industry on Iran

Under its "mining" and exploitation policy, the AIOC contributed relatively little to Iran; and moreover, through political interference and domination AIOC prevented the normal development of local industries. The free importation of supplies by AIOC stifle the growth of domestic production. For example, the Company imported 70,000 tons of cement which could have been produced locally and competitively. The low wage policy of AIOC dictated preservation of a low standard of living. In order to concentrate on the highly profitable operation of exporting oil, the Company refused to establish any by-product industries, normally associated with oil refining, which were unavoidably less profitable. And, finally, it obstructed the growth of industries which would compete for local labor and thereby raise wages. As a result, Iran suffered the loss of industrial development. The full result of the Company's domination is pointed out by Iranians in the comparison of the economic progress made in the last thirty years by Turkey -- less bountifully endowed with resources, but free from big-company control.

4. Can Iran Endure the British Sanctions?

The out-of-pocket loss to Iran by the stoppage of oil exports though of some consequence can be endured. As previously stated, the pinch is felt primarily in the loss of foreign exchange which will require a revision of Iran's import policy. This revision, cutting down imports by 50 million annually, will necessarily eliminate the import of luxuries. It will also curtail the imports of sugar, textiles, tea and machinery. It will not affect the supply of basic food staples, fuel and housing which are produced locally. With some belt-tightening, Iran should be able to endure the economic hardships resulting from the stoppage of oil exports and other sanctions imposed by the British. The marked rise in the value of Iranian exports during the past year will alleviate that hardship to some extent.

Since oil exports were cut off, the National Oil Company of Iran has taken full possession of the industry's plants and facilities. Foreign experts, who have inspected the Abadan refinery and other facilities, report that they are being maintained in spick and span condition. The obligation of maintaining the facilities and operating them challenges the honor and the ability of the Iranians, and, "By God, they are going to do a good job of keeping the thing in order". The Kermanshah refinery has been kept in continuous operation -- 20,000 barrels daily; also, some units of the huge Abadan refinery have been in operation to supply local consumption. Iranian employees of the former Oil Company have been kept on the job and paid. Those not engaged in production are assigned to maintenance and repairs.

Foreign experts also concede that without foreign technical assistance, Iran can immediately produce at the annual rate of 5 million tons (1/5 of capacity) and with some foreign technical assistance up to 15 million tons (3/5 of capacity). Any sizable production cannot be undertaken by Iran without first establishing sales outlets and ocean transportation. While the opportunities are limited and difficult to develop, over a period of time Iran will undoubtedly make some export sales despite the opposition of the major oil companies. The principal weapon at Iran's disposal in her struggle for markets is the ability to sell at low prices, based on a low cost of production, and to accept soft currencies in payment. Conversely, the major oil companies are somewhat vulnerable by reason of relatively higher costs and their insistence on payments in dollars and sterling.

In view of these circumstances the Company may in the long run find it advantageous either to purchase Iranian oil themselves or to assign certain markets to Iran.

E. Importance of Iranian Oil In World Supplies

The value of the Iranian oil industry and its huge proven resources must be measured in terms of strategic interests, as well as its relation to the world oil industry.

1. Strategic Interests

The Iranian oil industry is as large as the entire estimated reserves, production and refinery capacity of Russia and her satellites. Because of this fact, British and American petroleum policy must appraise the risk of alienating Iranian supplies, formerly consumed almost entirely outside the Russian markets. If the major oil companies succeed in continuing to shut Iranian oil out of its former markets, it is unavoidable that this oil may commence to flow in an ever-increasing stream to Russian and satellite markets outside British and American company control.

2. Iran's Part of World Supplies

In the short-run view, the world is well established with respect to proven reserves estimated to be over 10-1/2 billion metric tons. At the current rate of production of about half a billion metric tons annually, a 20 year supply is readily available. Over 1 billion tons of the world's proven reserves are located in Iran and about 4-1/2 billion tons in the Middle East generally. The balance of the world's reserves are located as follows: United States and other Western Hemisphere 5.1, and other

Eastern Hemisphere .9 billion tons.

In the long-run view of more than 20 years, it is apparent that the adequacy of the world's reserves are highly uncertain, and Iran's 1 billion tons may become critical.

The crude production capacity of the world is highly flexible. In the Middle East, each additional well will bring in from 2 to 3 million barrels annually. In the last 12 months a demonstration of this flexibility was given when Iran's total crude output in 1950 of 240 million barrels was replaced by increasing crude production in other Middle East countries. However, the greatest short-run production flexibility is in the United States. With a normal production rate of 2 billion barrels annually, a system of "allowables" shuts in approximately 50 percent of that rate. Therefore, in an emergency, an additional 1 billion barrel rate of production can be achieved almost immediately by lifting the "allowables". In general, it may be stated that the petroleum industry is well-equipped to meet any foreseeable crisis of short-run duration by the production of crude from present proven reserves.

The refining segment of the oil industry represents the production bottleneck. This is the governor used by the industry to stabilize the petroleum market by limiting production, despite available reserves and crude producing capacity. The well-established policy of the oil industry is to avoid unused refinery capacity and to assume that in the event of an emergency, rationing will be imposed to limit civilian consumption in order to make adequate supplies available to the military. While this policy has worked in the past, it promises to run into difficulties in the prolonged period of a cold war in which military consumption is above normal levels, and civilian consumption continues to increase year by year.

In the short-run, the Iranian oil industry is of major importance, primarily by reason of the Abadan refinery and its huge capacity of 200 million barrels per year. This capacity is about 3% of the total world refineries and about 18% of refinery capacity in the Eastern Hemisphere, excluding Russia. The Abadan refinery capacity is critical in view of the demand for petroleum products which keeps the world's refineries operating at full capacity. In the event of increased military demands, supplies would fall short of meeting both military and civilian requirements. Although an accelerated refinery expansion program is now under way, it has limitations. Machinery and materials are not in free supply because of the military preparedness program undertaken by the United States and Western Europe. It may be stated that the expansion program in the next five years can hardly do more than keep pace with increased civilian requirements, if that; and any inordinate demands of the military must be met by a rationing of supplies to civilians.

3. Iranian Industry Strategically Located

Iranian oil has a greater importance than that indicated by comparing its capacity as a percentage of the world industry. It is strategically located to serve the rapidly expanding markets of Pakistan, India and the Far East on a more efficient basis than any other source of supply. Its proximity to these markets, its low cost of production, and the ability to take local currencies in payment, place the industry in a formidable long-run position. In the short run, British and American companies may succeed in blocking Iranian oil sales to these markets by virtue of their control of transportation and distribution, and their

willingness to incur the exorbitant expense of obtaining supplies from the United States. However, in the long run, these obstacles may eventually be overcome by the common interest of Iran and the consuming countries.

F. The Issues Involved in Reaching a Settlement

The Iranians insist that the settlement of the dispute hinges upon an unqualified recognition of nationalization, to be effectuated by providing for Iranian control of its oil industry and by the sale of its oil at seaboard. Negotiations have broken down because of the British refusal to accept the new pattern of a buyer-seller relationship and by their adherence to the historical royalty or profit-sharing pattern. If this new pattern of buyer-seller relationship is accepted by the British, there are three issues to be resolved: (1) sales terms, (2) compensation, and (3) management.

1. Sales Terms

The Iranians recognize their dependence on British tankers and marketing facilities if exports are to be restored to capacity levels. In order to obtain these facilities Iranians are prepared to accept sales terms which would compensate the British and reward the use of these facilities in the marketing of Iranian refined products. The Iranians are ready to offer terms on refined products below the levels now being paid by the AIOC. They are also willing to give recognition to long-term purchase contracts and volume sales by allowing reasonable discounts. While Iranians are sensitive to the granting of a sales monopoly to any one company, this point may be resolved by appropriate safeguards permitting Iran the option to reserve a percentage of output for its own distribution.

2. Compensation

The nationalization law makes it mandatory that the Government make compensation for the oil installations acquired by nationalization. The Iranian Government has proposed that compensation be determined in accordance with the following three alternative methods:

- 1) Market value of the shares of the Company prior to nationalization. It is to be noted that, because of the relatively small dividends it has been paying throughout its history, the market value of the Company's shares do not exceed £150 million or \$420 million at the current rate of exchange of 2.80 to a £/;

The Iranians assume the value of the Company's installations in Iran to be one-fifth of its total assets. The compensation due to the Company would then be about £30 million or \$84 million; and

- 2) The method followed by other Governments including the British Government itself in compensating private interests whose properties have been condemned for public use. If the book value of the installations in Iran is adopted as a basis, the compensation payable by the Iranian Government would be, cost (£57 million) less depreciation to date (£29 million) as shown by the Company's own books. This would amount to £28 million or \$78 million. If replacement value is taken into consideration, the amount would not exceed £75 million or \$210 million.

3) Any other method which may be mutually agreed upon.

Against the compensation determined by any of the above methods, the Iranian Government claims a valid and recognized right to 20% of the Company's reserves as well as increased royalties retroactive to 1948 under the Supplementary Agreement. These claims exceed \$140 million. It is to be noted that in its 1950 financial statement the Company has set up a special contingency reserve of \$40,487,440 or \$113,326,832 for these claims.

The Company's attitude is that it is entitled to compensation for the value of the unexpired term of the concession, as well as for the replacement value of the property nationalized. Not one single case exists where the value of a contract has been capitalized and paid for consequent to nationalization. It is generally accepted that the expected future earning ability of a concern is reflected in the market value of its shares. Thus Iran by paying compensation according to the market value of the shares will have necessarily paid for the value of the unexpired term of the concession. No figure has been given as to how much is represented by these claims. It is the opinion of informed observers that the compensation question can be amicably resolved if appropriate sales terms can be negotiated. It would appear that both sides would wish to avoid the Mexican experience of a long-drawn out controversy resulting in little compensation for the companies and in the stoppage of oil exports.

3. Management

When this question is isolated from political consideration, it becomes readily apparent that it is in the interests of both Iran and the purchasing company to promote the efficient management of Iran's internal oil operations. While Iranians insist that the control of the industry cannot be delegated to a foreign oil company, they recognize the need for the employment of foreign experts to undertake the management of the major technical and administrative operations of the industry. The number of such foreign experts is estimated to be 500 to 600. Problems of organization, management, and the efficient use of such foreign technicians under Iranian control, present some difficulties; however, they are not insurmountable. The solution to these problems can be facilitated by a gesture of goodwill on the part of the British to inspire the confidence of the Iranians, and thus bring about a genuine cooperation based on their mutual interdependence.

VII. CONCLUSION

The stalemate of the last seven months is in fact a bargaining contest between Britain and Iran. In this contest, the British have put up a blockade against Iran made possible by their anticipation of American dollar aid of 600 million annually -- the amount necessary to make up the drain of dollars on British reserves caused by AIOC purchases of dollar oil to replace Abadan exports. Consequently the exercise of this pressure involves a tremendous cost; however, it cannot be relied on to produce a solution, because Iran can endure the blockade by curtailing imports which require foreign exchange. So long as the staples of life in Iran are produced locally, the blockade cannot succeed in starving the country into submission.

The strategic and economic interests of the free world are dependent on Iranian oil. The Abadan daily capacity of 550 thousand barrels cannot be replaced despite the increased refinery expansion throughout the world. With material shortages and production facilities committed to defense it would be difficult if not impossible to increase refinery expansion to a rate high enough to keep pace with rising civilian and military demands and at the same time replace the huge capacity of Abadan.

No solution appears to be in sight unless the British give up their historical approach and genuinely recognize the fact of nationalization. If Britain can proceed to negotiate on a purely commercial basis, a sales agreement can be reached with Iran under which the Abadan refinery can again operate at capacity to the benefit of both Britain and Iran. In the absence of a commercial settlement, Iran has no recourse but to operate the industry on a limited basis, supplying the requirements of local consumption, and exporting oil to markets not controlled by the major British and American oil companies.

In recent weeks, the International Bank for Reconstruction and Development has attempted to find a basis on which its facilities and good offices could be used for the resumption of the flow of Iranian oil.

The Iranians are hopeful that the Bank will be able to propose an interim plan, mutually acceptable to Iran and Great Britain which will break the stalemate.

In order to comply with Iran's national policy, this interim plan cannot divorce the Iranian Government from control over the industry but it should pave the way for efficient management under a competent administration and provide for maximum production and the sale of oil by Iran on a commercial basis to a distributing organization.

APPENDIX A

THE D'ARCY CONCESSION

BETWEEN THE GOVERNMENT OF HIS IMPERIAL MAJESTY THE SHAH OF PERSIA of the one part and WILLIAM KNOX D'ARCY of independent means residing in London at No. 42 Grosvenor Square (hereinafter called "the Concessionnaire") of the other part.

The following has by these presents been agreed on and arranged, viz.:-

ARTICLE 1.

The Government of His Imperial Majesty the Shah grants to the Concessionnaire by these presents a special and exclusive privilege to search for obtain exploit develop render suitable for trade carry away and sell natural gas petroleum asphalt and ozokerite throughout the whole extent of the Persian Empire for a term of 60 years as from the date of these presents.

ARTICLE 2.

This privilege shall comprise the exclusive right of laying the pipe lines necessary from the deposits where there may be found one or several of the said products up to the Persian Gulf as also the necessary distributing branches. It shall also comprise the right of constructing and maintaining all and any wells reservoirs stations and pump services accumulation services and distribution services factories and other works and arrangements that may be deemed necessary.

ARTICLE 3.

The Imperial Persian Government grants gratuitously to the Concessionnaire all uncultivated lands belonging to the State which the Concessionnaire's engineers may deem necessary for the construction of the whole or any part of the above-mentioned works. As for cultivated lands belonging to the State the Concessionnaire must purchase them at the fair and current price of the Province.

The Government also grants to the Concessionnaire the right of acquiring all and any other lands or buildings necessary for the said purpose with the consent of the proprietors on such conditions as may be arranged between him and them without their being allowed to make demands of a nature to surcharge the prices ordinarily current for lands situate in their respective localities. Holy places with all their dependencies within a radius of 200 Persian archines are formally excluded.

ARTICLE 4.

As three petroleum mines situate at Schouster Kassre-Chirine in the Province of Kermanschahan and Daleki near Bouchir are at present let to private persons and produce an annual revenue of two thousand tomans for the benefit of

the Government it has been agreed that the three aforesaid mines shall be comprised in the Deed of Concession in conformity with Article 1 on condition that over and above the 16 per cent. mentioned in Article 10 the Concessionnaire shall pay every year the fixed sum of 2,000 (two thousand) tomans to the Imperial Government.

ARTICLE 5.

The course of the pipe lines shall be fixed by the Concessionnaire and his Engineers.

ARTICLE 6.

Notwithstanding what is above set forth the privilege granted by these presents shall not extend to the Provinces of Azerbadjan Ghilan Mazendaran Asdrabad and Khorassan but on the express condition that the Persian Imperial Government shall not grant to any other person the right of constructing a pipe line to the southern rivers or to the South Coast of Persia.

ARTICLE 7.

All lands granted by these presents to the Concessionnaire or that may be acquired by him in the manner provided for in Articles 3 and 4 of these presents as also all products exported shall be free of all imposts and taxes during the term of the present Concession. All material and apparatuses necessary for the exploration working and development of the deposits and for the construction and development of the pipe lines shall enter Persia free of all taxes and Custom House duties.

ARTICLE 8.

The Concessionnaire shall immediately send out to Persia and at his own cost one or several experts with a view to their exploring the region in which there exist as he believes the said products and in the event of the report of the expert being in the opinion of the Concessionnaire of a satisfactory nature the latter shall immediately send to Persia and at his own cost all the technical staff necessary with the working plant and machinery required for boring and sinking wells and ascertaining the value of the property.

ARTICLE 9.

The Imperial Persian Government authorises the Concessionnaire to found one or several Companies for the working of the Concession.

The names "statutes" and capital of the said Companies shall be fixed by the Concessionnaire and the Directors shall be chosen by him on the express condition that on the formation of each Company the Concessionnaire shall give official notice of such formation to the Imperial Government through the medium of the Imperial Commissioner and shall forward the "statutes" with information as to the places at which such Company is to operate. Such Company or

Companies shall enjoy all the rights and privileges granted to the Concessionnaire but they must assume all his engagements and responsibilities.

ARTICLE 10.

It shall be stipulated in the contract between the Concessionnaire of the one part and the Company of the other part that the latter is within the term of one month as from the date of the formation of the first exploitation Company to pay the Imperial Persian Government the sum of £20,000 sterling in cash and an additional sum of £20,000 sterling in paid-up shares of the first Company founded by virtue of the foregoing Article. It shall also pay the said Government annually a sum equal to 16 per cent. of the annual net profits of any Company or Companies that may be formed in accordance with the said Article.

ARTICLE 11.

The said Government shall be free to appoint an Imperial Commissioner who shall be consulted by the Concessionnaire and the Directors of the Companies to be formed. He shall supply all and any useful information at his disposal and he shall inform them of the best course to be adopted in the interest of the undertaking. He shall establish by agreement with the Concessionnaire such supervision as he may deem expedient to safeguard the interests of the Imperial Government.

The aforesaid powers of the Imperial Commissioner shall be set forth in the "statutes" of the Companies to be created.

The Concessionnaire shall pay the Commissioner thus appointed an annual sum of £1,000 sterling for his services as from the date of the formation of the first Company.

ARTICLE 12.

The workmen employed in the service of the Company shall be subjects of His Imperial Majesty the Shah except the technical staff such as the Managers Engineers Borers and Foremen.

ARTICLE 13.

At any place in which it may be proved that the inhabitants of the country now obtain petroleum for their own use the Company must supply them gratuitously with the quantity of petroleum that they themselves got previously.

Such quantity shall be fixed according to their own declarations subject to the supervision of the local authority.

ARTICLE 14.

The Imperial Government binds itself to take all and any necessary measures to secure the safety and the carrying out of the object of this Concession of the plant and of the apparatuses of which mention is made for the purposes of the undertaking of the Company and to protect the representatives agents and servants of the Company. The Imperial Government having thus fulfilled its engagements the Concessionnaire and the Companies created by him shall not have power under any pretext whatever to claim damages from the Persian Government.

ARTICLE 15.

On the expiration of the term of the present Concession all materials buildings and apparatuses then used by the Company for the exploitation of its industry shall become the property of the said Government and the Company shall have no right to any indemnity in this connexion.

ARTICLE 16.

If within the term of two years as from the present date the Concessionnaire shall not have established the first of the said Companies authorised by Article 9 of the present Agreement the present Concession shall become null and void.

ARTICLE 17.

In the event of there arising between the parties to the present Concession any dispute or difference in respect of its interpretation or the rights or responsibilities of one or the other of the parties therefrom resulting such dispute or difference shall be submitted to two Arbitrators at Teheran one of whom shall be named by each of the parties and to an Umpire who shall be appointed by the Arbitrators before they proceed to arbitrate. The decision of the Arbitrators or in the event of the latter disagreeing that of the Umpire shall be final.

ARTICLE 18.

This Act of Concession made in duplicate is written in the French language and translated into Persian with the same meaning.

But in the event of there being any dispute in relation to such meaning the French text shall alone prevail. Teheran Sefer 1319 of the Hegire that is to say May 1901.

APPENDIX B

(No. 1)

CONVENTION CONCLUDED BETWEEN THE IMPERIAL GOVERNMENT OF PERSIA AND THE
ANGLO-PERSIAN OIL COMPANY, LIMITED, AT TEHRAN ON 29TH APRIL, 1933.

(Translation)

Preamble

For the purpose of establishing a new Concession to replace that which was granted in 1901 to William Knox D'Arcy, the present Concession is granted by the Persian Government and accepted by the Anglo-Persian Oil Company Limited.

This Concession shall regulate in the future the relations between the two parties above-mentioned.

Definitions

The following definitions of certain terms used in the present Agreement are applicable for the purposes hereof without regard to any different meaning which may or might be attributed to those terms for other purposes.

"The Government"

means the Imperial Government of Persia.

"The Company"

means the Anglo-Persian Oil Company Limited and all its subordinate companies.

"The Anglo-Persian Oil Company Limited"

means the Anglo-Persian Oil Company Limited or any other body corporate to which, with the consent of the Government (Article 26), this Concession might be transferred.

"Subordinate Company"

means any company for which the Company has the right to nominate directly or indirectly more than one-half of the directors, or in which the Company holds, directly or indirectly, a number of shares sufficient to assure it more than 50% of all voting rights at the General Meetings of such a company.

"Petroleum"

means crude oil, natural gases, asphalt, ozokerite, as well as all products obtained either from these substances or by mixing these substances with other substances.

"Operations of the Company in Persia"

means all industrial, commercial and technical operations carried on by the Company exclusively for the purposes of this Concession.

Article 1

The Government grants to the Company, on the terms of this Concession, the exclusive right, within the territory of the Concession, to search for an extract petroleum as well as to refine or treat in any other manner and render suitable for commerce the petroleum obtained by it.

The Government also grants to the Company, throughout Persia, the non-exclusive right to transport petroleum, to refine or treat it in any other manner and to render it suitable for commerce, as well as to sell it in Persia and to export it.

Article 2

(A) The territory of the Concession, until 31st December, 1938, shall be the territory to the south of the violet line drawn on the map* signed by both parties and annexed to the present Agreement.

(B) The Company is bound, at latest by 31st December, 1938, to select on the territory above-mentioned one or several areas of such shape and such size and so situated as the Company may deem suitable. The total area of the area or areas selected must not exceed one hundred thousand English square miles (100,000 square miles), each linear mile being equivalent to 1,609 metres.

The Company shall notify to the Government in writing on 31st December, 1938, or before that date, the area or areas which it shall have selected as above provided. The maps and data necessary to identify and define the area or areas which the Company shall have selected shall be attached to each notification.

(C) After 31st December, 1938, the Company shall no longer have the right to search for an extract petroleum except on the area or areas selected by it under paragraph (B) above and the territory of the Concession, after that date, shall mean only the area or areas so selected and the selection of which shall have been notified to the Government as above provided.

Article 3

The Company shall have the non-exclusive right to construct and to own pipe-lines. The Company may determine the position of its pipe-lines and operate them.

Article 4

(A) Any utilised lands belonging to the Government, which the Company shall deem necessary for its operations in Persia and which the Government shall not require for purposes of public utility, shall be handed over gratuitously to the Company.

The manner of acquiring such lands shall be the following: whenever any land becomes necessary to the Company, it is bound to send to the Ministry of Finance a map or maps on which the land which the Company needs shall be shown in colour. The Government undertakes, if it has no objection to make, to give its approval within a period of three months after receipt of the Company's request.

(B) Lands belonging to the Government, of which use is being made, and which the Company shall need, shall be requested of the Government in the manner prescribed in the preceding paragraph, and the Government, in case it should not itself need these lands and should have no objection to make, shall give, within a period of three months, its approval to the sale asked for by the Company.

The price of these lands shall be paid by the Company; such price must be reasonable and not exceed the current price of lands of the same kind and utilised in the same manner in the district.

(C) In the absence of a reply from the Government to requests under paragraphs (A) and (B) above, after the expiry of two months from the date of receipt of the said requests, a reminder shall be sent by the Company to the Government; should the Government fail to reply to such reminder within a period of one month, its silence shall be regarded as approval.

(D) Lands which do not belong to the Government and which are necessary to the Company shall be acquired by the Company, by agreement with the parties interested, and through the medium of the Government

*Not printed

In case agreement should not be reached as to the prices, the Government shall not allow the owners of such lands to demand a price higher than the prices commonly current for neighboring lands of the same nature. In valuing such lands, no regard shall be paid to the use to which the Company may wish to put them.

(E) Holy places and historical monuments, as well as all places and sites of historical interest are excluded from the foregoing provisions, as well as their immediate surroundings for a distance of at least 200 metres.

(F) The Company has the non-exclusive right to take within the territory of the Concession, but not elsewhere, on any unutilised land belonging to the State, and to utilise gratuitously for all the operations of the Company, any kinds of soil, sand, lime, gypsum, stone and other building materials. It is understood that if the utilisation of the said materials were prejudicial to any rights whatever of third parties, the Company should indemnify those whose rights were infringed.

Article 5

The operations of the Company in Persia shall be restricted in the following manner:

- (1) the construction of any new railway line and of any new port shall be subject to a previous agreement between the Government and the Company.
- (2) If the Company wishes to increase its existing service of telephone, telegraphs, wireless and aviation in Persia, it shall only be able so to do with the previous consent of the Government.

If the Government requires to utilise the means of transport and communication of the Company for national defence or in other critical circumstances, it undertakes to impede as little as possible the operations of the Company, and to pay it fair compensation for all damages caused by the utilisation above-mentioned.

Article 6

(A) The Company is authorised to effect, without special licence, all imports necessary for the exclusive needs of its employees on payment of the Custom duties and other duties and taxes in force at the time of importation.

The Company shall take the necessary measures to prevent the sale or the handing over of products imported to persons not employed by the Company.

(B) The Company shall have the right to import, without special licence, the equipment material, medical and surgical instruments and pharmaceutical products necessary for its dispensaries and hospitals in Persia, and shall be exempt in respect thereof from any Custom duties and other duties and taxes in force at the time of importation, or payments of any nature whatever to the Persian State or to local authorities.

(C) The Company shall have the right to import, without any licence and exempt from any Custom duties and from any taxes or payments of any nature whatever to the Persian State or to local authorities, anything necessary exclusively for the operations of the Company in Persia.

(D) The exports of petroleum shall enjoy Customs immunity and shall be exempt from any taxes or payments of any nature whatever to the Persian State or to local authorities.

Article 7

(A) The Company and its employees shall enjoy the legal protection of the Government.

(B) The Government shall give, within the limits of the laws and regulations of the country, all possible facilities for the operations of the Company in Persia.

(C) If the Government grants concessions to third parties for the purpose of exploiting other mines within the territory of the concession, it must cause the necessary precautions to be taken in order that these exploitations do not cause any damage to the installations and works of the Company.

(D) The Company shall be responsible for the determination of dangerous zones for the construction of habitations, shops and other buildings, in order that the Government may prevent the inhabitants from settling there.

Article 8

The Company shall not be bound to convert into Persian currency any part whatsoever of its funds, in particular any proceeds of the sale of its exports from Persia.

Article 9

The Company shall immediately make its arrangements to proceed with its operations in the province of Kermanshah through a subsidiary company with a view to producing and refining petroleum there.

Article 10

(I) The sums to be paid to the Government by the Company in accordance with this Agreement (besides those provided in other articles) are fixed as follows:

- (a) an annual royalty, beginning on 1st January, 1933, of four shillings per ton of petroleum sold for consumption in Persia or exported from Persia;
 - (b) Payment of a sum equal to twenty per cent. (20%) of the distribution to the ordinary stockholders of the Anglo-Persian Oil Company Limited, in excess of the sum of six hundred and seventy-one thousand two hundred and fifty pounds sterling (£671,250) whether that distribution be made as dividends for any one year or whether it relates to the reserves of that company, exceeding the reserves which, according to its books, existed on 31st December, 1932.
 - (c) The total amount to be paid by the Company for each calendar (Christian) year under sub-clauses (a) and (b) shall never be less than seven hundred and fifty thousand pounds sterling (£750,000).
- (II) Payments by the Company under this Article shall be made as follows:
- (a) On 31st March, 30th June, 30th September and 31st December of each year, on each occasion one hundred and eighty-seven thousand five hundred pounds sterling (£187,500). (The payment relating to 31st March, 1933, shall be made immediately after the ratification of the present Agreement.)
 - (b) On 28th February, 1934, and thereafter on the same date in each year, the amount of the tonnage royalty for the previous year provided for in sub-clause (I)(a) less the sum of seven hundred and fifty thousand pounds sterling (£750,000), already paid under sub-clause (II)(a).
 - (c) Any sums due to the Government under sub-clause (I)(b) of this Article shall be paid simultaneously with any distributions to the ordinary stockholders.
- (III) On the expiration of this Concession, as well as in the case of surrender by the Company under Article 25 the Company shall pay to the Government a sum equal to twenty per cent. (20%) of:
- (a) the surplus difference between the amount of the reserves (General Reserve) of the Anglo-Persian Oil Company Limited, at the date of the expiration of the Concession or of its surrender, and the amount of the same reserves at 31st December, 1932;
 - (b) the surplus difference between the balance carried forward by the Anglo-Persian Oil Company Limited at the date of the expiration of the Concession or of its surrender and the balance carried forward by that Company at 31st December, 1932. Any payment due to the Government under this clause shall be made within a period of one month from the date of the General Meeting of the Company following the expiration or the surrender of the Concession.
- (IV) The Government shall have the right to check the returns relating to sub-clause (I)(a) which shall be made to it at latest on 28th February for the preceding year.

(V) To secure the Government against any loss which might result from fluctuations in the value of English currency, the parties have agreed as follows:

- (a) if, at any time, the price of gold in London exceeds six pounds sterling per ounce (ounce troy) the payments to be made by the Company in accordance with the present Agreement (with the exception of sums due to the Government under sub-clause (I)(b) and clause (III (a) and (b) of this Article and sub-clause (I)(a) of Article 23) shall be increased by one thousand four hundred and fortieth part ($1-1/440$) for each penny of increase of the price of gold above six pounds sterling (£) per ounce (ounce troy) on the due date of the payments.
- (b) if, at any time, the Government considers that gold has ceased to be the general basis of values and that the payments above mentioned no longer give it the security which is intended by the parties, the parties shall come to an agreement as to a modification of the nature of the security above mentioned or, in default of such an arrangement, shall submit the question to the Arbitration Court (Article 22) which shall decide whether the security provided in sub-clause (a) above ought to be altered and if so, shall settle the provisions to be substituted therefor and shall fix the period to which such provisions shall apply.

(VI) In case of a delay, beyond the dates fixed in the present Agreement, which might be made by the Company in the payment of sums due by it to the Government, interest at five per cent. (5%) per annum shall be paid for the period of delay.

Article 11

(I) The Company shall be completely exempt, for its operations in Persia, for the first thirty years, from any taxation present or future of the State and of local authorities; in consideration therefor the following payments shall be made to the Government:-

- (a) During the first fifteen years of this Concession, on 28th February of each year and for the first time on 28th February, 1934, nine pence for each of the first six million (6,000,000) tons of petroleum, on which the royalty provided for in Article 10(I)(a) is payable for the preceding calendar (Christian) year, and six pence for each ton in excess of the figure of six million (6,000,000) tons above defined.
- (b) The Company guarantees that the amount paid under the preceding sub-clause shall never be less than two hundred and twenty-five thousand pounds sterling (£225,000).
- (c) During the fifteen years following, one shilling for each of the first six million (6,000,000) tons of petroleum, on which the royalty provided for in Article 10(I)(a) is payable for the preceding calendar year, and nine pence for each ton in excess of the figure of 6,000,000 tons above defined.

- (d) The Company guarantees that the amount paid under the preceding sub-clause (c) shall never be less than three hundred thousand pounds sterling (£300,000).

(II) Before the year 1963 the parties shall come to an agreement as to the amounts of the annual payments to be made, in consideration of the complete exemption of the Company for its operations in Persia from any taxation of the State and of local authorities, during the second period of thirty years extending until 31st December, 1993.

Article 12

(A) The Company, for its operations in Persia in accordance with the present Agreement, shall employ all means customary and proper, to ensure economy in and good returns from its operations, to preserve the deposits of petroleum and to exploit its Concession by methods in accordance with the latest scientific progress.

(B) If, within the territory of the Concession, there exist other mineral substances than petroleum or woods and forests belonging to the Government, the Company may not exploit them in accordance with the present Concession, nor object to their exploitation by other persons (subject to the due compliance with the terms of clause (C) of Article 7); but the Company shall have the right to utilise the said substances or the woods and forests above-mentioned if they are necessary for the exploration or the extraction of petroleum.

(C) All boreholes which, not having resulted in the discovery of petroleum, produce water or precious substances, shall be reserved for the Government which shall immediately be informed of these discoveries by the Company, and the Government shall inform the Company as soon as possible if it wishes to take possession of them. If it wishes to take possession it shall watch that the operations of the Company be not impeded.

Article 13

The Company undertakes to send, at its own expense and within a reasonable time, to the Ministry of Finance, whenever the representative of the Government shall request it, accurate copies of all plans, maps, sections and any other data whether topographical, geological or of drilling, relating to the territory of the Concession, which are in its possession.

Furthermore, the Company shall communicate to the Government throughout the duration of the Concession all important scientific and technical data resulting from its work in Persia.

All these documents shall be considered by the Government as confidential.

Article 14

(A) The Government shall have the right to cause to be inspected at its wish, at any reasonable time, the technical activity of the Company in Persia, and to nominate for this purpose technical specialist experts.

(B) The Company shall place at the disposal of the specialist experts nominated to this end by the Government, the whole of its records relative to scientific and technical data, as well as all measuring apparatus and means of measurement, and these specialist experts shall, further, have the right to ask for any information in all the offices of the Company and on all the territories in Persia.

Article 15

The Government shall have the right to appoint a Representative who shall be designated "Delegate of the Imperial Government." This Representative shall have the right--

- (1) to obtain from the Company all the information to which the stockholders of the Company are entitled;
- (2) to be present at all the meetings of the Board of Directors, of its committees and at all the meetings of stockholders, which have been convened to consider any question arising out of the relations between the Government and the Company;
- (3) to preside ex-officio, with a casting vote, over the Committee to be set up by the Company for the purpose of distributing the grant for and supervising the professional education in Great Britain of Persian nationals referred to in Article 16;
- (4) to request that special meetings of the Board of Directors be convened at any time, to consider any proposal that the Government shall submit to it. These meetings shall be convened within 15 days from the date of the receipt by the Secretary of the Company of a request in writing to that end.

The Company shall pay to the Government to cover the expenses to be borne by it in respect of the salary and expenses of the above-mentioned Delegate a yearly sum of two thousand pounds sterling (£2,000). The Government shall notify the Company in writing of the appointment of this Delegate and of any changes in such appointment.

Article 16

(I) Both parties recognise and accept as the principle governing the performance of this Agreement the supreme necessity, in their mutual interest, of maintaining the highest degree of efficiency and of economy in the administration and the operations of the Company in Persia.

(II) It is, however, understood that the Company shall recruit its artisans as well as its technical and commercial staff from among Persian nationals to the extent that it shall find in Persia persons who possess the requisite competence and experience. It is likewise understood that the unskilled staff shall be composed exclusively of Persian nationals.

(III) The parties declare themselves in agreement to study and prepare a general plan of yearly and progressive reduction of the non-Persian employees with a view to replacing them in the shortest possible time and progressively by Persian nationals.

(IV) The Company shall make a yearly grant of ten thousand pounds sterling in order to give in Great Britain, to Persian nationals, the professional education necessary for the oil industry.

The said grant shall be expended by a Committee which shall be constituted as provided in Article 15.

Article 17

The Company shall be responsible for organising and shall pay the cost of the provision, control and upkeep of, sanitary and public health services, according to the requirements of the most modern hygiene practised in Persia, on all the lands of the Company and in all buildings and dwellings, destined by the Company for the use of its employees, including the workmen employed within the territory of the Concession.

Article 18

Whenever the Company shall make issues of shares to the public, the subscription lists shall be opened at Tehran at the same time as elsewhere.

Article 19

The Company shall sell for internal consumption in Persia, including the needs of the Government, motor spirit, kerosene and fuel oil, produced from Persian petroleum, on the following basis:-

- (a) On the first of June in each year the Company shall ascertain the average Roumanian f.o.b. prices for motor spirit, kerosene and fuel oil and the average Gulf of Mexico f.o.b. prices for each of these products during the preceding period of twelve months ending on 30th April. The lowest of these average prices shall be selected. Such prices shall be the "basic prices" for a period of one year beginning on 1st June. The "basic prices" shall be regarded as being the prices at the refinery.
- (b) The Company shall sell: (1) to the Government for its own needs, and not for resale, motor spirit, kerosene and fuel oil at the basic prices, provided in sub-clause (a) above, with a deduction of twenty-five per cent. (25%); (2) to other consumers at the basic prices with a deduction of ten per cent. (10%).
- (c) The Company shall be entitled to add to the basic prices mentioned in sub-clause (a), all actual costs of transport and of distribution and of sale, as well as any imposts and taxes on the said products.
- (d) The Government shall forbid the export of the petroleum products sold by the Company under the provisions of this article.

Article 20

(I)--(a) During the last ten years of the Concession or during the two years from the notice preceding the surrender of the Concession provided in Article 25, the Company shall not sell or otherwise alienate, except to subordinate companies, any of its immovable properties in Persia. During the

same period the Company shall not alienate or export any of its movable property whatever except such as has become unutilisable.

(b) During the whole of the period preceding the last ten years of the Concession, the Company shall not alienate any land obtained by it gratuitously from the Government; it shall not export from Persia any movable property except in the case when such property shall have become unutilisable or shall be no longer necessary for the operations of the Company in Persia.

(II) At the end of the Concession, whether by expiration of time or otherwise, all the property of the Company in Persia shall become the property of the Government in proper working order and free of any expenses and of any encumbrances.

(III) The expression "all the property" comprises all the lands, buildings and workshops, constructions, wells, jetties, roads, pipe-lines, bridges, drainage and water supply systems, engines, installations and equipments (including tools) of any sort, all means of transport and communication in Persia (including for example automobiles, carriages, aeroplanes), any stocks and any other objects in Persia which the Company is utilising in any manner whatsoever for the objects of the Concession.

Article 21

The contracting parties declare that they base the performance of the present Agreement on principles of mutual good will and good faith as well as on a reasonable interpretation of this Agreement.

The Company formally undertakes to have regard at all times and in all places to the rights, privileges and interests of the Government and shall abstain from any action or omission which might be prejudicial to them.

This Concession shall not be annulled by the Government and the terms therein contained shall not be altered either by general or special legislation in the future, or by administrative measures or any other acts whatever of the executive authorities.

Article 22

(A) Any differences between the parties of any nature whatever and in particular any differences arising out of the interpretation of this Agreement and of the rights and obligations therein contained as well as any differences of opinion which may arise relative to questions for the settlement of which, by the terms of this Agreement, the agreement of both parties is necessary, shall be settled by arbitration.

(B) The party which requests arbitration shall so notify the other party in writing. Each of the parties shall appoint an arbitrator, and the two arbitrators, before proceeding to arbitration, shall appoint an umpire. If the two arbitrators cannot, within two months, agree on the person of the umpire, the latter shall be nominated, at the request of either of the parties, by the President of the Permanent Court of International Justice. If the President of the Permanent Court of International Justice belongs to a nationality or a country which, in accordance with clause (C), is not qualified

to furnish the umpire, the nomination shall be made by the Vice-President of the said Court.

(C) The umpire shall be of a nationality other than Persian or British; furthermore, he shall not be closely connected with Persia or with Great Britain as belonging to a dominion, a protectorate, a colony, a mandated country or other country administered or occupied by one of the two countries above mentioned or as being or having been in the service of one of these countries.

(D) If one of the parties does not appoint its arbitrator or does not advise the other party of its appointment, within sixty days of having received notification of the request for arbitration, the other party shall have the right to request the President of the Permanent Court of International Justice (or the Vice-President in the case provided at the end of clause (B)) to nominate a sole arbitrator, to be chosen from among persons qualified as above mentioned, and in this case the difference shall be settled by this sole arbitrator.

(E) The procedure of arbitration shall be that followed, at the time of arbitration, by the Permanent Court of International Justice. The place and time of arbitration shall be fixed by the umpire or by the sole arbitrator provided for in clause (D), as the case may be.

(F) The award shall be based on the juridical principles contained in Article 38 of the Statutes of the Permanent Court of International Justice.⁽¹⁾ There shall be no appeal against the award.

(G) The expenses of arbitration shall be borne in the manner determined by the award.

Article 23

(I) In full settlement of all the claims of the Government of any nature in respect of the past until the date of coming into force of this Agreement (except in regard to Persian taxation), the Company: (a) shall pay within a period of thirty days from the said date the sum of one million pounds sterling (£1,000,000) and besides (b) shall settle the payments due to the Government for the financial years 1931 and 1932 on the basis of Article 10 of this Agreement and not on that of the former D'Arcy Concession, after deduction of two hundred thousand pounds sterling (£200,000) paid in 1932 to the Government as an advance against the royalties and £113,403 3s. 10d. placed on deposit at the disposal of the Government.

(II) Within the same period, the Company shall pay to the Government in full settlement of all its claims in respect of taxation for the period from 21st March, 1930, to 31st December, 1932, a sum calculated on the basis of sub-clause (a) of clause I of Article 11, but without the guarantee provided in sub-clause (b) of the same clause.

⁽¹⁾ Treaty Series No. 67 (1946) Cmd. 7015.

Article 24

If, by reason of the annulment of the D'Arcy Concession, litigation should arise between the Company and private persons on the subject of the duration of leases made in Persia before 1st December, 1932, within the limits allowed by the D'Arcy Concession, the litigation shall be decided according to the rules of interpretation following:

- (a) If the lease is to determine, according to its terms, at the end of the D'Arcy Concession, it shall retain its validity until 28th May, 1961, notwithstanding the annulment of the said Concession.
- (b) If it has been provided in the lease that it shall be valid for the duration of the D'Arcy Concession and in the event of its renewal for the duration of the renewed Concession, the lease shall retain its validity until 31st December, 1993.

Article 25

The Company shall have the right to surrender this Concession at the end of any Christian calendar year, on giving to the Government notice in writing two years previously.

On the expiry of the period above provided, the whole of the property of the Company in Persia, defined in Article 20, (III) shall become free of cost and without encumbrances the property of the Government in proper working order and the Company shall be released from any engagement for the future. In case there should be disputes between the parties concerning their engagements before the expiry of the period above provided the differences shall be settled by arbitration as provided in Article 22.

Article 26

This Concession is granted to the Company for the period beginning on the date of its coming into force and ending on 31st December, 1993.

Before the date of the 31st December, 1993, this Concession can only come to an end in the case that the Company should surrender the Concession (Article 25) or in the case that the Arbitration Court should declare the Concession annulled as a consequence of default of the Company in the performance of the present Agreement.

The following cases only shall be regarded as default in that sense:

- (a) If any sum awarded to Persia by the Arbitration Court has not been paid within one month of the date of the award.
- (b) If the voluntary or compulsory liquidation of the Company be decided upon.

In any other cases of breach of the present Agreement by one party or the other the Arbitration Court shall establish the responsibilities and determine their consequences.

Any transfer of the Concession shall be subject to confirmation by the Government.

Article 27

This Agreement shall come into force after ratification by the Majlis and promulgation by Decree of His Imperial Majesty the Shah. The Government undertakes to submit this Agreement, as soon as possible, for ratification by the Majlis.

Made at Tehran the twenty-ninth April one thousand nine hundred and thirty-three.

APPENDIX C

(No. 2)

SUPPLEMENTAL AGREEMENT BETWEEN THE IMPERIAL IRANIAN GOVERNMENT AND THE
ANGLO-IRANIAN OIL COMPANY, LIMITED, MADE AT TEHRAN ON 17TH JULY, 1949

Whereas on 29th April, 1933, an Agreement (herein called "the Principal Agreement") was entered into between the Imperial Government of Persia (now known as "the Imperial Iranian Government") of the one part and the Anglo-Persian Oil Company, Limited (now known as the "Anglo-Iranian Oil Company, Limited") of the other part which established a Concession for the regulation of the relations between the two parties above mentioned

And whereas the Government and the Company have after full and friendly discussion agreed that in view of the changes in economic conditions brought about by the World War of 1939-1945 the financial benefits accruing to the Government under the Principal Agreement should be increased to the extent and in the manner hereinafter appearing

And whereas for this purpose the parties have agreed to enter into a Supplemental Agreement:-

Now it is hereby agreed between the Imperial Iranian Government and the Anglo-Iranian Oil Company, Limited, as follows:-

1. This Agreement is supplemental to and shall be read with the Principal Agreement.

2. Any of the terms used herein which have been defined in the Principal Agreement shall have the same meaning as in the Principal Agreement, save that, for the purposes of this Agreement, all references in the Principal Agreement to Persia, Persian, the Imperial Government of Persia and the Anglo-Persian Oil Company, Limited, shall be read as references to Iran, Iranian, the Imperial Iranian Government and the Anglo-Iranian Oil Company, Limited, respectively and the references to the Permanent Court of International Justice shall be read as references to the International Court of Justice established by the United Nations.

3.--(a) In respect of the calendar year ended 31st December, 1948, and thereafter, the rate of the annual royalty payable to the Government under sub-clause (I) (a) of Article 10 of the Principal Agreement shall be increased from four shillings to six shillings per ton of petroleum sold for consumption in Iran or exported from Iran.

(b) The Company shall within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of three million three hundred and sixty-four thousand four hundred and fifty-nine pounds sterling (£3,364,459), as a retrospective application to cover the calendar year ended 31st December, 1948, of the modification introduced by sub-clause (a) of this Clause 3, taking into account

the provisions of sub-clause (V) (a) of Article 10 of the Principal Agreement.

4.--(a) In order that the Government may receive a greater and more certain and more immediate benefit in respect of amounts placed to the General Reserve of the Anglo-Iranian Oil Company, Limited, than that provided by sub-clause (I) (b) and sub-clause (III) (a) of Article 10 of the Principal Agreement, the Company shall pay to the Government in respect of each amount placed to the General Reserve of the Anglo-Iranian Oil Company, Limited, in respect of each financial period for which the accounts of that company are made up (starting with the financial period ended 31st December, 1948) a sum equal to twenty per cent (20%) of a figure to be arrived at by increasing the amount placed to General Reserve (as shown by the published accounts for the financial period in question) in the same proportion as twenty shillings sterling (s.20/-) bear the difference between twenty shillings sterling (s.20/-) and the Standard Rate of British Income Tax in force at the relevant date.

The relevant date shall be the date of the final distribution to the Ordinary Stockholders in respect of the financial period in question, or, in the event of there being no such final distribution, a date one calendar month after the date of the Annual General Meeting at which the accounts in question were presented.

Examples of the implementation of the principle set out in this sub-clause (a) have been agreed between the parties hereto and are set out in the Schedule to this Agreement.

(b) If in respect of any financial period for which the accounts of the Anglo-Iranian Oil Company, Limited, are made up (starting with the financial period ended 31st December, 1948) the total amount payable by the Company to the Government under sub-clause (a) of this Clause 4 and sub-clause (I) (b) of Article 10 of the Principal Agreement shall be less than four million pounds sterling (£4,000,000) the Company shall pay to the Government the difference between the said total amount and four million pounds sterling (£4,000,000). Provided, however, that if during any such financial period the Company shall have ceased, owing to events outside its control, to export petroleum from Iran, the amount payable by the Company in respect of such period in accordance with the foregoing provisions of this sub-clause (b) shall be reduced by a sum which bears the same proportion to such amount as the period of such cessation bears to such financial period.

(c) Any sum due to the Government in respect of any financial period under sub-clause (a) or sub-clause (b) of this Clause 4 shall be paid on the relevant date appropriate to that financial period.

(d) The provisions of Clause (V) of Article 10 of the Principal Agreement shall not apply to any payments made by the Company to the Government in accordance with sub-clause (a) or sub-clause (b) of this Clause 4.

5.--(a) In respect of the sum of fourteen million pounds sterling (£14,000,000) shown in the Balance Sheet of the Anglo-Iranian Oil Company, Limited, dated 31st December, 1947, as constituting the General Reserve of that company, the Company shall, within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of five million and ninety thousand nine hundred and nine pounds sterling (£5,090,909).

(b) The provisions of Clause (V) of Article 10 of the Principal Agreement shall not apply to the payment to be made by the Company in accordance with sub-clause (a) of this Clause 5.

6. The payments to be made by the Company under Clauses 4 and 5 of this Agreement shall be in lieu of and in substitution for--

(i) any payments to the Government under sub-clause (I) (b) of Article 10 of the Principal Agreement in respect of any distribution relating to the General Reserve of the Company, and

(ii) any payment which might become payable by the Company to the Government in respect of the General Reserve under sub-clause (III) (a) of Article 10 of the Principal Agreement on the expiration of the Concession or in the case of surrender by the Company under Article 25 of the Principal Agreement.

7.--(a) In respect of the calendar year ended 31st December, 1948, and thereafter, the rate of payment to be made by the Company to the Government in accordance with sub-clause (I) (c) of Article 11 of the Principal Agreement which relates to the payment to be made in respect of the excess over 6,000,000 tons shall be increased from ninepence to one shilling.

(b) The Company shall, within a period of thirty days from the date of coming into force of this Agreement, pay to the Government the sum of three hundred and twelve thousand nine hundred pounds sterling (£312,900), as a retrospective application to cover the calendar year ended 31st December, 1948, of the modification introduced by sub-clause (a) of this Clause 7, taking into account the provisions of sub-clause (V) of Article 10 of the Principal Agreement.

8.--(a) At the end of sub-clause (a) of Article 19 of the Principal Agreement there shall be added a paragraph in the following terms: "If at any time either party shall consider that either Roumanian prices or Gulf of Mexico prices no longer provide suitable standards for fixing 'basic prices,' then the 'basic prices' shall be determined by mutual agreement of the parties, or in default of such agreement by arbitration under the provisions of Article 22. The 'basic prices' so determined shall become binding on both parties by an agreement effected by exchange of letters between the Government (which shall have full capacity to enter into such an agreement) and the Company."

(b) As from 1st June, 1949, the prices at which the Company shall sell motor spirit, kerosene and fuel oil, produced from Iranian petroleum to consumers other than the Government for internal consumption in Iran, shall be the basic prices with a deduction of twenty-five per cent. (25%), instead of a deduction of ten per cent (10%) as provided in sub-clause (b) of Article 19 of the Principal Agreement.

9. In consideration of the payment of the above sums by the Company the Government and the Company agree that all their obligations one to another accrued up to 31st December, 1948, in respect of sub-clause 1 (a) and sub-clause 1 (b) of Article 10 and in respect of Article 11 of the Principal Agreement and also in respect of the General Reserve have been fully discharged.

10. Subject to the provisions of this Agreement, the provisions of the Principal Agreement shall remain in full force and effect.

11. This Agreement shall come into force after ratification by the Majlis and on the date of its promulgation by Decree of His Imperial Majesty the Shah. The Government undertakes to submit this Agreement, as soon as possible, for ratification by the Majlis.

APPENDIX D

TEXT OF LAW REGULATING THE NATIONALIZATION OF THE OIL INDUSTRY

1. For the purpose of regulating the execution of the Law of 24th and 29th Esfand which nationalizes the Oil Industry throughout the country, a Mixed Board shall be formed. This Board shall consist of 5 members of the Senate and 5 Deputies of the Majles to be elected by each of these two Houses, the Minister of Finance or his deputy, and one other person to be selected by the Government.
2. Under the supervision of the Mixed Board the Government is charged to remove forthwith the former Anglo-Iranian Oil Company from control of the Oil Industry of the country; should the Company make its claim for compensation an excuse to forestall prompt delivery, the Government may deposit up to 25% of the current income, less cost of production, in the Bank Melli or any Bank acceptable to both parties to secure the claim.
3. Under the supervision of the Mixed Board the Government is charged to investigate the lawful and rightful claims of the Government, as well as those of the Company, to report its views thereon to the two Houses of Parliament and upon approval give effect thereto.
4. From Esfand 20th 1329 (March 20th, 1951), when the Bill for the nationalization of the Oil Industry received the ratification of the Senate, the Iranian nation being lawfully entitled to the entire earnings derived from Oil and Oil Products, the Government, under the supervision of the Mixed Board, is charged to investigate and check the accounts of the Company; similarly, the Mixed Board must meticulously supervise the exploitation of the Oil resources from the date this Law went into effect until the appointment of a Board of Management.
5. As soon as possible, the Mixed Board shall prepare the Charter of the National Oil Company including therein provision for the appointment of a Board of Management and a Board of Technical Experts; such Charter shall be submitted to the two Houses for their approval.
6. For the purpose of gradually replacing foreign technicians by Iranian technicians, the Mixed Board is charged to draw up regulations for the annual selection, through competitive examinations, of students to be sent abroad for education, training and experience in the various branches of the Oil Industry; these regulations after being approved by the two Houses shall be put into effect by the Ministry of Education. The cost of training these students shall be paid out of the oil earnings.
7. Purchasers of the products of the Oil Fields from which the former Anglo-Iranian Oil Company has been removed can hereafter purchase

annually at current world market prices the same quantities purchased by them annually during the period commencing from the beginning of 1948 up to 29th Esfand 1329 (20th March, 1951). For additional quantities they shall enjoy priority, other conditions being equal.

8. All proposals of the Mixed Board shall be delivered to the Majles and if approved by its Oil Commission the latter shall submit a report thereon to the Majles for ratification.

9. The Mixed Board must complete its work within three months of the approval of this Law and submit a report of its actions to the Majles in accordance with Article 8. Should the Board need a longer period of time it may ask for an extension, giving adequate reasons therefor.

APPENDIX E

ANGLO-IRANIAN OIL GROUP

Consolidated balance-sheets of the Anglo-Iranian Oil Company for the past two years (at December 31), together with group profit and loss accounts, are compared in the following tables:--

CONSOLIDATED PROFIT AND LOSS
-ACCOUNTS

	1949	1950
	£	£
Trading profit (a)	38,666,485	81,300,622
Divs. from sub. cos. not cons.	925,205	950,223
Divs. and int. from allied cos., etc.	1,253,207	2,018,563
Int. on British Govt. etc., securities ...	439,493	196,934
Profit before U.K. tax	41,284,390	84,466,342
Deduct U.K. tax	22,840,181	50,706,880
Net profit	18,444,209	33,759,462
Deduct: Minority interest	75,996	84,048
Retained by sub. cos.	(b) 21,803	572,842
Net profit of Anglo-Iranian	18,390,016	33,102,572
To Preference stock reserve	1,000,000	1,000,000
To general reserve	10,000,000	25,000,000
	7,390,016	7,102,572
Brought in	1,608,438	1,885,970
Available balance	8,998,454	8,988,542
Dividends paid:		
Preference	1,071,234	1,071,234
Ordinary	6,041,250	6,041,250
Carried forward by Anglo-Iranian	1,885,970	1,876,058
Add balances of sub. cos.	666,701	1,120,231
Carried forward by group	2,552,671	2,996,289

(a) After charging royalty and provision for special contingencies, administration and other expenditure, including: depreciation on fixed assets £20,146,117 in 1950 (£17,773,216); amount written off oil exploration interests £11,299,255 (£5,580,704); and provision for survey repairs £2,750,000 (£1,000,000). (b) Credit.

CONSOLIDATED BALANCE-SHEETS

	1949	1950
	£	£
LIABILITIES--		
Issued capital	32,843,752	32,843,752
Pref. stock reserve	7,000,000	8,000,000
Revenue reserve and surplus:		
General	40,000,000	65,000,000
Development and other res. sub. cos.	448,414	567,849
Profit and loss accounts	2,552,671	2,996,289
Excess on consolidation	1,226,696	1,222,718
Minority interest	169,606	171,301
Future tax	17,288,515	41,059,457
Special contingencies	--	40,487,440
Current liabilities and provisions:		
Creditors and tax	98,395,295	65,553,477
Provisions, contingencies	4,654,111	7,470,959
Dividends (net)	3,253,950	3,121,178
ASSETS--		
Land, oil wells, refineries, etc. (a)	37,870,816	42,081,585
Tankers, etc. (b)	10,087,306	13,350,334
Sub. cos. not consolidated and allied cos.	27,182,868	35,966,228
Investments in exploration and producing cos. (c)	22,658,828	12,505,078
Current assets:		
Stocks of stores and materials	25,469,650	26,372,492
Stocks of crude oil, products, etc.	12,446,090	15,645,028
Debtors, etc.	30,371,324	37,365,993
Int. and divs. accrued	701,264	693,107
Tax certs.	8,311,625	30,000,000
Quoted investments (d)	4,209,365	3,553,828
Cash	28,523,874	50,960,747
Balance-sheet totals	207,833,010	268,494,420

(a) After £84,220,913 depreciation in 1950 (£72,353,012); (b) After £47,682,583 (£40,016,215) depreciation; (c) After deducting £31,716,488 (£20,420,450) written off; (d) Market value £3,789,616 (£4,664,884).

APPENDIX F

Anglo-Iranian Oil Co., Assets

Refineries: - Abadan, Iran, 24,000,000 tons annual capacity; Haifa, Palestine, 4,000,000 tons, operated by Consolidated Refineries, Ltd., an allied company in which Anglo-Iranian hold half interest; L'Avera, near Martigues, Southern France, 1,400,000 tons, and Dunkirk, Northern France, 300,000 tons, controlled by Societe Generale des Huiles de Petrole, an allied company; Hamburg, Germany, 600,000 tons; Porto Marghera, Venice, Italy, controlled by Industria Raffinazione Olii Minerali, an allied company; Llandarcy, near Swansea, 2,100,000 tons, operated by National Oil Refineries, Ltd., a subsidiary company; Grangemouth, Scotland, 650,000 tons operated by Scottish Oils, Ltd., a subsidiary company. A new refinery for the manufacture of chemicals from petroleum is being built adjacent to the Grangemouth refinery by British Petroleum Chemicals, Ltd., in which Anglo-Iranian hold half interest; Laverton, near Melbourne, 120,000 tons, operated by Commonwealth Oil Refineries, Ltd., in which Anglo-Iranian hold half interest; Kermanshah, Iran, 100,000 tons, operated by Kermanshah Petroleum Co., Ltd., a subsidiary; Alwand, Iraq, 320,000 tons, operated by Khanaqin Oil Co., Ltd., a subsidiary. Arrangements have been completed for the construction of a new refinery of 2,000,000 tons per annum throughput capacity with a full range of products, on the Thames Estuary in the Isle of Grain area of Kent.

Share Interests: - The company, through its subsidiary, the D'Arcy Exploration Co., Ltd., (of which the company holds all the capital) holds 23 3/4 per cent of the shares of the Iraq Petroleum Co., Ltd., also of Petroleum Concessions, Ltd., and associated companies such as Petroleum Development (Qatar), Ltd., Petroleum Development (Trucial Coast), Ltd., Petroleum Development (Oman and Dhofar) Ltd., and either by itself or through subsidiary companies holds the whole of the issued share capital of British Tanker Co., Ltd., Tanker Insurance Co., Ltd., Anglo-Bahamian Petroleum Co., Ltd., Anglo-Iranian Oil Co. (Australia), Ltd., Anglo-Iranian Oil Co. (India), Ltd., Anglo-Iranian Oil Co. (Pakistan), Ltd., Anglo-Iranian Oil Co. (China), Ltd., Anglo-Iranian Oil Co. (Aden), Ltd., Britannic Estates, Ltd., Irano Products, Ltd., Petroleum Steamship Co., Ltd., National Oil Refineries, Ltd., Khanaqin Oil Co., Ltd., Kermanshah Petroleum Co., Ltd., Maritime Refineries, Ltd., Rafidain Oil Co., Ltd., and Scottish Oils, Ltd. (and subsidiaries), and also several distributing companies on the European Continent. They have also a large interest in British Petroleum Chemicals, Ltd., Forth Chemicals, Ltd., Australasian Petroleum Co., Proprietary Ltd., British Petroleum Co. of New Zealand, Ltd., Shell Mex and B.P., Ltd. (the marketing organization in Great Britain of the Shell and Anglo-Iranian groups), Consolidated Petroleum Co. Ltd., Consolidated Refineries, Ltd., First Exploitation Co., Ltd., Kuwait Oil Co., Ltd., (A.I.O.C., 50% and Gulf Exploration Co. 50%), Middle East Pipelines, Ltd., Societe Generale des Huiles de Petrole, Norsk Braendselolje, Steau Romana (British), Ltd., and various other smaller investments.

Transport: - A fleet of, at present, 159 tankers (including those building and on order) aggregating approximately 1,992,077 tons d.w. under the flag of its subsidiary the British Tanker Co., Ltd., is controlled by the company.