

Oil in the US Foreign Policy – Between the Wars

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WWI as a “game changer”

- WWI confirmed the growing importance of oil – a key determinant for victory?
- Oil as a strategically important resource - birth of national oil policies (UK, FRA)
- US as a key supplier of the allies – cca 80%
- Fuel Administration (1917) – addressed supply curtailments (coal&oil)
 - office for coordinating distribution of fuels (In US and abroad) – vertically coordinated up to the local level
 - severe winters of 1917&1918
 - authority to redirect flows of supplies – shut down ‘nonessential industries’
 - daylight savings time
- Fuel Administration – a federal energy policy?

Taxis on the Marne



The “Tank”



WWI as a “game changer”

- Cooperation of OCs with the federal government within Fuel Administration (Oil Division)
- National Petroleum War Service Committee (NPWSC) – oil majors – key role in supplying allies in Europe - close cooperation with the government the Oil Division of FA
- Within NPWSC successors of Standard Oil cooperated with ‘Independents’
- chair - A. Bedford CEO of SONJ – return of the SO with support from the government?
- Change of OCs - government relationship

WWI – the aftermath

- The war momentum gave birth (1919) to the American Petroleum Institute (API) –
 - a sign of a newly established relationship between the federal government and OCs - beginning of the coordinated cooperation and governmental support
- Aims of the API:
 - to support cooperation with the government in all matters of national concern
 - to foster foreign and domestic trade in American petroleum products
 - to promote in general the interests of the petroleum industry in all its branches
 - to promote the mutual improvement of its members and the study of the arts and sciences connected with the oil and natural gas industry

WWI – the Aftermath

- WWI accelerated changes in the use of oil – demand increased, oil became strategically important
- Poor awareness about domestic reserves, rapid development of the car industry, supply curtailments, price shocks - fears of depleting US oil resources ('peak oil')
 - strong incentive to search for oil sources abroad
- Oil resources in Romania and Mexico were not considered as prospectively rich and/or stable
 - civil war in Mexico in 1910s
- Middle East seen as promising area but no major finds had been made so far
- Disputes among allies in the years after WWI – fears of FRA & UK national champions (CFP, Anglo-Persian Oil Co.)

WWI – the Aftermath

- OCs motivated by rich oil fields abroad, as well as low royalties and regulation
- Main cleavage on the federal level:

National oil champion (NOC)

Vs.

Indirect support

- Government's reluctance to the first option – emphasis on the liberal approach
- Deal between UK and FRA on partitioning Middle East
- US disappointment after the San Remo conference (1920)
 - turning point in US approach towards cooperation – final push to pursue own policy in the Middle East

Red Line Agreement



Road to the Red Line Agreement

- Before the WWI

- Turkish Petroleum Company: Anglo Persian Oil Co. (50%) + Deutsche Bank (25%) + Royal Dutch/Shell (25%) = Turkish Petroleum Company (later 50 + 22,5 + 22,5 + 5% Calouste Gulbekian)

- Consortium included 'self-denying clause' – none of the parties could develop oil fields without other parties taking part

- German share split among other parties after the WWI

1920s – 1930s

- US disappointed by the allies' approach – UK & FRA were not interested in pursuing the open door policy - the need of own 'oil policy' was confirmed
- San Remo cemented partitioning Middle East between UK & FRA – without US
- Status quo partially changed - Red line agreement (1928) – US as important ally, US needed as ally and for their know-how
 - New shareholders (1928) - Iraq Petroleum Company: Near East Development (Exxon + Mobil), Anglo-Persian, Royal Dutch/Shell, CFP – 23,75%, Calouste Gulbenkian - 5%
 - rather restrictive for US companies (self-denying clause)
 - US companies as main movers of exploration, main focus on Mesopotamia (Iraq)

Entering the Middle East

- 1930 SoCal earned mining concession in Bahrain
- 1934 – Gulf Oil and Anglo – Iranian earned concession in Kuwait
- 1933 – SoCal sealed deal with Saudi king Abdulaziz Ibn-Saud (1936 joint-venture w/ Texaco was cemented) – CalTex - Aramco (1944)
- ‘US’ overtook UK – IPC (result of the RL Agreement) closed much less favourable contract
- The center of gravity was shifting to the Middle East despite setback during the WWII

Abdulaziz Ibn-Saud



1920s - 1930s

Commercial sphere		Public sphere	
Independents	(I)OC's	Liberals (republicans)	Protectionists (democrats)

– Cleavages

- independents vs. IOCs – small homeland producers vs. big companies pursuing cheap foreign imports
 - Liberals (business progressives)vs. Protectionists (left-wing progressives) – informal cooperation between federal gov. & OCs vs. formalized relationship, state interventions (prospectively also incl. national champion)
 - 1920s and early 1930s liberal approach
(H. Hoover – “Go out and get it!”)
- 1930s – New Deal – protectionist approach – not coherent though (imminence of the WWII, strong liberal opposition, incoherent administrative – the Mexican crisis)
- New Deal – US as the last country to run out of oil

WW II

- Petroleum Administration for War (PAW) - protectivism vs. Ministry of Foreign Affairs – liberal approach
- Petroleum Reserves Corporation – governmental tool (brief history - 1943-44) – efforts to take over 100% of Aramco
- WWII the definite turning point in government - OCs relations: convergence of interests
- OCs were becoming aware of the danger posed by the rise of nationalism in producing countries – valued improving relations and backing by the government

Take-Home Message

- WWI as a factor facilitating convergence of interests of OCs and the state
- Post-WWI situation in IR as the driver of new US oil policy
- Middle East as the center of gravity
- US OCs as the leading power in exploration
- Resistance against the idea of national champion

- Did the United States actions lead to the United States being a protector of the oil markets?
- Should the big business help the state to achieve its goals?

- Your thoughts on progressivism and its impact on dissolution of SO?
- Do you consider the formation of Standard Oil as a positive or negative phenomenon for the then existed US oil-related market?
- Was the Sherman Act good for the US oil industry?
- If Standard Oil had not been dissolved, could it be the US's national oil champion?