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PETROLEUM IN SAUDI-AMERICAN RELATIONS:  
THE FORMATIVE PERIOD, 1932-1948

DISSERTATION

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By

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This dissertation is an examination of the American oil industry in Saudi Arabia and its influence on United States foreign policy. The study examines the Americans who went to Saudi Arabia, the effect of the oil companies on Saudi-American relations, and the American government's response to oil company actions. There is an attempt to answer such questions as: Did the oil companies exert pressure on the American government to influence governmental policy? How effective was this pressure? And, what benefits did the oil companies have from their relationship with the government?

This study is based primarily on Department of State records in the National Archives and at the National Records Center at Suitland, Maryland. Also important were published hearings conducted by two United States Senate special committees on petroleum and national defense during 1947 and 1948. The published memoirs and reminiscences of several participants were also utilized. Newspapers and magazine articles, especially the New York Times, supplemented the narrative throughout.

The first two chapters review the background of American contacts and oil interests in the Persian Gulf region by

1932. The following two chapters trace the progress of the oil concession negotiations between the Saudi government and Standard Oil Company of California and the latter's attempts to convince the State Department to increase American representation with Saudi Arabia. Chapters V through VII discuss the attempts by the oil companies to influence the American government to extend lend-lease aid to Saudi Arabia during wartime, the actions taken by the American government to guarantee the flow of oil to satisfy war demands, and the efforts of the American government to aid Saudi Arabia in several domestic programs. The last two chapters deal with postwar events from an Anglo-American oil agreement to Senate investigations of petroleum policy in 1947 and 1948.

The study concludes that Aramco was instrumental in bringing official and nonofficial contact and representation between Saudi Arabia and the United States. Moreover, Aramco was instrumental in involving the American government directly in Saudi Arabia through the extension of lend-lease aid to that country. American government involvement thwarted potential British ambitions in the Saudi oil resources and resulted in the American dominance of oil interests in that kingdom. In addition, Senate investigations showed that the oil companies grossly overcharged the United States Navy on oil purchases and that the financial assistance to Saudi Arabia was made for the protection of Aramco's oil concession. Nonetheless, United States policy toward Saudi Arabia was not

## INTRODUCTION

The United States assumed a leading role in the Middle East in the postwar period. To understand the growing importance of that role, monographic studies of United States relations with particular countries of the Middle East are necessary.

Two reasons attracted my attention to undertake this study. One, Saudi Arabia is one of the major sources of petroleum for the United States and was the first Middle Eastern country where Americans attained significant influence. The other was a growing emphasis at home on the energy question, which made the average American, perhaps for the first time, interested in Middle Eastern affairs. The special position attained by the United States in the Kingdom of Saudi Arabia and the emphasis at home on energy then make the topic of oil diplomacy timely.

This study is concerned with the examination of the interaction between the American oil industry, especially the one operating in Saudi Arabia, and the American government. Specifically, this study is a historical inquiry into how and why had the Americans came to Saudi Arabia, the adverse or favorable effect of oil companies' role on Saudi-American relations, the degree to which domestic oil considerations affected United States oil policy, and the

position and extent to which the American government was responsive to such considerations. The objective of the study is to find answers to such questions: Did the oil companies exert any kind of pressure on the American government to influence that government's policy in Saudi Arabia? If so, how effective were these attempts on the government's foreign-policy decision-making in regard to Saudi Arabia? And, did the oil companies draw any material benefits from their relationship with the government?

The view that American corporate business influences the nation's policy has been a persistent one in historical and political literature. Oil companies had often been cited as examples of such influence on American foreign relations. This topic then might be taken as a case study of the influence of the oil companies operating in Saudi Arabia on United States policy toward that country.

Chapters I and II review the background of American contacts and oil interests in the Persian Gulf area by 1932. Chapters III and IV trace the progress of the oil concession negotiations between the Saudi government and Standard Oil of California and the attempts by the latter at convincing the State Department to increase American representation with Saudi Arabia; Chapters V through VII discuss the Saudi government's wartime financial crisis, the attempts by the oil companies to influence the American government to extend lend-lease aid to Saudi Arabia, the actions taken by the

American government to guarantee the flow of oil to satisfy war demands, and the efforts of the American government to aid Saudi Arabia in different ways. Chapters VIII and IX deal with postwar events, from the Anglo-American oil agreement to Senate investigations of petroleum policy in 1947 and 1948.

## TABLE OF CONTENTS

	Page
INTRODUCTION . . . . .	iii
LIST OF ABBREVIATIONS . . . . .	vii
 Chapter	
I.    THE BACKGROUND: SAUDI ARABIA AND THE UNITED STATES BY 1932 . . . . .	1
II.   AMERICAN OIL INTERESTS IN THE PERSIAN GULF BY 1932 . . . . .	27
III.  THE STANDARD OIL COMPANY OF CALIFORNIA: FROM CONCESSIONS TO OPERATIONS . . . . .	61
IV.   THE OILMEN AND THE DEPARTMENT OF STATE: DIPLOMATIC AND CONSULAR REPRESENTATION IN SAUDI ARABIA . . . . .	80
V.    AMERICAN LEND-LEASE AID FOR SAUDI ARABIA . . . . .	90
VI.   THE PETROLEUM RESERVE CORPORATION: SAUDI OIL CONCESSION, GOVERNMENT OWNERSHIP . . . . .	116
VII.  SAUDI-AMERICAN RELATIONS, 1943-1945 . . . . .	134
VIII. THE PROPOSAL FOR A TRANS-ARABIA PIPELINE . . . . .	161
IX.   FROM THE ANGLO-AMERICAN OIL AGREEMENT TO SENATE HEARINGS . . . . .	178
X.    CONCLUSION . . . . .	203
BIBLIOGRAPHY . . . . .	212

## LIST OF ABBREVIATIONS

Aramco:	Arabian American Oil Company (Socal, Texaco, Standard of New Jersey, Socony-Vacuum).
Bapco:	Bahrain Petroleum Company (subsidiary of Socal).
Caltex:	California Texas Oil Company (marketing subsidiary of the parent companies, Texas and California Standard).
Casoc:	California Arabian Standard Oil Company.
CR:	Congressional Record.
DSB:	Department of State Bulletin.
EGS:	Eastern and General Syndicate (British).
FR:	Foreign Relations.
IPC:	Iraq Petroleum Company (British).
MESEC:	Middle East Supply Center.
PCL:	Petroleum Concession Ltd. (subsidiary of IPC).
PDL:	Petroleum Development (West Arabia) Ltd. (subsidiary of IPC).
PRC:	Petroleum Reserve Corporation.
RFC:	Reconstruction Finance Corporation.
Socal:	Standard Oil Company of California.
Socony:	Standard Oil Company of New York.
Tapline:	Trans-Arabian Pipeline Company.
Texaco:	Texas Oil Company.
TPC:	Turkish Petroleum Company.

## MAPS

General map of Saudi Arabia and Tapline, page 4.



## CHAPTER I

### THE BACKGROUND: SAUDI ARABIA AND THE UNITED STATES BY 1932

As a modern state the present Saudi Arabian kingdom came into being through the efforts of King Abd al-Aziz Ibn Abd al-Rahman Al Faisal Al Saud, better known as Ibn Saud. The kingdom's birth date is 1932, but its roots go back to the last quarter of the eighteenth century, when Mohammad Ibn Abd al-Wahhab advocated a revival movement called Wahhabism. This movement grew throughout the nineteenth and early twentieth century when it triumphed under the leadership of Abd al-Aziz.

#### I

The Arabian peninsula extends over one million square miles. Politically, it is divided into several states, the largest of which is Saudi Arabia, which comprises an area of 865,000 square miles. Saudi Arabia borders Iraq, Jordan, and Kuwait on the north; Qatar, the United Arab Emirates, and Oman on the east and southeast; People's Yemen and Yemen on the south; and the Red Sea and the Gulf of Aquaba on the west.

The Arabian plateau has its highest part in the extreme west, along the Red Sea, and it slopes gradually from west

to east. Thus the Red Sea coast is often mountainous whereas the Persian Gulf coast is flat and low-lying. The mountains along the Red Sea reach their maximum height in the south, in the Yemen, and their lowest about halfway along their course, around Jiddah, Mecca, and Medina. These towns grew because they offered the easiest and shortest route inland from the coast. The northern two-thirds of the area adjacent to the Red Sea is called the Hijaz province, while the southern one-third is called the Asir.

Further to the east, the central northern area--Najd province--is diversified by shallow valleys, high ridges, and in some places by desert sand. Approaching the Persian Gulf coast--the al-Hasa province--altitude does not exceed 1,000 feet, with desert areas to the north and south. The area to the north--Nefud--has some wells and rainfall where nomadic life is possible. In the south, lies al-Rub' al-Khali (Empty Quarter), a rainless desert area.

About 15 percent of the land in Saudi Arabia is arable, but only 1 percent is cultivated, because of water scarcity. The northern area gets between four and eight inches of rainfall, while the west gets about four inches.

The country has a population of about eight million people. There are no verified statistics of the exact population, for no accurate census has been taken recently. Racially the people are Caucasian. Nonetheless, mixed racial strains abound in the country. Inhabitants of the west,

north, and center are of the unmixed Mediterranean stock. In the coastal districts of the east, south, and southwest, the Armenoid descent is dominant. Owing to the long-continued slave trade, Negroid influences from Africa are widespread.

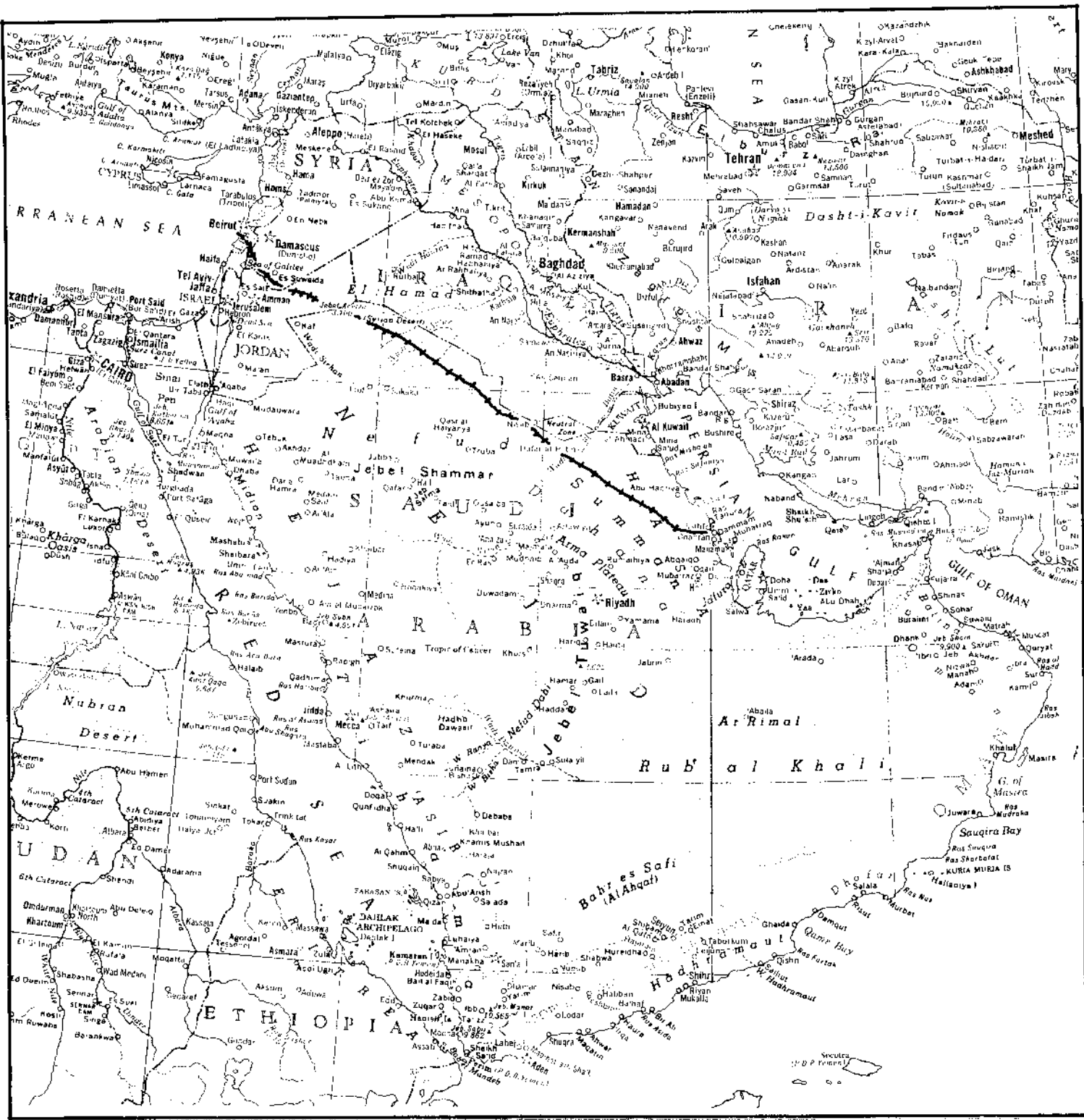
Economically, life in Saudi Arabia was dependent on oases like those in the Hijaz and Najd regions. In the main, however, life was dependent on resources brought from outside--pilgrims' revenue--and on trading in the East Indies and the Indian Ocean. A major change in the economic life of Saudi Arabia came, of course, with the discovery of oil.

The importance of Saudi Arabia's position is quickly apparent from a map. The country is strategically located between Africa and mainland Asia, lies close to the Suez Canal, and has frontiers on the Red Sea and the Persian Gulf. Huge oil deposits make Saudi Arabia economically vital to Europe and the United States, who have become dependent on the "black gold" since World War II.<sup>1</sup>

The history of the Arabian peninsula, for the most part, has been the account of small pockets of settled civilizations, subsisting mainly on trading into the midst of an area of desert and nomadic life. The earliest urban settlement developed in the southwest, where the Minaean

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<sup>1</sup>For general geographical and cultural background see the American University Area Handbook for Saudi Arabia (Washington, D.C., 1971), pp. 1-17.



By permission of Hammond Incorporated, Hammond World Atlas, Superior Edition (Maplewood, New Jersey, 1975), p. 17.  
 Tapline: —————

Kingdom is believed to have been established in the twelfth century B.C. The Sabeian and Himyarite Kingdoms followed, and lasted until the sixth century A.D. Because of its position as a trading station between East and West, the Arabian peninsula came into contact with the Persian and Roman Empires; the influence of Judaism, Zoroastrianism, and, later, Christianity spread. Politically, however, the Arabian principalities remained independent.

By the beginning of the seventh century the Hijaz cities (Mecca, Medina, Ta'if) grew in importance, as a trade route developed between the Byzantine Empire, Egypt, and the East. Mecca, the center of Hijaz was dominated by the Quraysh tribe, which had extensive commercial activities and influences from Byzantine, Persian, Aramaic, and Judaic sources.

The Arabian peninsula became unified for the first time with the arrival of Islam in the first quarter of the seventh century. Before the close of that century the Islamic religion and the Arabic language had left their impression on an area extending from Spain to northern India. With the unification of the Near and Middle East under Islam, Mecca lost its trade route, but retained its status as a religious center for the whole Muslim world. The unity was only temporary and the peninsula was dis-united after the ninth century. Outside the Holy cities little was known about the central part of Arabia. There

Islam lost its dynamism among the people, and the cult of local saints and pre-Islamic animistic practices re-emerged.<sup>2</sup>

Early in the sixteenth century, all of the Arabian peninsula came nominally under Ottoman rule from Istanbul. The Ottoman control was never very strong and did not go beyond regions bordering the Red Sea. With the gradual decline of the Ottomans, government was by remote control and merely required allegiance to the Sultan as the Caliph of Islam. Only the pilgrim roads from Damascus and Cairo to Hijaz were under Ottoman guardianship. More important for the future of the Arabian peninsula was the appearance of Eastern merchant adventurers, beginning with the Portuguese in the sixteenth century and followed by the English, Dutch, and French in the seventeenth and eighteenth centuries. At the start of the nineteenth century, the British eliminated their rivals and established firm influence on the peninsula, especially in the Persian Gulf region and the south coast, where Britain had exclusive treaty relations with the Sheikhdoms. Hijaz remained under the Ottoman control.

The central region of Saudi Arabia--Najd--became the center of an important religious movement in the middle of the eighteenth century. It was a puritanical and a reforming movement advocated by Mohammad Ibn Abd al-Wahhab, and

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<sup>2</sup>For the Islamic period see Philip K. Hitti, History of the Arabs (New York, 1951), pp. 189-299.

thus was referred to as Wahhabism. Its basic teachings include establishment of Muslim beliefs as taught by the Qur'an; denial of all spiritual authority to the Ottoman Sultan; restoration of discipline as originally pronounced by the prophet in the matter of prayer, fasting, and the pilgrimage to Mecca; and strict prohibition of wine, tobacco, magic, gold dress, and tombstones for the dead. By 1800 Wahhabism reached such strength that its followers captured parts of Iraq, Damascus in Syria, and Mecca and Medina in Hijaz. Between 1800-1818, Mohammad Ali of Egypt, acting on behalf of the Ottoman Sultan, temporarily subdued the Wahhabis. In the interior of the Arabian peninsula the Wahhabi ruling house of Saud continued to rule. In 1902, Abd al-Aziz Ibn Saud and his Wahhabi followers occupied Riyadh and made it the capital. By the outbreak of World War I, after overcoming his rivals in the area and driving the Turks from al-Hasa, Ibn Saud became the undisputed master of central Arabia, including the al-Hasa coast of the Persian Gulf. He formed the Ikhwan (brotherhood) movement to help in the settlement of their nomad brethren in the area. This movement became the backbone of Ibn Saud's efforts at modernization and settlement of the nomadic population, and was a basis for the present Saudi state.<sup>3</sup>

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<sup>3</sup>H. St. John B. Philby, Saudi Arabia (London, 1955), pp. 33-59; H. R. P. Dickson, Kuwait and Her Neighbors (London, 1956), p. 112; Ahmad Assah, Mu'jizah Fouq al-Rimal (Miracle over the Sand) in Arabic text (Bierut, 1971), pp. 16-19 (hereafter cited as Miracle); R. Baily Winder, Saudi Arabia in the Nineteenth Century (New York, 1965), pp. 57-61.

During World War I, Ibn Saud made his first serious contact with foreigners, first with the Ottomans and later with the British. The latter, wanting to gain Ibn Saud's support against Turkey, signed a treaty in 1914 according to which Ibn Saud would remain neutral throughout the war in exchange for £5,000 a month; in addition he pledged not to enter into relations with any other power. Sherif Hussein of Mecca was inclined to favor the Allied cause. After the eliciting from the British promises of Arab independence, Hussein revolted against the Turks in June of 1916 and became an active Allied supporter throughout the war. In the Peace Conference of 1919, Hussein no longer wished to cooperate with the British, who reneged on their promise of independence of the Arab provinces under Hussein's leadership.

Ibn Saud's status, meanwhile, was growing, especially after he subdued tribes along the northermost borders. There developed also an open conflict between the house of Ibn Saud in the east and that of Hussein in the west (Hijaz). On March 5, 1924, Hussein assumed the title of Caliph of the Muslims. Hussein's action did not meet a favorable reaction from the Arab world because of his close collaboration with the British and his revolution against the Turks during World War I. Thus Ibn Saud declared Hussein a traitor to the Muslim world. In a few months Ibn Saud overran Hijaz, expelled the Sherif, annexed Hijaz, and



in 1928 proclaimed himself king of Najd, Hijaz, and Dependencies.<sup>4</sup>

In 1927 the British recognized Ibn Saud's new status in the Treaty of Jiddah, in return for Ibn Saud's recognition of the Hashimite rule in Jordan and Iraq, and the British-protected Sheikdoms along the Persian Gulf coast. In 1932 Ibn Saud proclaimed the Kingdom of Saudi Arabia, a state, he said, founded on religious principles. The last episode in the creation of the Saudi kingdom was the annexation of Asir in the south, in 1934, which brought Saudi Arabia to its present size.<sup>5</sup>

There is no written constitution for Saudi Arabia. Its only constitution is the "Book of God and the Tradition of his Prophet." The government functions within the framework of the Shari'ah (Islamic principles and ideas) where there is a fusion of state and religion. In matters not explicitly prohibited or made obligatory by the Shari'ah, residual authority lies with the monarch, who is the chief figure of the central government and the source of political power. The king, who occupies the dual role of state and religious leader, administers the government through the Royal Court, the Council of Ministers, regional and local emirs (princes), and the tribal sheikhs. The king

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<sup>4</sup>Philby, Saudi Arabia, pp. 39-40; D. Van Der Meulen, The Wells of Ibn Saud (New York, 1957), pp. 32-34.

<sup>5</sup>Philby, Suadi Arabia, pp. 259-61.

is the final authority in all executive and legislative matters. To supplement the canon law of Islam, the government has issued a set of laws and regulations which cover labor, custom duties, banks, and motor vehicles. These laws have increased, which necessitating the establishment of an elaborate and integrated secular code of law. In 1962, Crown Prince and Prime Minister Faisal, in a ten-point reform statement, announced the intention of drafting a formal constitution, but it never materialized.<sup>6</sup>

The Council of Ministers is responsible for the budget and other governmental affairs, including supervision of regional and local government, and is the supreme authority under the king. Since the mid-1960s, there has been a trend from monarchical to ministerial rule. Regulations, treaties, international agreements, and concessions cannot be decreed by the king unless they have been prepared and approved by the Council of Ministers. Meanwhile the king's authority has a great deal of benevolence, for he frequently holds open diwans (courts), listening to the requests and grievances of the people.<sup>7</sup>

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<sup>6</sup>Richard H. Nolte, "The Role of Law in the Arab Middle East," The Modern Middle East, edited by Richard H. Nolte (New York, 1953), p. 157; "Ministerial Statement of November 6, 1962, by Prime Minister Amir Faisal of Saudi Arabia," The Middle East Journal, 17 (Winter, 1963): 161; Shari'ah is the Islamic Principles as enunciated in the Qura'n, considered the basis for all government actions.

<sup>7</sup>Don Peretz, The Middle East Today (New York, 1965), p. 402.

The judiciary in Saudi Arabia is an independent agency. The qadis (judges) usually act according to the Shari'ah law. The administration of justice, when not in conflict with the Shari'ah, can also be governed by tribal and customary law.<sup>8</sup>

In general the organic instructions established by the king for governing Hijaz in 1926, and the decree of October 1953, amplified by later regulations, setting up a Council of Ministers, comprise the closest approach to modern constitutional law in Saudi Arabia.

## II

The present Near and Middle East was under Ottoman rule from the sixteenth century until the close of World War I. The Ottoman Empire, long viewed as the "sick man of Europe," had been in a state of decline since the latter part of the eighteenth century. In the nineteenth century, the Balkan provinces of the empire were slipping from the grip of the Sultan, and the Arab provinces (North Africa) were falling gradually under the influence and occupation of France and Great Britain.

Throughout the nineteenth century and until the close of World War I, the United States maintained a policy of aloofness and indifference to the so-called Eastern

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<sup>8</sup>Embassy of Saudi Arabia, Prince Faisal Speaks (Washington D.C., 1962), p. 41.

Question. American contacts with the Middle East were mainly through different groups which provided information about the area to the American public. The most powerful were the missionary, educational, and business groups.

At the opening of the twentieth century, America's policy of isolationism, frequently exaggerated, was changing. The broad lines of this policy urged domination of the Caribbean, cooperation with the Far Eastern powers, especially Japan, and abstention from political involvement in Europe. In the Middle East the United States had no interests other than cultural and philanthropic.

European powers (Great Britain, France, Germany, Austria-Hungary, and Russia), in bold contrast to the United States, differed in their attitudes and interests in the Middle East. They were involved in the troublesome Eastern Question throughout the nineteenth century and to the end of World War I. The Middle East concerned them because of its strategic position, colonial rivalries, and various nationalistic, religious, and cultural objectives.

Early American and Western information about Saudi Arabia depended on the writings of travellers to the Levant who recorded their impressions and assessments. The first of these travellers was the French writer Jean Baptiste Rousseau. He had an exaggerated view of the Wahhabi

strength at the time Mahammad Ali's campaigns (1810s) for he believed the Wahhabis would be successful in forestalling these campaigns. Johann L. Burckhardt, twenty years later, depicted Wahhabism as a good reform movement bent upon transforming the Arabian peninsula. William Palgrave, a Britisher in the pay of Napoleon III, visited Najd in the early 1860s. Napoleon wanted him to undertake activities in that part of the world against the British. Palgrave's writings were known in the United States through Bayard Taylor, a travelling journalist who emphasized Palgrave's negative perception of the Wahhabi movement. Another American journalist, Lewis Pelly, visited Arabia in 1865 and his impressions opposed those of Palgrave. He gave a romantic picture of Arabia.<sup>9</sup>

The period 1850-1914 was the golden age for Western travellers to the Arabian peninsula. In the late nineteenth century, American missionaries became a major source of information about Arabia. Samuel Zwemer, of the American Presbyterian Mission Board, became convinced that Wahhabism would be the last reform movement to appear in Arabia and that "soon there will be one more land to add to the white

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<sup>9</sup>Jean Baptiste L. J. Rousseau, Description du Pachalik de Baghdad Suivie d'une Notice sur les Wahabis et de Quelques Autres Pièces Relatives à l'Histoire et la Littérature de l'Orient (Paris, 1809), pp. 125-27; John L. Burckhardt, Notes on the Bedouins and Wahabys, II (London, 1831), pp. 162-63, 166; Bayard Taylor, Travels in Arabia, revised by Thomas Stevens (New York, 1893), pp. 221-23, 233.

man's burden." Zwemer founded the Moslem World Journal and later developed friendly relations with Ibn Saud. Missionaries found many difficulties in spreading the gospel in an area of devoted Muslims and thus shifted their activities from religion to education. Later, missionaries came to be described as "wonderful American ambassadors of goodwill."<sup>10</sup>

From the mid-1920s, some American newspapers began to have coverage of Saudi Arabia. The New York Times and Washington Post carried some accurate stories. The setting and nature of the events gave them a romantic and colorful aura, and it was in this context that Americans learned about Ibn Saud. As the news coverage of Arabia broadened in the 1930s and 1940s it was often inaccurate. In all, there was a gap between image and reality in American perceptions about Saudi Arabia. This approach was reflected primarily in unofficial reportage and commentary but present even in official sources. The approach developed before Saudi Arabia had acquired any importance in American foreign policy.<sup>11</sup>

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<sup>10</sup>Samuel M. Zwemer, Arabia: The Cradle of Islam (New York, 1900), pp. 5, 191, 237, and Islam: A Challenge to Faith, (New York, 1908), pp. 149, 152; Karl S. Twitchell, Saudi Arabia, 3d ed. (Princeton, 1958), p. 161; Louis P. Dame, "Objectives in Arabia," The Moslem World, 20, No. 2 (April 1930): 180, 184.

<sup>11</sup>The New York Times, October 5, 1924, p. 20 and March 8, 1930, p. 5; also Washington Post, August 1, 1930 p. 7; see for example Noel F. Busch, "The King of Arabia: Ibn Saud, a selfmade monarch from the time of Mohamed," Life, 14 (May 22, 1943): 17.

Until the close of World War I, among all other parts of the Ottoman empire, the Arabian peninsula remained to Americans one of the least known areas of the world. On the official level, the United States consul in Aden, the British Crown Colony on the southwestern tip of the peninsula, was the only American resident there.

The closest and earliest nonofficial contact of Americans with the Arabian peninsula was the small so-called Arabian Mission. It represented the dedication of two men, James Cantine and Samuel M. Zwemer. After learning Arabic in Syria, the two men began their work in the Persian Gulf area in 1890. In the early 1890s they established a center at Basrah (Iraq), and in a few years they expanded their activities into the Bahrain Islands and Muscat on the mainland. This remote outpost, with its handful of missionaries, came under the wing of the Dutch Reformed Church in 1894.<sup>12</sup>

Between 1900 and 1933 this mission witnessed a large expansion, particularly in medical activities. The Bahrain mission performed medical as well as educational work. The earliest hospital built there was the Mason Memorial. A women's hospital was added in 1927. The mission also operated separate elementary schools for boys and girls,

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<sup>12</sup>Richard S. Sanger, The Arabian Peninsula (Ithaca, 1954), pp. 190-91; Kenneth S. Latourette, The Great Century in North Africa and Asia (New York, 1914), p. 61; also Samuel M. Zwemer, "Open doors in Oman," The Missionary Review of the World, 14 (May, 1901): 321-26.

thus mixing medical with educational services. At Muscat, further south from Bahrain on the eastern tip of the peninsula the Dykstra Memorial Hospital was dedicated in 1934 by Dr. Dirk Dykstra. This hospital was financed in part by Charles A. Crane, a New York philanthropist who was a former trustee of Robert College at Istanbul, Turkey. Dr. Sarah Hosman, the first person to establish a women's clinic at Muscat, added another at Sahan, 140 miles northwestward from Muscat. These missions also operated book stores and some elementary schools for boys and girls. The mission's activities reached Oman in 1910, when Dr. Arthur K. Bennett arrived from Basrah to take charge of a hospital and dispensary. Dr. Paul Harrison extended the mission to the Sheikhdum of Kuwait, where he established a men's hospital in 1914. This was soon followed by the opening of a women's dispensary, undertaken by Dr. Eleanor Calverly. These missionaries exerted influence far exceeding their small number. This influence was not through their few converts but through medical work, which afforded an association with thousands of common people. There is no exaggeration in saying that they prepared a better climate for American oil men who followed.<sup>13</sup>

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<sup>13</sup> Alfred D. Mason and Frederick J. Barny, History of the Arabian Mission, (New York, 1926), chs. 7 and 8; Zahra Freeth, Kuwait is My Home (London, 1956), pp. 77-78; Paul W. Harrison, Doctor in Arabia (New York, 1940); Eleanor T. Calverly, My Arabian Days and Nights (New York, 1958); Sanger, The Arabian Peninsula, pp. 192-94.



Through these several missions on the fringes of the Arabian peninsula, direct contact was first made with the interior. In 1917 and 1919 Ibn Saud invited Dr. Paul W. Harrison to treat the sick. Dr. Louis P. Dame made several trips through Arabia, treated patients, and performed operations. More adventurous was Dr. Harold Strom, who reportedly treated 10,000 patients and performed 225 operations while travelling from Bahrain across the peninsula through Riyadh to the Red Sea.<sup>14</sup>

### III

On the official level, there was no American presence in Saudi Arabia prior to World War II, because the United States had nothing remotely like a national interest there. The United States government in general regarded all of Arabia as lying within the British sphere of influence. Official Washington took little interest in the expanding Saudi kingdom during the 1920s. A curious incident drew the attention of some American officials at that time. In July, 1925, when Ibn Saud's forces were defeating the Hashemites in Hijaz, Sherif Hussein's financial agent in

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<sup>14</sup>See Missionary Review of the World, 43 (July 1920): 600; 47 (November 1924): 868; 50 (November 1927): 821-23; 57 (March 1934): 119-121; 58 (December 1935): 610; 59 (May 1936): 266; 60 (January 1937): 21-25; 61 (January 1938): Paul W. Harrison, Doctor in Arabia; Sanger, The Arabian Peninsula, p. 388.

Alexandria, Egypt, called upon the American charge there, Stewart Johnson. The agent sought American intervention in the struggle and an American loan of £1 million. In return Hussein pledged a concession on mineral resources in Hijaz, including petroleum, and the custom receipts at Jiddah as security for the loan. When Johnson informed the agent that there was no likelihood of positive reception of the proposal the matter was dropped.<sup>15</sup>

Several European governments, meanwhile, recognized the Kingdom of Najd, Hijaz, and Dependencies, as the new Saudi state was called. In 1927, an American businessman inquired about the non-recognition and the non-existence of treaty relations between the United States and the new "Wahhabite Empire." The Department of State advised him that there seemed no need for establishing diplomatic relations with Ibn Saud.<sup>16</sup>

Negotiations for American formal recognition of the Saudi state seem to have been occasioned by the signing of

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<sup>15</sup>American charge d'affaires in Alexandria, Stewart Johnson to secretary of state, 14 July 1925, Department of State File 890b.01/9, Record Group 59, National Archives, Washington, D.C., all following files are from this group unless otherwise indicated (hereafter correspondence is followed by file number); secretary of state to American charge d'affaires at Alexandria, Stewart Johnson, 21 August 1925, 890b.01/37.

<sup>16</sup>John V. Watson of the Kenyon J. C. Jones Company, Westfield, New York, to the Department of State, 11 June 1927, 71190f/65; Department of State to John V. Watson, 3 June 1928, 711.90f/112.

the Treaty for the Renunciation of War (Kellogg-Briand Pact of 1928), in which some sixty nations renounced war as an instrument of national policy. During that time the United States government invited all sovereign states with which it had treaty relationships to sign the treaty. Fuad Hamza, the acting director of foreign affairs for the Saudi kingdom, sent a letter to Secretary of State Frank B. Kellogg on September 29, 1928. Hamza mentioned the desire of the United States to have all sovereign powers approve the pact. In this respect, he proposed that the United States and the Saudi kingdom "exchange diplomatic instruments of mutual recognition." Subsequently the government of Ibn Saud signed the treaty. The State Department, in reply to Hamza's proposal, instructed the American minister in Egypt to advise the king's representative there that the United States was not yet ready to reply positively to his proposal but that it would be given "sympathetic consideration."<sup>17</sup>

A few days later, Paul H. Alling, as assistant chief of the Near Eastern Affairs Division in the Department of State, wrote a long memorandum discussing recognition. On the negative side, Alling pointed out that Saudi Arabia had little

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<sup>17</sup>Legation of Najd and Hijaz in London, Fuad Hamza to American ambassador in London, 28 September 1928, 890f.01/8; secretary of state to American minister in Cairo, F. M. Gunther, 7 January 1929, 890f.01/15; American minister in Cairo, F. M. Gunther, to secretary of state, 19 February 1929, 890f.01/24.

commercial importance for the United States; it was not likely that American relations with the kingdom would increase noticeably; and if the United States extended recognition to Ibn Saud, it would entail a similar move toward the Imam of Yemen. On the positive side, Alling noted that Ibn Saud was an outstanding leader of one of the world's largest religions, that American economic relations and interests in Arabia might increase, that the king had established firm control in his kingdom, and that the United States had recognized rulers of less importance, like those in Afghanistan or Oman. Alling concluded that recognition was desirable.<sup>18</sup>

In 1930 the American vice-consul at Aden strongly recommended American recognition of Saudi Arabia. In a long memorandum he noted the rapid development of American trade there, especially in automotive equipment, and that Ibn Saud's government was interested in commercial contacts with the United States because of American "political disinterestedness."<sup>19</sup>

Alling's recommendation and that of the Aden consulate did not prevail. The department told the king's agent of the impracticality of recognition at this time. H. St. John

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<sup>18</sup>U.S. Department of State, Foreign Relations, 1930, III, 281 (hereafter cited as FR).

<sup>19</sup>American vice-consul in Aden, Cloyce K. Huston, to secretary of state, 6 May 1930, 711.90f/139.

Philby, an eccentric Arabist who left the British colonial service and became one of Ibn Saud's principal advisers, tried to influence the Department of State to keep the recognition question open. Philby's efforts were coupled with those of Ralph F. Chesbrough, assistant commercial attaché in the American consulate at Alexandria, and those of Ameen Rihani, an Arab-American writer with influence in the king's court. In a letter to the secretary of state, Philby noted that Saudi Arabia had treaties with Persia and Turkey, that Arabia's trade with the United States was increasing, and that President Hoover was interested in peaceful relations between states. Thus, United States should recognize Saudi Arabia. The State Department, in order to gather first-hand information, instructed Chesbrough to visit Saudi Arabia in the early summer of 1930 and report on potential commercial contacts. After spending a week in Jiddah, Chesbrough submitted his report, entitled "the Economic Resources and Commercial Activities of the Kingdom of the Hijaz, Najd and Dependencies." In this report Chesbrough surveyed the commercial interests of the United States, as well as some European countries. The report noted that 43 percent of the kingdom's imports, notably automobiles, were of American origin. Chesbrough reported optimism about future American trade with the kingdom and recommended that the United States should recognize the Saudi kingdom and establish at least a consulate at Jiddah. The report also noted that Ibn Saud

was apparently curtailing the purchase of American cars and turning to the Italian Fiat Company because of United States refusal to recognize his government.<sup>20</sup>

In an interview with the secretary of state on January 21, 1931, Ameen Rihani praised the efforts of Ibn Saud in settling the bedouins of the desert and in spreading justice and security in a land deprived of both for a long time. Rihani considered Ibn Saud the greatest personality in the desert since the days of the Muslim caliphs. In a memorandum of the conversation between the secretary of state and Rihani, William Murray, the chief of the Near East Affairs Division noted that he was informed by the Chevrolet and Ford distributors in the Middle East that Ibn Saud had stopped purchases of American automobiles and turned to European markets as a protest against United States refusal to extend recognition to his government. Despite these problems, Murray noted the willingness of Ibn Saud to extend a treaty of friendship. At the end of the memorandum, Murray recommended two procedures to be followed with regard to American recognition of Saudi Arabia: first, that the department inquire about the system of justice in the Saudi kingdom; and second, that the British Foreign Office, who

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<sup>20</sup>American Minister at Cairo, F. M. Gunther, to secretary of state, 11 January 1930, 890f.01/13, Gunther transmitted a letter from Philby; Gunther to secretary of state, 18 July 1930, 89f.01/19, the Chesbrough report dated 30 June 1930 was transmitted with this dispatch; FR, 1930, III, 281-83, and 1931, II, 547-50.

might be in a better position to advise about internal Saudi affairs, be consulted with regard to foreigners in that kingdom.<sup>21</sup>

The secretary of state reviewed the recognition matter with President Hoover late in January, 1931 and the president approved recognition on February 9. The State Department decided to negotiate with Ibn Saud's representative in London, and the American ambassador, Charles G. Dawes, commenced discussions with the Saudi minister in London, Hafiz Wahba. Dawes was instructed to determine the possibility of a treaty of friendship, commerce and navigation, to inquire about Saudi civil, commercial and criminal laws, and to ask the British Foreign Office about treatment of British subjects in the Saudi kingdom.<sup>22</sup>

On March 5, the American embassy in London delivered a memorandum to Hafiz Wahba, the Saudi minister, outlining the State Department's proposals concerning recognition. Meanwhile, the British Foreign Office gave assurances concerning the treatment of European nationals in Saudi Arabia. On April 1 the Saudi minister replied that the State Department's proposals were acceptable and that his government's

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<sup>21</sup>Ameen Rihani to Paul Alling of Near East Affairs, 10 January 1931, 890f.01/21; William Murray of Near East Affairs, "Memorandum of Conversation between Ameen Rihani and Secretary of State," 26 January 1931, 890f.01/27.

<sup>22</sup>Secretary of state to the American ambassador in Great Britain, Charles G. Dawes, 10 February 1931, 711.90f/21; FR 1931, II, 547-50.

response would surely be in the affirmative. On April 13 he officially informed the American representative of the Saudi government's readiness to negotiate a treaty of friendship, commerce, and navigation.<sup>23</sup>

In a dispatch to the American embassy in London on May 1, 1931, the secretary of state announced that

. . . the United States extends full recognition to the Government of His Majesty King Ibn Saud of the Hijaz and Najd and its Dependencies . . . At the same time pending an opportunity for the negotiation of a formal treaty of commerce and navigation, this government would be glad to enter into an exchange of notes with his government providing for reciprocal most-favored-nation treatment in such matters.<sup>24</sup>

On May 4 the Saudi minister acknowledged the information sent to him and added that his government

. . . is prepared to enter into an exchange of notes with the Government of the United States, pending the negotiation of a formal treaty of commerce and navigation, providing for reciprocal unconditional most-favored-nation treatment.<sup>25</sup>

Two years elapsed before a provisional agreement was signed. The major difficulties arose from the sensitivity

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<sup>23</sup>First secretary of the American embassy in London, Benjamin Thaw, Jr., Memorandum, 1 April 1931, 711.90f/45; and the same to secretary of state, 14 April 1931, 711.90f/49.

<sup>24</sup>Secretary of state to American embassy, London, 1 May 1931, 711.90f/52.

<sup>25</sup>Minister of the Royal legation of the Hijaz and Najd in London, Hafiz Wahba, to the American ambassador in London, 4 May 1931, 711.90f/53.



of the Saudis with regard to the sanctity of the Holy Places and the validity of the Arabic text of the agreement. The Americans meanwhile insisted upon a clear-cut most-favored-nation provision. The question relating to the Holy Places was settled by an exchange of notes--not incorporated in the agreement--which specified

. . . that [American] Government undertakes not to claim for American consular officers the privileges accorded to Moslem consular officers visiting and residing in Moslem Holy Places situated in the Kingdom of Saudi Arabia.<sup>26</sup>

Concerning the text of the agreement, the equal validity of the English and Arabic texts was accepted. Originally the Americans insisted that the English text should prevail. The agreement between the two countries was signed on November 7, 1933, by Robert W. Bingham, the new American ambassador to Great Britain, and Hafiz Wahba. The treaty provided for most-favored-nation treatment on the part of both countries, was typical of many treaties with respect to diplomatic and consular representation, juridical protection, and commerce and navigation, and was provisional and has remained so ever since. The significance of the

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<sup>26</sup>Saudi Arabian charge d'affaires in London, W. R. Zada, to the American ambassador in London, Andrew W. Mellon, 21 November 1932, 711.90f/81.

provisional agreement lay in the formal recognition of the Kingdom of Saudi Arabia by a big power.<sup>27</sup>

By 1932, American relations with Saudi Arabia and the Arab east were negligible. Cultural and philanthropic contacts, exemplified in missionary activities starting in the late 1890s, were America's major preoccupation with that part of the world. United States contacts with Saudi Arabia were too small to call for diplomatic and consular recognition. Negotiations for the latter were occasioned by the signing of the Treaty of Paris, in 1928. Only after four years of a deliberate and cautious approach did the United States extend diplomatic recognition of the Kingdom of Saudi Arabia; and a provisional agreement of friendship, commerce, and navigation was signed in 1933. During these negotiations, however, much was happening in Saudi Arabia that would not only affect its relations with the United States, but would bring a profound change in the kingdom.

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<sup>27</sup> Secretary of state to the American ambassador in Great Britain, Andrew W. Mellon, 18 October 1932, 711.90f/62; documents relating to the negotiations of this agreement are found in FR, 1933, II, 986-1001.

CHAPTER II

AMERICAN OIL INTERESTS IN THE  
PESIAN GULF BY 1932

The military experience of the great powers in the First World War emphasized their need for the acquisition of petroleum resources outside their national boundaries. In the Middle and Near East, Great Britain, and to a lesser extent France, became the heir of the disintegrated Ottoman Empire. At the San Remo Conference in 1922, both agreed to share the political as well as the economic spoils of the Middle East. United States interests felt that they had been shut out of the area. Thus, in the early 1920s, Washington tried to push the British into accepting American oil interests there. After a controversy which lasted two years and required lengthy diplomatic correspondence, the British permitted an American oil industry group to share in the Middle Eastern oil hunt. In Saudi Arabia, the first oil concession was granted in 1923 to a British company. Ibn Saud cancelled the concession when the company violated its provisions. The king, meanwhile, solicited the help of American business to develop mineral and water resources in his kingdom. Discovery of oil in Bahrain Island in 1931 by an American company induced that company to seek Ibn Saud's

approval for a concession in al-Hasa, which was believed to have the same geological structure as Bahrain.

# I

Before 1914, American oil companies produced oil in only two foreign countries, Mexico and Rumania. During the First World War there arose the conviction that petroleum was indispensable for the defense and commerce of a great power. This belief, coupled with the fear of a possible oil shortage in the United States, produced strong pressures on Washington to forge a more dynamic oil policy abroad.

Within official circles, the Bureau of Mines was most influential in pushing for a new policy. Mark L. Requa, a consultant engineer for the bureau, demonstrated in 1916 that the United States would have to rely on foreign oil to supplement its domestic supplies. The director of the bureau, Van H. Manning, supported Requa's views.<sup>1</sup>

Franklin K. Lane, Secretary of the Interior between 1913 and 1920, added his voice to the alarm and pointed out that Americans abroad should have equal opportunities with other nationals to enter foreign oil fields. Moreover, the director and the chief geologist of the United States Geological Survey, George O. Smith and David White, saw the hands-off

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<sup>1</sup>John A. DeNovo, "The Movement for an Aggressive American Oil Policy Abroad, 1918-1920," American Historical Review, 61 (1956): 854-76.

attitude of the United States government as a stumbling block to American development of foreign oil fields.

In the private sector American commercial oil companies agreed to collaborate under the National Petroleum Service Committee. This collaboration proved so successful that in March, 1919, it led to the formation of the American Petroleum Institute, a trade association through which the oil companies hoped to enjoy the benefits of collective action.

Thus, agencies of the federal government and the oil industry joined efforts to pressure the executive branch to support oil business abroad. In view of these pressures, American diplomatic officials were instructed in 1919 to give special attention to helping American oil interests in obtaining oil concessions abroad.<sup>2</sup>

Aware of these developments, Congress passed the Mineral Leasing Law in 1920. It called for the denial of any privileges in the United States to foreigners whose governments did not act reciprocally. This concern over oil, which lasted about two years, subsided by the end of 1920.<sup>3</sup>

These events formed the background for the clash of American and British oil interests in the Middle East at the close of World War I. This Anglo-American controversy started in March, 1919, when the Standard Oil Company of New York (Socony) requested the assistance of the Department of

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<sup>2</sup>Ibid., pp. 869-70.

<sup>3</sup>Ibid., p. 874.

State against what were considered high-handed British policies in the Near East. In the complaint, the company alleged that its agent in Jerusalem, Ismail H. El-Hussaini, and its surveyors, were restricted in their movements. The British authorities did not permit the company's geologists to continue work on surveys started before the war. British government officials there also acquired access to company maps and papers. The company pressed the department to challenge the British position because it interfered with legal American commercial rights and retarded oil development important to the United States. Meanwhile, the American oil industry, through the American Petroleum Institute, was exerting pressure on the Department of State, and a general campaign for government action was rising in Congress. Socony's complaint was the first among many leveled at British authorities in the Middle East.<sup>4</sup>

Socony also sent two geologists to Iraq to search for oil. The British authorities refused to give them permission to survey the area, although some British geologists had been working there for a long time.

British actions in Palestine and Iraq implied a protectorate, not a mandate, in those two areas. Accordingly the

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<sup>4</sup>U.S. Senate, Congressional Record, 66th Cong., 1st sess., 1919, p. 3303-3310, 4161-70, 4282-83 (hereafter cited as CR); for the detailed correspondence between the American and British governments on this subject see FR, 1919, I, 163-71; 1920, I, 350-370, II, 651-73.

United States government started shaping its position by merging oil grievances with the larger and more fundamental issue of the mandate system. The United States had not yet acted on the Versailles Peace Treaty, and there was still hope that the United States would join the League of Nations.

In October, 1919, the Department of State insisted that the British government live up to the principle of the mandate system agreed upon by the big powers. According to this principle, a mandatory power was required to secure certain things for all members of the league: equal protection and rights in the acquisition of immovable property, complete commercial, economic, and industrial equality, and freedom of transit. The Council of Four (the United States, Britain, France, and Italy) in the Versailles negotiations agreed that there should be no discrimination on concessions in the Levant. The Department of State linked this agreement directly to the claims of Socony in Palestine and Iraq, and expected all American firms to have privileges equal to those of the British or other nationals in that area. The British government countered that the occupying authority should refrain from compromising the freedom of a future authority to develop mineral resources.<sup>5</sup>

After the United States rejected the League Treaty in 1920, the Department of State's argument rested on American's

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<sup>5</sup>FR, 1919, II, 259-61.

contribution to the Allied victory in the war. Failing to receive satisfaction, the department handed a strong protest to the British Foreign Office in February, 1920, and Congress included the discriminatory clauses in the Mineral Leasing Act signed by Wilson on February 25, 1920.<sup>6</sup>

Secret Anglo-French negotiations during World War I led the two countries to give false promises and hopes to the peoples of the Near East while secretly dividing their territory. The case in question was the secret Sykes-Picot agreement of 1916, according to which France was to have Syria and Lebanon as mandate territory, while the British would have Palestine, Jordan, and Iraq. Concurrently, the British promised to support Sherif Hussein of Mecca and the independence of the Arab provinces of the Ottoman Empire (called greater Syria--and including Syria, Lebanon, Palestine, Jordan, and Iraq), if he revolted against the Ottomans. Sherif Hussein revolted in June, 1916, and was influential in the Allied victory against Turkey in World War I. Nevertheless, Britain and France divided the area into mandate territories.

These diplomatic maneuvers continued after the end of the war. In the Allied gathering in San Remo, Italy, in September 1920, the two powers took advantage of the meeting to sign the San Remo oil agreement, by which France obtained

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<sup>6</sup>CR, 66th Cong., 2d sess., 1920, p.3500.



the German interest in the Turkish Petroleum Company (TPC), owned by the British government, and thus secured a share in the potential oil production of Mesopotamia. In exchange, France would permit the building of a British pipeline across Syria and Lebanon (a French mandated territory) to a Mediterranean terminal, and the construction of port facilities. Moreover, British, French, and Dutch interests devised plans to consolidate these interests into a single organization.

The United States ambassadors in London and Paris knew about the deal a few months before the signing of the agreement. Hugh Wallace, ambassador to Paris, noted that the combination of these interests was designed to put an end to the competition between them, to prevent entry of American companies in the new Near Eastern oil fields, and to divide equally all oil interests in Asia Minor. Thus American interests faced a shut-out, and there was increased United States mistrust of England, France, and the Netherlands. The American ambassador to London delivered a strong note to the Foreign Office in which he implied that Britain was trying to corner the world's oil and reminded Britain that the United States had helped to win the war and was entitled to a share of the spoils.<sup>7</sup>

Walter Teagle, the president of Standard Oil Company of New Jersey, one of the American companies interested in

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<sup>7</sup>For the text of the San Remo oil agreement see FR, 1920, II, 665-68.

oil development in Mesopotamia, appealed to the Department of State to intervene on behalf of the American interests and invoke the open door principle. Secretary of State Charles Evans Hughes was encouraging.<sup>8</sup>

The State Department began a series of protests against the British. On May 12, 1920, the department reiterated the principles governing the mandate system and insisted on United States participation in any oil discussions, because it had a vested interest in the principles involved.<sup>9</sup>

On July 28, 1920, the Department of State reiterated in another note the same principles, but now referred specifically to the San Remo oil agreement. The agreement, the note asserted, was a violation of the Versailles Treaty on mandates. In reply, the British government asserted that American complaints were unwarranted, and that the mandate terms could properly be discussed only in the League Council by signatories of the Covenant.<sup>10</sup>

The United States carried its complaint directly to the League, which made no decision on the matter during its September, 1921, meeting. Nonetheless, the British government modified its position slightly at the end of 1921, and agreed not to propose or accept any changes in mandate terms without previous consultation with the United States.

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<sup>8</sup>Secretary of state Charles Evans Hughes to Walter C. Teagle, 22 November 1921, in FR, 1921, II, 87-88.

<sup>9</sup>FR, 1920, II, 651-55.

<sup>10</sup>Ibid., 658-59.

Moreover, London disclaimed any intention of refusing full equality of opportunity to American firms.

In a move of their own, American oil companies devised a scheme to negotiate a commercial agreement with the member companies of the TPC. The Department of State supported this move.<sup>11</sup>

With the advent of the Warren G. Harding administration, Secretary of State Charles Evans Hughes and Secretary of Commerce Herbert Hoover began a reappraisal of the American oil problem. In their view, the oil industry would oppose governmental policy which would impose restrictions on private enterprise. R. L. Welch, counsel for the American Petroleum Institute, for example, opposed the Phelan Bill in Congress which provided for a government-controlled oil corporation, and also opposed another measure, which proposed an embargo on oil exportation.<sup>12</sup>

The director of research for the American Petroleum Institute, Van H. Manning, proposed formation of a syndicate of the principal American companies to operate American oil interests in Mesopotamia. The Department of State wanted to examine various suggestions for the solution of the Anglo-

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<sup>11</sup>Ibid.

<sup>12</sup>U.S. Department of Commerce, Director of the Bureau of Foreign and Domestic Commerce, Annual Report, (1922), p. 52; also Secretary of Commerce, Tenth Annual Report, (1922), pp. 11, 69-70; for more detail on these bills see DeNovo, "The Movement for an Aggressive American Oil Policy Abroad, 1918-1920," 856-59.

American oil controversy on the diplomatic level before endorsing the Manning proposal. At the same time, the British oil industry suggested a deal granting American companies a minority interest in the British-owned TPC.<sup>13</sup>

In an effort to convince American companies to take advantage of the British suggestion, the secretaries of commerce and state worked out details of cooperation in April 22, 1921. On June 3, Walter C. Teagle, president of the Standard Oil Company of New Jersey, informed the Department of State that seven companies had agreed to explore prospective oil areas in Mesopotamia. The State Department now encouraged efforts of the oil companies in direct negotiations with the TPC. The American group needed and wanted this diplomatic support. They proceeded on the assumption that they stood the best chance of attaining their goal under the principle of the open door. The efforts by the American group looked successful as negotiations continued through late summer, 1921. The main obstacle, obvious at the Lausanne conference of 1922, was the percentage of the share to be allowed the Americans in this scheme.<sup>14</sup>

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<sup>13</sup>DeNovo, "The Movement for an Aggressive American Oil Policy Abroad, 1918-1920."

<sup>14</sup>FR, 1922, II, 339-45; the seven American companies were: Standard Oil Company of New Jersey, Standard Oil of New York, Texas Oil Company, Atlantic Refining Company, Gulf Oil Company, Pan American Oil Company, and Sinclair.

In the United States, there were two groups trying to establish oil rights in the Middle East. The first included the seven companies who were negotiating with the TPC; the second was a syndicate brought together by Admiral Colby M. Chester, which was negotiating with Turkey for American railroad and petroleum rights in Musil (Iraq); a third group, less important and outside the United States, represented heirs of Abdul Hamid, the Turkish Sultan who had fallen from power in 1908. Its claims were based on the allegation that Mesopotamian oil lands were among the Sultan's personal holdings before the 1908 revolution. Descendants of the Sultan agreed to turn over their rights to a corporation which would promote and try to validate them. Samuel Untermyer, an American attorney, became legal counsel for this corporation, and he showed up at Lausanne to press its case. The first group continued negotiations with the TPC; the attempts of the Chester group collapsed in the summer, 1922; the heirs of Abdul Hamid were not taken seriously. The Mesopotamian oil development was left to the first group.<sup>15</sup>

Finally by August, 1922, under sustained pressure from the Department of State, the Foreign Office agreed to give the American companies a 12 percent share in the TPC, and

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<sup>15</sup>Stephen H. Longrigg, Oil in the Middle East, its Discovery and Development, (London, 1954), p. 68.

eventually 20 percent. Washington had pushed open the door into Iraq, and American oil companies were eager to step in. Direct negotiations between the American oil group and the TPC commenced in September, 1922, and lasted for about six years. On July 31, 1928, the TPC and the American group of seven companies signed an agreement.<sup>16</sup>

One of the major figures in the negotiations was Calouste S. Gulbenkian. Gulbenkian was an extraordinary Armenian entrepreneur of British nationality. As a young graduate from Constantinople University he became convinced that there was oil along the Tigris and Euphrates rivers in Mesopotamia (later to become Iraq). In 1914 he put together a syndicate called the Turkish Petroleum Company, and thus became one of the originators of oil exploration and development in Mesopotamia. He was the first of the lone operators to enrich himself from the Middle East. During the negotiations Gulbenkian insisted that each partner in the enterprise would undertake not to seek concessions in the former Ottoman Empire--including Turkey down to Syria, Lebanon, Palestine, Jordan, Iraq, and all of the Arabian peninsula--without the unanimous approval of all participants. With a red pencil Gulbenkian drew a line on the map around

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<sup>16</sup>U.S. Senate, Special Committee Investigating Petroleum Resources, American Petroleum Interests in Foreign Countries: Hearings, Petroleum Resources, 79th Cong., 1st sess., June 27-28, 1946, p. 272.

that area which included all the great future oil producing countries of the Middle East except Iran and Kuwait. Thus came into being the greatest "carve-up" in oil history, to be known ever since as the "Red Line Agreement."<sup>17</sup>

The American group, after withdrawal of two companies (Sinclair and Texas), was incorporated in February, 1928, as the Near East Development Corporation. Subsequently the name of the TPC was changed in 1929 to the Iraq Petroleum Company (IPC). The new company, formed by the signing of the agreement, included the Anglo-Persian Oil Company, the Royal Dutch-Shell Oil Company, the Compagnie Francaise des Petroles, and the Near East Development Corporation (the American group). According to the agreement, each company participated with 23.75 percent of the capital investment, while Gulbenkian participated with 5 percent. The concession of the IPC covered nearly all of Iraq. Large scale production by IPC got under way after discovery in 1927 of the Kirkuk oilfield in northwest

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<sup>17</sup> Ibid.; see also U.S. Federal Trade Commission, The International Petroleum Cartel: Staff Report to the Federal Trade Commission Submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, Committee Print No. 6 82d Cong., 2d sess., 1952, p. 63.

Iraq. Oil development in the Middle East by 1930 was confined to exploration and production in Iraq and Iran.<sup>18</sup>

The door had been nudged open to the Middle East, and American companies were determined to remain there. In the IPC the American group was sharing in the oil hunt in Iraq and on the fringes of the Arabian peninsula, but the self-denial provision of the Red Line Agreement barred participants from new concessions. Gulf Oil Company, for example, experienced difficulty when it became interested in a concession in Bahrain. The initiative for new oil concessions in the area came from outside the IPC.<sup>19</sup>

## II

The story of oil concessions in Saudi Arabia goes back before Saudi Arabia was a political entity, and before Ibn Saud became a prominent figure in the peninsula. As previously mentioned, Ibn Saud became the undisputed ruler of Najd in 1914 after subduing rival tribes in the area. He was also struggling to maintain a semi-independent state to guarantee his position vis-à-vis his neighbor-enemy,

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<sup>18</sup>Stephen H. Longrigg, Oil in the Middle East, its Discovery and Development, p. 68; George C. Gibb and Evelyn H. Knowlton, The Resurgent Years, 1911-1927 (New York, 1956), pp. 301-05; for an extensive account of the American government intervention on behalf of oil companies see Henry S. Fraser, Diplomatic Protection of American Petroleum Interests in Mesopotamia, Netherland East Indies, and Mexico (Washington, D.C., 1945).

<sup>19</sup>"The Great Oil Deals," Fortune, 35 (May, 1947): 142.



Sherif Hussein of Mecca, in the Hijaz region. Since Britain was the protectorate power of all the Persian Gulf Arabian emirates Ibn Saud followed the procedure of other Persian Gulf Sheikhdoms and signed a treaty establishing protectorate relations with the British on December 26, 1915. The British recognized the independence and territorial integrity of Najd and granted Ibn Saud a monthly subsidy of £5,000 on condition that he not attack Sherif Hussein. In return, Ibn Saud recognized British control of the foreign relations of Najd. Moreover, he agreed not to

cede, sell, mortgage, lease . . . or grant concessions within those territories to any foreign power, or to [its] subjects, without the consent of the British government.<sup>20</sup>

This provision of the 1915 treaty and the self-denial clause of the July, 1928, oil agreement among the participants in the IPC brought no rush of concession seekers to Saudi Arabia.

Frank Holmes, a representative in Bahrain for the Eastern and General Syndicate (EGS), a British company established by London speculators, attempted in the early 1920s to obtain oil concessions in the Persian Gulf area with the intention of selling rather than operating them. Holmes, a genial and energetic New Zealand adventurer, had travelled and worked in different parts of the world. At

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<sup>20</sup>Arnold Toynbee, Survey of International Affairs, 1925, I, The Islamic World (London, 1927), pp. 281-82.

one time he worked for the British Admiralty, where he became familiar with confidential oil maps and research data. Fascinated by what he read, Holmes decided to go to the Persian Gulf area. In the early 1920s he went to Bahrain to investigate possibilities of developing water resources but his major interest was oil. As early as 1914, knowledgeable persons suspected that oil existed in Bahrain, but casual exploration did not indicate its presence in commercial quantities. Holmes reasoned that if oil existed in Bahrain, it might also be found on the mainland--al-Hasa--twenty-five miles to the west. He was able to see Ibn Saud once in late summer, 1922, but Ibn Saud had little interest in granting a concession to foreigners. Ibn Saud did agree to consider a formal and detailed proposal if Holmes submitted one.<sup>21</sup>

Holmes' attempts to contact Ibn Saud annoyed the British commissioner in the area and representatives of the Anglo-Persian Oil Company. When British authorities in Baghdad denied travel facilities for Holmes to visit Ibn Saud in Riyadh, the entrepreneur sent his proposal to the king.

In November, 1922, Sir Percy Cox, the British high commissioner for Iraq, and Ibn Saud planned a meeting to settle border incidents. Holmes heard of the pending meeting

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<sup>21</sup>Abbas Farougy, The Bahrain Island: 750-1951 (New York, 1951), p. 124.

scheduled at Ojair, an al-Hasa border town with Iraq, and viewed it as an opportunity to see Ibn Saud.

Holmes showed up at the meeting. Meanwhile, Ibn Saud had sent Holmes' concession proposal to Ameen Rihani in Ojair to work on its Arabic translation. Rihani, the Arab-American, was on a visit to Baghdad. With the permission of Percy and Ibn Saud's invitation, he wanted to meet Ibn Saud and make himself useful, especially concerning the Holmes proposal, which was lacking a competent Arabic translation. Reportedly, Cox told Holmes not to press Ibn Saud for an oil concession. Cox believed the request for a concession was premature, and besides, the British government was in no position to afford protection to any concession Holmes might negotiate in al-Hasa. The truth of the matter was that Sir Arnold Wilson, the president of the Anglo-Persian Oil Company at Abadan (Iran), had written to Cox that he was coming to the Ojair meeting to discuss an oil concession with Ibn Saud. Cox was supporting the Anglo-Persian Oil Company, which had the British government behind it, and thus Holmes' persistence annoyed Cox.<sup>22</sup>

Ibn Saud then had two prospective concession offers: Holmes' and the Anglo-Persian. He was suspicious of British political motives and was inclined to accept Holmes'

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<sup>22</sup>An extensive account of the Ojair meeting and the activities of Holmes and others is found in Ameen Rihani, Ibn Sa'aud of Arabia: His People and His Land (London, 1928), 79-87.

proposal, but decided to leave the matter to Cox and accept what he and Holmes agree upon. Cox encouraged Ibn Saud to refuse Holmes' concession and asked him to write a letter to Holmes indicating that the king could not give his decision until he had consulted with representatives of the British government. Cox prepared such a letter and asked Ibn Saud to sign it. Ibn Saud hesitated but finally did sign the letter. Holmes departed for Baghdad to await Ibn Saud's decision.<sup>23</sup>

On December 2, 1922, Ibn Saud and Sir Percy signed the Protocols of Ojair, which settled the Najd and Iraq boundaries. Ibn Saud returned to Riyadh with Rihani, who counseled the king that he was free to grant an oil concession to whatever company he pleased as long as it was British. Rihani told Ibn Saud that the British government could not dictate the choice and that Holmes was not as involved politically as was the Anglo-Persian Oil Company, whose major stockholder was the British government, a supporter of Ibn Saud's enemy, Sherif Hussein, in the Hijaz region. Thus, because of the nonpolitical involvement of the EGS, Ibn Saud decided to grant the concession to Holmes.<sup>24</sup>

In August 1923, Ibn Saud, with approval of the British authorities in Baghdad, granted an oil concession in al-Hasa

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<sup>23</sup>Ibid.; H. St. John B. Philby, Arabian Jubilee (London, 1952), pp. 68-69.

<sup>24</sup>Ibid.

to Holmes' EGS. The major provisions of this concession were that EGS pay in advance £2,000 as an annual rental for prospecting rights, that there be a lien on a concession to be negotiated later when oil was discovered, that immediate steps for exploration should be undertaken by the company, and that the Saudi government have the right to cancel the concession should the company fail to pay the rental on the due date or if the company discontinued exploration work for a period of eighteen months. The EGS sent exploration crews and geologists to al-Hasa; and after payment of the first and second year's rentals to Ibn Saud, exploration continued during 1923 and 1924, without positive results.<sup>25</sup>

Meanwhile, Holmes was searching for an oil company to take an option on the concession, but he could not interest anyone. Insurmountable technical difficulties in exploring for oil in an inhospitable desert land discouraged potential buyers, and Holmes was left with the concession. In the third year the EGS stopped its payment to Ibn Saud and cancelled explorations. Consequently, in 1928, Ibn Saud sent a warning to the company that unless it resumed exploration and paid immediately £6,000 for the overdue rental, he had no obligation to continue the concession. When the company did not respond, Ibn Saud regarded the Holmes concession as nullified. The EGS thereby relinquished one of the greatest

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<sup>25</sup>Ibid.

oil pools in the world. As late as 1932, the al-Hasa region was still available for concessions, when the discovery of oil in Bahrain Island encouraged prospects on the mainland.<sup>26</sup>

As noted earlier, Ibn Saud's domain expanded to the rest of the Arabian peninsula in the 1920s by the annexation of Hijaz and the expulsion of Sherif Hussein. These events led to two important results. One, of most importance, was the strain on Ibn Saud's finances brought by the war with the Sherif and the reduced number of pilgrims to Mecca, which provided most of his revenue. The second was that Ibn Saud's relation with the British was no longer considered that of a protectorate, since the treaty of Jiddah of 1927 removed the restrictions of the 1915 treaty. Consequently, in the early 1930s Ibn Saud was ready to encourage concessions for the development of his country's natural resources.

At about the same time, Ibn Saud became acquainted with a New York philanthropist and industrialist, Charles A. Crane. It was through Crane that American business first moved into Saudi Arabia. Crane had lived in Egypt when he was young, and became especially interested in the Arab world. In 1919 he had served on the King-Crane Commission, which was concerned with British and French mandates in Syria, Palestine, and Lebanon. He was later a director of

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<sup>26</sup>Ibid.

Robert College in Istanbul, and a patron of all things Arabic. In the early 1920s he was appointed United States minister to China. There he became interested in Yemen through the stories he heard from Charles Moser, a former American consul at Aden, the British crown colony at the southern entrance to the Red Sea. In 1926 Crane contacted Imam Yahya of Yemen and visited San'a, the capital, in the same year. During that visit he offered the Imam the services of Karl S. Twitchell, an American engineer, to explore the country for minerals. Twitchell had previously carried on such economic development programs for Crane in Ethiopia. Between 1926 and 1931 Twitchell made several trips to Yemen, where one of his unusual accomplishments was the construction of a steel bridge, a gift from Crane to the Imam and people of Yemen.<sup>27</sup>

Ibn Saud had heard of Crane's activities from the Imam of Yemen and from the Department of State. The king, due to strains on his country's finances, as mentioned earlier, had instructed his finance minister late in 1929 to seek help from a western power. Suspicious of British motives, the Saudi minister, Abdullah Sulaiman al-Hamdan, turned to the United States. In January, 1930, he wrote a letter to President Hoover in which he requested the loan of American

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<sup>27</sup>Karl S. Twitchell, Saudi Arabia: With an Account of the Development of its Natural Resources, 2d ed. (Princeton, 1953), pp. 139-140; Sanger, The Arabian Peninsula, pp. 243-44.

geological experts to explore Hijaz for mineral resources. The president sent the request to the Department of State, which in turn transferred it to the Bureau of Mines. The latter prepared a list of twelve American experts in geological surveys. The State Department, receiving the bureau's list, added to it the name of Karl S. Twitchell, who, as pointed out in the department's letter, was employed by Charles R. Crane in Yemen. The American minister in Cairo transmitted the report to the Saudi representative there.<sup>28</sup>

Ibn Saud seemed especially interested in Crane and Twitchell. The recommendations of the Imam of Yemen and of the State Department, coupled with Crane's activities in Yemen and his general interest in the Arab world, seemed to have disposed the Saudi king to cultivate the friendship of Crane. Accordingly, Ibn Saud told his adviser, H. St. John Philby, that he would be happy to meet Crane in early 1931. Philby relayed the message to Crane, who readily accepted the invitation.<sup>29</sup>

Accompanied by George Antonious, an American with Arab ancestry, Crane arrived at Jiddah on February 25, 1931.

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<sup>28</sup>Shiekh Abdullah Sulaiman to President Herbert Hoover, 20 January 1930, 711.90f/3; Wallace Murray of Near East Affairs to director of the Bureau of Mines, Scott Turner, 28 February 1930, 711.90f/11; director of the Bureau of Mines, Scott Turner, to Wallace Murray of Near East Affairs, 17 March 1930, 711.90f/12; acting secretary of state, G. Howland Shaw, to American minister in Cairo, Franklin M. Gunther, 26 March 1930, 711.90f/15.

<sup>29</sup>Philby, Saudi Arabia, p. 330.



During the week's visit the king and Crane discussed various economic projects, but Ibn Saud was especially interested in developing water supply projects for the Hijaz region. At the end of the visit, Crane offered his host the services of Twitchell for six months. The Saudi government would provide Twitchell with transportation and necessary facilities.<sup>30</sup>

Crane instructed Twitchell, who was at the time in Yemen, to proceed to Jiddah to make a study of water supply possibilities in Hijaz. Twitchell arrived in Jiddah on April 12, 1931. After two months of exploratory work in Hijaz he submitted a report to Ibn Saud. The report was discouraging on water but very encouraging on oil and gold. Conferring with the king and his advisers, Twitchell recommended a limited water supply program for Jiddah and an extensive mineral resources survey. He then left for New York to report to Crane. The latter approved Twitchell's work and permitted him to return to Saudi Arabia for another six months. During his stay in New York, Twitchell talked to several businessmen about developing mineral deposits in Saudi Arabia, but there was little interest. Some company executives, Twitchell reported, "think that Hijaz is the name of a drink."<sup>31</sup>

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<sup>30</sup>Twitchell, Saudi Arabia, pp. 140-41; Philby, Arabian Jubilee, pp. 164-65.

<sup>31</sup>Twitchell, Saudi Arabia, p. 141-43; Philby, Arabian Jubilee, 164-65.

Discouraged in his endeavors, Twitchell returned to Saudi Arabia, where he improved the Jiddah water supply. After directing an exploration team moving eastward from Jiddah in an unsuccessful search for minerals near Ta'if, he went to al-Hasa, where he joined the royal camp north of Riyadh and met Philby for the first time. After a few days Twitchell roamed across the sand dunes of the al-Hasa along the Persian Gulf coast. He was the first trained American geologist to explore that region. On January 10, 1932, Twitchell informed the king that oil might exist in the region. He advised the king to await the results of the first test well on Bahrain Island. If the Bahrain test well proved positive, reasoned Twitchell, then it was most likely that oil would be found in the al-Hasa. Ibn Saud, who knew neither the scientific and technical complexities and costs involved in oil exploration, suggested that his government try to obtain a loan from the United States to develop potential oil resources in the al-Hasa. Twitchell recommended instead a concession to an American company.<sup>32</sup>

Late in January Twitchell returned to Jiddah and until early March he sought gold near Ta'if. The area is the location of some ancient mines at Mahd al-Dahab "cradle of gold," which was believed to be the Biblical land of Midian and the location of King Solomon's mines. Twitchell saw

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<sup>32</sup>Twitchell, Saudi Arabia, pp. 143-46.

that these mines had been worked but that they still contained minerals which could be developed in commercial quantities. His authorized stay, however, had lapsed, and on instructions from Crane he left Jiddah on March 7, 1932, for another assignment in Yemen.<sup>33</sup>

Twitchell's work won the trust of the king, and the latter asked him to return to Jiddah, this time at the expense of the Saudi government. On April 26, 1932, Twitchell returned and continued his exploration for gold in the Hijaz, especially at the Mahd al-Dahab. On May 25, Twitchell joined a conference of the king's advisers to discuss development possibilities. The conference included Abdullah Sulaiman, the finance minister, and Yusif Yaseen, the king's secretary. Sulaiman reported that because of the drop of the number of pilgrims to the Holy Places, the general world depression, and the strained finances from the king's war with the Sherif in Hijaz, the Saudi government could not finance any development programs. Sulaiman suggested that Twitchell seek investment capital in the United States. Twitchell replied that he was "an engineer and not a promoter," but that he would do his best in this regard, under two conditions: that Charles Crane be included in any arrangement, and that the king authorize Twitchell in writing to speak for the Saudi government in negotiations with American business firms.<sup>34</sup>

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<sup>33</sup>Ibid.

<sup>34</sup>Ibid., pp. 146-50.

In early June, 1932, Twitchell sailed back to the United States. His objective, as agreed upon in the conference of the king's advisers, was to promote American capital investment in mineral or oil development in the Saudi kingdom. When Twitchell discussed with Crane the latest developments, Crane declined to participate in any company to exploit mineral resources in Saudi Arabia, but gave Twitchell wholehearted support in his quest to find such a company.<sup>35</sup>

Ibn Saud meanwhile was casting about for financial aid from other directions. The king at first turned to the British who had granted him loans and subsidies before. The British agreed to grant Ibn Saud a loan of £500,000 on condition that he appoint a British finance administrator for Arabia and that he grant a fly-over right for British commercial airlines. These conditions were not acceptable to the king, and he sent his son Faisal to Europe to discuss the question of a loan from private companies or governments. Faisal toured Italy, France, and Great Britain without success. Reportedly the Soviet Union, who had not been asked, offered Ibn Saud a loan but on conditions not acceptable to the king. Thus Ibn Saud became dependent on

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<sup>35</sup>Ibid.

the outcome of Twitchell's quest to find an American company interested in Arabian development.<sup>36</sup>

According to Twitchell's account, he first contacted James T. Duce, president of the Texas Oil Company (Texaco), who declined to make any investment in Arabia. Duce suggested that the Near East Development Corporation--the American consortium sharing in the IPC--or Standard Oil Company of California (Socal) be approached. Twitchell then communicated with the former and with Gulf Oil Company. Both Gulf and the Near East Corporation declined because they were signatories to the Red Line Agreement of 1928, with its self-denial provision.<sup>37</sup>

Two major reasons accounted for the negative attitude of the companies approached by Twitchell. Foremost was the depression, at its worst in 1932 and 1933; most industrialists were not thinking in terms of expansion. Also, the rich East Texas oil fields were discovered in the late 1920s. That discovery lessened the oil companies' interest in overseas concessions. To the oil industry the problem was no longer one of supplementing shrinking

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<sup>36</sup>American minister in Baghdad, Alexander K. Sloan, to secretary of state, 12 March 1932, 711.90f/8; American charge d'affaires in London, Ray Atherton, to secretary of state, 7 March 1932, 711.90f/4; and American consul in Jerusalem, Paul Knabenshue, to secretary of state, 9 July 1932, 711.90f/16.

<sup>37</sup>Twitchell, Saudi Arabia, 148-50.

United States reserves but one of over-supply and conservation.<sup>38</sup>

Finally Twitchell turned to Socal, whose attitude seemed encouraging from the beginning. What Twitchell apparently did not know was that Socal had been trying for the previous two years to get in touch with Ibn Saud to negotiate a concession in the al-Hasa region. What prompted Socal's interest in such a concession? Therein lies a story which began in 1926.<sup>39</sup>

### III

Major Holmes, as noted earlier, was the EGS representative in Bahrain. The EGS was more interested in selling concessions than developing them. Holmes bought an oil concession from the Sheikh of the Bahrain Islands in 1926, which was commonly known as the Holmes Concession. The EGS attempted without success to interest British companies in the Bahrain concession. Among the companies Holmes had contacted was Eastern Gulf Oil Company, a subsidiary of Gulf Oil Company. After prolonged bargaining, the EGS sold its Bahrain concession to Eastern Gulf on November 30,

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<sup>38</sup>Raymond F. Mikesell and Hollis B. Chenery, Arabian Oil: America's Stake in the Middle East (Chapel Hill, North Carolina, 1949), pp. 2-3.

<sup>39</sup>Twitchell, Saudi Arabia, 149-50.

1927. The agreement carried an expiration date of January 1, 1929.<sup>40</sup>

Eastern Gulf Company promptly sent its geologists and surveyors to Bahrain. Although their reports were encouraging, further explorations were suspended because Gulf became a participant in and signatory to the Red Line Agreements. Gulf's position seemed untenable. Did the Red Line Agreement include Bahrain? If so, would the TPC be interested in buying and developing Gulf's concession in Bahrain? Gulf's representatives took their case to the directors of the TPC. On October 31, 1928, the directors decided that Bahrain did lie within the Red Line area, that the TPC would not exercise Gulf's concession rights, and that Gulf would not be permitted to develop its Bahrain concession, because it violated the self-denial provision of the Red Line Agreement.<sup>41</sup>

Meanwhile, Socal, which was not a member of the Red Line Agreement, became interested in oil ventures in the Middle East. This interest was based on company calculations that the geological structures of southwest Iran--containing rich oil reserves--continued under the Persian Gulf to Bahrain and the Arabian peninsula. Socal decided to buy

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<sup>40</sup>Farouhy, The Bahrain Islands, p. 103; Sanger, The Arabian Peninsula, p. 100.

<sup>41</sup>Ibid.

Gulf's concession in Bahrain, and paid \$50,000 for the purchase.<sup>42</sup>

Socal encountered much difficulty from the British Colonial Office, because Britain was holding a protectorate over all the Persian Gulf Sheikhdoms. To the Colonial Office, Socal was an intruder in the region. Socal spent eighteen months getting that office to approve the concession. Socal's case in Britain was defended by the EGS, the original concession holder. Moreover, the Department of State exerted informal pressure on the British government to the same effect. The British would allow American capital to participate under certain conditions regarding the nationality of the operating company, its chairman and directors, and the personnel who would be employed in Bahrain. To meet these restrictions, Socal formed a wholly owned subsidiary, the Bahrain Petroleum Company (Bapco), incorporated in Canada in 1929. Bapco maintained an office in London directed by a British subject; its representative in Bahrain and one of its directors were also British. All the obligations being met, the Colonial Office approved Socal's concession

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<sup>42</sup>U.S. Senate, Special Committee Investigating Petroleum Resources, American Petroleum Interests in Foreign Countries: Hearings, Petroleum Resources, United States, 79th Cong., 1st sess., 1946, p. 318; FR, 1929, III, 80; James T. Duce, Middle East Oil Development (New York, 1952), p. 10.



on August 1, 1930. Bapco's first chief representative in Bahrain was British Major Frank Holmes.<sup>43</sup>

While negotiations of Socal with the Colonial Office were in progress, Socal was permitted to send two geological experts to Bahrain to conduct explorations. Their findings were encouraging, and they recommended a test well. By the time the concession became effective on August 1, the company had made all preparations to go ahead with the test. Actual drilling started during October of 1931. The result was positive, and Socal's No. 1 oil well was established in an area called Jebel Dukhan "the smoky mountain" and was considered a potential producer by May, 1932. Other test wells were drilled, and all confirmed the earlier hypothesis of 1914 about the existence of oil in Bahrain. Geologists' attention now turned toward the mainland nearby--al-Hasa--which would have the same geological structure as Bahrain. For this reason Socal's representatives became more interested in the Saudi kingdom's gulf coast region.<sup>44</sup>

Socal's attempts to get in touch with Ibn Saud started as early as late summer of 1930, when the company bought the

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<sup>43</sup>Secretary of state, Frank B. Kellogg, to American charge d'affaires in London, Ray Atherton, 28 March 1929, 846b.6363/5; American Charge d'affaires in London, Ray Atherton, to the secretary of state, 30 May 1929, 846b.6363/7; FR, 1929, III, 80-81; Faroughy, The Bahrain Islands, p. 105; Edward DeGolyer, "The Oil Fields of the Middle East," in Problems of the Middle East (New York, 1947), 77-79.

<sup>44</sup>Roy Leblicher, Aramco and World Oil (New York, 1952), p. 25; Faroughy, The Bahrain Islands, p. 42.

Bahrain concession. The natural link, Socal thought, was Frank Holmes. Socal asked Holmes to request Ibn Saud's permission for a company geologist to visit the al-Hasa region. Holmes saw problems, because his syndicate had defaulted on the payment for the 1923 concession of al-Hasa. After a year had passed and Holmes had not made a promised visit to Ibn Saud, Socal's representatives guessed that Holmes was stalling. Company officials also learned that the EGS had given Gulf Oil Company an offer on a concession in Kuwait and that Holmes seemed to feel that an agreement between the king and Socal might endanger the Kuwait concession negotiations. Becoming exasperated with Holmes, Socal officials in early June, 1932, after their first Bahrain well struck oil, decided to pursue their objective independently. They asked St. John Philby, Ibn Saud's consultant and trustee in Jiddah, to request the king's permission for negotiations. There was no immediate reply from Philby because he was on an extensive journey in al-Rub' al-Khali desert. While awaiting Philby's answer Twitchell contacted Socal.<sup>45</sup>

Twitchell's discussions in New York with Socal involved Francis B. Loomis, the company's foreign affairs consultant and a former under-secretary of state during Theodore Roosevelt's administration, and Maurice E. Lombardi, the company's production manager. In July, 1932, Twitchell received

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<sup>45</sup>Lebkicher, Aramco and World Oil, pp. 25-26; Twitchell, Saudi Arabia, p. 146; Philby, Arabian Jubilee, p. 177.

from Jiddah the official letter of authorization (to speak on behalf of the Saudi government in promoting business interest in the kingdom) he had requested from Ibn Saud, and shortly thereafter he reached an agreement with Loomis and Lombardi. The latter two men, not yet having heard from Philby, suggested that Socal retain Twitchell to help with the anticipated negotiations with Ibn Saud. They also promised Twitchell a substantial commission if a concession were granted. Twitchell readily agreed. Thereafter Socal received a reply from Philby which indicated Ibn Saud's approval of concession negotiations.<sup>46</sup>

On October 25, 1932, Francis B. Loomis sent a message to Secretary of State Stimson which stated that Standard Oil of California

. . . contemplates entering into a contract with Ibn Saud to search for and produce petroleum in the Persian Gulf coastal region of Hasa. Has the United States a treaty with King of Arabia? Could legal aspects of [any] controversy be adjudicated in any of the established international tribunals or elsewhere? Is there any likelihood that the United States government may establish diplomatic relations with Ibn Saud as Great Britain, Holland, and some [other] governments have done?<sup>47</sup>

Stimson advised Loomis that the Department of State could not determine in advance the nature of protection to be accorded Americans in Saudi Arabia, that adjudication of

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<sup>46</sup>Twitchell, Saudi Arabia, p. 1590.

<sup>47</sup>Francis B. Loomis, San Francisco, to secretary of state, 25 October 1932, 711.90f/64.

disputes was uncertain, and that the United States did not contemplate establishing diplomatic or consular relations with the Saudi kingdom.<sup>48</sup>

One should note that Loomis' letter to Stimson contradicts the often-stated claim that Socal negotiated its concession without the knowledge of the Department of State.<sup>49</sup>

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<sup>48</sup>Secretary of state to Francis B. Loomis, San Francisco, 27 October 1932, 711.90f/65.

<sup>49</sup>Wallace Murray of Near East Affairs, "Conversation with F. B. Loomis concerning the Interests of Standard Oil in Saudi Arabia," 15 December 1932, 890f.6363/Socal.

## CHAPTER III

### THE STANDARD OIL COMPANY OF CALIFORNIA: FROM CONCESSIONS TO OPERATIONS

In the early months of 1933, Socal's representatives successfully concluded a concession agreement with the Saudi government despite competition from two other international companies. Almost immediately Socal started survey and exploration efforts. Lack of success in discovering oil and heavy expenditures in 1934 and 1935 caused the company to sell half of its concession to Texaco in 1936. Larger-scale exploration led to the discovery of oil in commercial quantities in March of 1938. This year was a turning point in the history of the two companies. Oil discovery brought a scramble for oil concessions in Arabia. In spite of this increased competition, Socal and Texaco obtained a supplemental oil agreement in 1939. Shipping difficulties and the threat to the oil fields as a result of the Second World War led almost to a complete shut-down of oil operations in 1940 and thus Saudi government revenues declined.

#### I

On January 13, 1933, Karl Twitchell left New York by sea for Jiddah via London and Alexandria. In London he met

Lloyd Hamilton, a lawyer and Socal official who handled land-lease deals. From London Twitchell and Hamilton proceeded to Jiddah to conduct negotiations for Socal. Two days after arriving in Arabia, Twitchell and Hamilton met Abdullah Sulaiman, the Saudi finance minister, and the negotiations started soon after. Neither side foresaw that the negotiations would take more than three months of exhausting work. Though the problem of translation accounted for much of the time, the negotiations became more complicated as other parties arrived at Jiddah to bid for the same concession.<sup>1</sup>

From the beginning the major issue in the negotiations was the amount of the down payment to the Saudi government. The latter's team demanded an initial payment of £100,000 in gold, a fixed annuity against future revenue, and a royalty of five shillings per ton on oil produced. Hamilton believed that such a down payment even before geological surveys and explorations were finished was impossible. Hamilton was not even ready to offer half the amount demanded.

As Hamilton formulated a counter-offer, a new bidder appeared on the scene. Stephen H. Longrigg, representing the IPC, arrived at Jiddah on March 12. Longrigg was then working on the IPC's projected pipeline from Musil (Iraq) to

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<sup>1</sup>Twitchell, Saudi Arabia, p. 150; American embassy, London, to secretary of state, 25 January 1933, 711.90f/3.

Haifa, in Palestine. After the first well struck oil in Bahrain in the summer of 1932, the prospect of finding oil in Hasa looked very bright, and IPC officials, especially Sir John Cadman, were vexed at having missed out on the Bahrain concession. They decided that the IPC syndicate must prospect for an oil concession in the Saudi kingdom. Accordingly, they sent Longrigg, a former colonial administrator and expert on Iraq, as the IPC's negotiator with the Saudi Arabs. But the IPC officials, as Longrigg put it, were very slow and cautious in their offers and would speak only of rupees (local currency) when gold was demanded. In fact, Longrigg, who did not know that Philby was working for Socal, unwisely confided to him that the IPC was not so much interested in a concession as in preventing the Americans from getting one. Longrigg, in the beginning, was authorized to offer no more than £200 a month for an eighteen-month exploratory concession. The British minister in Jiddah, Sir Andrew Ryan, supported Longrigg but believed his approach was wrong. Ryan saw more clearly than Longrigg the implications of an American concession and its possible effect on British-Saudi relations; he tried to convince Longrigg to increase his offer.<sup>2</sup>

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<sup>2</sup> Elizabeth Monroe, Philby of Arabia (London, 1973), p. 205; Anthony Sampson, The Seven Sisters: The Great Oil Companies and the World they Shaped (New York, 1975), p. 90.

As negotiations progressed, Philby informed Hamilton and the Saudis of Longrigg's intention. Philby's role more than that of any of the participants smoothed the negotiations for Socal. Apparently none of the negotiators realized that he was working for Socal.

As pilgrims, on whose revenue the Saudi government depended, began to arrive in late March and early April, it became obvious that their number had declined. Ibn Saud, so Hamilton reasoned, might be pressed into reducing the down-payment request of his negotiators. Hamilton's deduction was right, for Philby confided to him that the king was inclined to reduce his demands. Hamilton immediately left for Cairo to consult with his superiors.<sup>3</sup>

In Cairo Hamilton met Maurice Lombardi, the general production manager of Socal, who was on his way back to San Francisco after an inspection of Bapco's works in Bahrain. With Lombardi, Hamilton also met Holmes, who had heard of the impending Socal negotiations in Saudi Arabia. Holmes informed Lombardi and Hamilton of his desire to negotiate a concession for the EGS in the Saudi-Kuwaiti neutral zone. Neither Lombardi nor Hamilton was pleased, for to them Holmes seemed to be a "Jack of all trades"--the EGS's agent in the Middle East, a representative of Bapco in Bahrain, and

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<sup>3</sup>Karl St. Twitchell, Jiddah, to Wallace Murray of Near East Affairs, 26 March 1933, 711.90f/27.



a negotiator for Gulf. His presence in Jiddah would confuse issues.<sup>4</sup>

To the distress of Socal's team, Holmes arrived in Jiddah in April. The negotiation scene now became more complicated with the appearance of a third party--the EGS. Hamilton, also back in Jiddah, postponed his meeting with the Saudi team to wait and see what Holmes had to offer. Instead of negotiating for an EGS concession in the Saudi-Kuwaiti neutral zone, as he had told Hamilton and Lombardi, Holmes proposed a fantastic plan for the Saudis. He suggested a division of the al-Hasa region into blocks of forty square miles each; each block would be granted to a different oil company. According to his calculations, the Saudis would realize larger monetary rewards. Despite the promises the proposal fell on deaf ears, and, according to Philby, the Saudis asked Hamilton to leave. Before the EGS could be considered, Holmes was told, the company would have to pay overdue debts for rent, which amounted to £6,000 (gold) on the lapsed EGS concession of 1923. Faced with a shut-out, Holmes soon left Jiddah.<sup>5</sup>

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<sup>4</sup>American consul at Aden, Ray Fox, to secretary of state, 24 June 1933, 711.90f/48.

<sup>5</sup>Philby, Saudi Arabia, p. 178.

Longrigg fared little better. The directors of the IPC would not offer more than £10,000, and not in gold. The amount was too little, and Longrigg, entrusting negotiations to Sir Andrew Ryan, left Jiddah.<sup>6</sup>

Alone in the field, Socal's team did not want to appear too eager. In response to the Saudi demand for a £100,000 down payment, Hamilton offered an immediate loan of £30,000, another loan of £20,000 eighteen months later, and an annual rent of £5,000--all in gold.<sup>7</sup>

A few days later, while the king was in Hijaz during the Hajj (pilgrim) season, Sulaiman informed Hamilton that the king wanted to meet him. The meeting took place in the Kazam Palace in the suburbs of Jiddah on April 20, 1933. The king told Hamilton and Twitchell that he preferred to deal with the Americans because they were free of the taint of colonialism in the Middle East, and that he was fascinated with the speed and efficiency with which they had developed the Bahrain concession. The king added that he was prepared to accept Socal's offer.<sup>8</sup>

After the meeting with the king, the Saudi and American teams worked out the details in a month. Thus Socal achieved its second--the first being the Bahrain concession--

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<sup>6</sup>Ibid.

<sup>7</sup>Ibid.

<sup>8</sup>Twitchell, Saudi Arabia, p. 151.

and far more valuable oil deal in the Middle East. This concession had been obtained, paradoxically, because Socal lacked previous involvement and had avoided the Red Line Agreement. The richest prize of all was left to the outsider. Socal ratified the agreement on July 5 and Ibn Saud ratified it by royal decree two days later.

There are several reasons for Socal's success. A British version suggests the superior financial terms of the American company. Cordell Hull and some American oil company executives believed the king was motivated by his suspicion of British domination of the Saudi kingdom and by his preference for American policies. A third explanation suggests that British sponsorship of Ibn Saud's rivals, the Hashimites, in the early 1920s, affected the king's decision. The king's motive was probably economic; he was desperate for money, and Socal simply outbid all competition.<sup>9</sup>

## II

Most of the agreement provisions--thirty-one of thirty-seven articles--were published in the Saudi official newspaper Umm al-Qura (Mecca) on July 14, 1933 (1352 Hijrah, Islamic Calendar). Both Socal as well as the Saudi government refused to publish the full text of the agreement. The six deleted articles dealt with specific payment

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<sup>9</sup>New York Times, July 15, 1933, p. 1; Cordell Hull, The Memoirs of Cordell Hull, 2 vols. (New York, 1948), II, 1511; and David H. Finnie, Desert Enterprise: The Middle East Oil Industry in its Local Environment (Cambridge, England, 1958), p. 36.

provisions which both parties preferred to keep secret. The company never published the agreement in the United States.

The most important provisions of the agreement were as follows:

The Saudi government granted the company the exclusive right to explore and drill for, produce, and market petroleum products for a period of sixty years, starting with the exploration date. The company would advance two loans to the Saudi government, one payable fifteen days after signing the agreement and the other eighteen months later; the company would also pay an annual rent until oil was discovered and produced in commercial quantities. The initial loan was £30,000, the second was £20,000, and the annual rent was £5,000--all in gold, or its equivalent. The company was to start operations no later than September, 1933; if it did not start within years thereafter, the Saudi government would have the right to cancel the concession. The company undertook to pay the government £50,000, or its equivalent, upon discovery of oil in commercial quantities, and another £50,000 one year later. The government would receive four British shillings (gold), or its equivalent, per ton of crude oil produced; excluded from this fee was oil needed for use by the Saudi government or the company's operations. After the discovery of oil in commercial quantities, the company was to establish a refinery in Saudi Arabia to meet the Saudi oil demands, but the government would not sell any of

this oil in or out of the kingdom. With the discovery in commercial quantities the company was to pay royalties every six months, and in case of disagreement over the amount, the company would pay the government's claim until the disagreement was settled by regular arbitration machinery specified in article twenty-eight of the agreement. The Saudi government exempted the company and its operations from all direct and indirect taxation and from any import or export custom duties. The Saudi government granted the company rights for construction of roads, dwelling facilities, harbors, and refineries; it also granted the use of natural ground material (earth, wood, or stone) and the purchase of land tracts necessary for such projects. The company had the right to establish subsidiaries to administer its business, on condition that their profits be subject to Saudi royalties. Moreover, the Saudi government, on its own expense, reserved the right to appoint a special committee to oversee operations and accounts of the company. Saudis were to be given priority in skilled and unskilled employment, and the company was required to undertake training programs for them to fill vacancies whenever possible. The company was required to submit annual reports to the government and to include all topographical and geological maps concerning exploration and exploitation of the concession area. If the company increased shareholdings, at least 20 percent should be reserved for Saudi purchase. Unresolved disputes between the company and

the government over provisions of the agreement would be settled by arbitrators, one appointed by each party; if the latter method failed, both parties would appoint a single arbitrator; if no agreement was reached concerning this appointment, both parties would request the president of the Permanent Court of International Justice to appoint the arbitrator whose ruling should be final. The concession area included 360,000 square miles on the Saudi eastern coast, from Kuwait in the north to al-Rub' al-Khali in the south, and westward to the border with Yemen. The agreement was signed on May 29, 1933, by Finance Minister Abdullah al-Sulaiman al-Hamdan, on behalf of the Saudi government, and Lloyd N. Hamilton, on behalf of Socal.<sup>10</sup>

At the same time, Sulaiman and Hamilton signed an agreement which amplified the original agreement. In the amplification the company received preference for an oil concession in the Saudi-Kuwaiti neutral zone, on condition that the company's offer equal any other offers. Moreover, the terms and conditions of such concession, with respect to the rights of the Saudi government in the neutral zone, were to be equal to the terms and conditions which might be obtained

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<sup>10</sup>Umm al-Qura (Mecca, Saudi Arabia), July 14, 1933, p. 1; U.S., Federal Trade Commission, The International Petroleum Cartel: Staff Report to the Federal Trade Commission Submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, Committee Print No. 6, 82d Cong., 2 sess., 1952, pp. 19, 114; Assah, Miracle Over the Sand, pp. 332-35.

by the Sheikh of Kuwait for the same concession. Furthermore, the agreement specified conditions under which the government would provide airplane services for the company within the area covered by the concession agreement, and the company would submit aerial photographs to the government.<sup>11</sup>

The negotiations completed, Twitchell stayed in Jiddah in charge of preparations for the incoming team of geologists and surveyors. Twitchell also transmitted the news of the agreement to the Department of State. Hamilton left for London to open a new Socal office. In a brief stay in Cairo, Hamilton furnished American embassy officials a copy of the concession agreement and noted that the terms were "extremely favorable" to the company. He believed that the only risk to Socal was the stability of the Saudi regime. He suggested that the agreement might be the opening wedge for admission of foreign capital to exploit the mineral and commercial resources of the Arabian peninsula. Philby, whose role had been indispensable throughout the negotiations, was rewarded with a salary of £1,000 a year from Socal; he took, he said, "satisfaction in the Americans being rewarded for their antiimperialism."<sup>12</sup>

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<sup>11</sup>U.S., Federal Trade Commission, The International Petroleum Cartel, p. 114.

<sup>12</sup>Karl S. Twitchell to Wallace Murray of Near East Affairs, 1 June 1933, 711.90f/44; Gordon P. Merriam, American consulate, Cairo, "Socal obtains Oil Concession from the government of Saudi Arabia," to secretary of state, 10 June 1933, 711.90f/46; Monroe, Philby of Arabia, p. 205.

By late August, 1933, company officials and geologists were making moves to develop their concession. The al-Gosaibi family, named as the company's agent in Saudi Arabia, provided headquarters in al-Hasa, and a branch office was opened in Hufuf, a distant town in the interior. Twitchell and some Saudis guided company geologists, who began mapping the area named Jebel Dhahran, which they called the Damman to avoid confusion with the Jebel Dukhan in Bahrain. On October 18, Socal's first public relations officer, William J. Lenahan, arrived at Jiddah. Lenahan had no difficulty in getting along with Saudi government officials, for he had previously served in such a position for several years in South America.<sup>13</sup>

To facilitate use of its concession, Socal organized a wholly new subsidiary called the California Arabian Standard Oil Company, better known as Casoc. It was organized under the laws of Delaware, with capital of \$7 million completely owned by Socal. The Saudi concession was assigned to the new subsidiary on December 29, 1933.<sup>14</sup>

In November and December, five more geologists, Thomas Koch, Arthur Brow, Charles Burchfield, Allen White, and Felix Dreyfus, joined the exploration team. Robert Miller

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<sup>13</sup>Twitchell, Saudi Arabia, p. 152.

<sup>14</sup>Lebkicher, Aramco and World Oil (New York, 1952), pp. 26-28; Twitchell, Saudi Arabia, p. 52; Fortune, 35 (May, 1947): 179.



directed the geologists in Jubail. Two-man geological teams roamed the concession area, from Jabrin, in the south, to Hafar al-Batim, in the north, and beyond Artawiya and Dahna, in the west. The geologists encountered great difficulty in driving over the sandy dunes, and it became necessary to use a reconnaissance airplane to speed up operations. A specially designed plane with build-in photographic and drafting equipment was sent to Saudi Arabia in February, 1934. The plane's use drastically speeded up reconnaissance and geological mapping. The geologists' report about the al-Hasa region recommended drilling in the Dammam area, and continuing the survey and exploration work.<sup>15</sup>

In the beginning, company officials were hesitant about drilling operations, because Ibn Saud was engaged in a boundary dispute with the British protectorates of Qatar, Oman, and Aden. The company approved drilling operations in July, 1934, but the first test well, Dammam No. 1, was not started until April 30, 1935. During the next two years, six more test wells were tried in the Dammam area at a depth equal to that of the Bahrain oil fields, about 3200 feet. By the end of 1937, Socal reported an expenditure of some \$3 million and the drilling of ten test wells without discovering sufficient oil. The company then decided to have a deep test

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<sup>15</sup>Lebkicher, Aramco and World Oil, pp. 31-33; account of problems of exploration is found in P. M. McConnell, "Wildcatting in Saudi Arabia," Oil and Gas Journal, 48 (December 22, 1949): 144.

well--deeper than the Bahrain oil fields. At Damman No. 7, drilling continued to a depth of 4,727 feet, when engineers struck oil in fabulous quantities on March 4, 1938. That was the turning point in Socal's history.<sup>16</sup>

During the three years of drilling test wells in Damman, Socal officials were also preoccupied with marketing arrangements. An American company, Texaco, owned marketing subsidiaries throughout the region east of the Suez, in Australia, China, India, the Philippines, and South Africa. Kenneth Kingsbury, the president of Socal, arranged a meeting with Torbild Rieber, the chairman of the board of Texaco. Socal's Bahrain concession was having marketing difficulties at the time. Rieber and Kingsbury agreed in 1936 to merge their companies' Middle Eastern interests. Under this agreement Texaco was to provide marketing facilities east of the Suez in exchange for an equal partnership with Socal in Bapco. Texaco was to buy half of the stock of Casco, with \$3 million in cash and an additional \$18 million from oil produced from the Saudi fields. The latter amount was to be paid at the rate of twenty-five cents a barrel after the discovery of oil in commercial quantities. The marketing arrangement between Socal and Texaco was organized in a new

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<sup>16</sup>For a detailed account on test well operations see Arabian American Oil Company, Fifteen Years: A Story of Achievement, 1933-48 (New York, 1948), p. 8; Leblicher, Aramco and World Oil, p. 34; Midesell and Chenery, Arabian Oil, p. 60.

subsidiary called the California Texas Oil Company (Caltex). After conclusion of the arrangement, the work of the Saudi concession accelerated, especially after a series of disappointments in drilling operations in 1935 and 1936.<sup>17</sup>

With the discovery of oil in commercial quantities, Casoc embarked on a large construction program, including erection of housing, recreational, and hospital facilities at a new town called Dhahran. In September, 1938, the company laid the first pipeline from the oil fields at Dammam to al-Khubar on the Gulf coast, a distance of nineteen miles, and established a storage and shipping terminal for the transport of oil by ship to Bahrain for refining. Late in 1938, the company saw the need for constructing a bigger terminal, large enough to accommodate deep-draught vessels. Thus a new terminal was built in Ras Tanurah, with a ten-inch pipeline connecting it with Dammam, thirty-nine miles to the south. Ibn Saud attended the opening ceremonies of Ras Tanurah on May 1, 1939, and turned the valve on the pipeline to load the first tanker, D. G. Schofield, named after the founder of Socal.<sup>18</sup>

Rumors of potential oil discovery emanating from Socal's drilling activities in al-Hasa during 1935 and 1936 spurred

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<sup>17</sup>U.S., Federal Trade Commission, The International Petroleum Cartel, pp. 114-16; U.S. Senate, CR, 80th Cong., 2d sess., 1948, pt. 4: 4945; John S. Porter, ed., Moody's Manual of Investment: American and Foreign Industrial Securities, 1950 (New York, 1950), p. 2703.

<sup>18</sup>Lebkicher, Aramco and World Oil, pp. 36-38: Sanger, The Arabian Peninsula, p. 103.

other oil interests to seek concessions in Hijaz. In early 1936, officials of the IPC approached the Saudi government for that purpose. The Saudis were committed, however, to give preference for future concessions in the Hijaz region to Socal. When that company, believing there was little oil in the Hijaz, declined the offer, the Saudi government signed a contract with Petroleum Concessions Limited (PCL), a subsidiary of IPC, on July 9, 1936. The agreement covered the entire western Saudi Arabian coast, from the border with Jordan, in the north, to Yemen, in the south, extending 100 kilometers inland, but excluding for religious purposes a small strip between Rabigh and al-Lith. The initial down payment was £30,000, with an exploration rental of £7,500 to £10,000, yearly for a ten year drilling period. The PCL formed an operating company called Petroleum Development Limited (PDL). After five years of exploration the company failed to discover any oil on the west coast, and the renewal contract was allowed to lapse in 1941.<sup>19</sup>

### III

The Dammam oil discovery in 1938 brought a flock of concession seekers to Saudi Arabia from Britain, Germany, Japan, and Italy. The IPC sent Stephen Longrigg to negotiate

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<sup>19</sup>Standard Oil Company of California, "Report," 32-34 cited in Joseph Walt, "Saudi Arabia and the Americans, 1928-1952," unpublished dissertation, Northwestern University, 1960, pp. 132-34.

for a concession in the Saudi-Kuwaiti neutral zone. William J. Lenahan, Casoc's public relations officer in Saudi Arabia, was ready to negotiate for Socal. Twitchell reported that both the Italian and German ministers supported a Japanese bid. Yokayama, the Japanese minister in Egypt, arrived at Jiddah late in March 1939. He met with Ibn Saud in Riyadh and reportedly offered a higher price than the one later paid by Socal for the concession for only one-third of the area. Ibn Saud, however, suspected that the Japanese offer was politically and not economically motivated. Negotiations continued for three months. The German and Italian ministers made no definite offers, and it became clear that the real competition was between Casoc, the IPC, and Japan. Suspecting the political motives of the latter two, Ibn Saud inclined toward the former and did not even use the reported Japanese offer as a lever to raise the bidding from Casoc, which was obliged under the 1933 concession agreement to equal any offer made by other interested parties. On May 31, 1939, a new agreement referred to as the Supplementary Agreement was signed between the Saudi government and Casoc.<sup>20</sup>

The important provisions of the Supplemental Agreement included a concession period of sixty years from the time of

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<sup>20</sup>Wallace Murray of Near East Affairs, Memorandum, "Struggle for Oil Concessions in Saudi Arabia," 2 August 1939, 711.90f/272; U.S., Federal Trade Commission, International Petroleum Cartel, p. 117, Twitchell, Saudi Arabia, pp. 153-54; Libkicher, Aramco and World Oil, pp. 28-30.

signature, an initial payment of £140,000 or its equivalent, an annual rental of £20,000 until oil was discovered in commercial quantities in the added territory, and a lump sum of £100,000 (gold) at the time of such discovery. The original concession area of 360,000 square miles was increased to 440,000 square miles, and included the neutral zones between Saudi Arabia and Kuwait and Saudi Arabia and Iraq. In case of discovery in commercial quantities, the company would increase the allotment of free gasoline to the Saudi government to 2.3 million gallons a month. The agreement was ratified by the Casoc parent companies, Socal and Texaco, on June 29, 1939, and by Ibn Saudi three days later. It was published by the official Saudi newspaper Umm al-Qura on July 24, 1939.<sup>21</sup>

Before the beginning of the Second World War Dammam was the only producing oil field in Saudi Arabia. Effects of the war had not yet been felt there, and geological surveys and explorations continued apace. Company geologists were able to embark in 1939 on an extensive geological mapping of the concession area. The result was the discovery in March and November of two rich oil fields: one at Abu Hadriya, 185 miles north of Dhahran, and the other at Abqaiq, twenty miles southwest of Dhahran. Both fields remained undeveloped to await production equipment delivery of which was hampered by the new world situation. By the end of 1940, total oil production

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<sup>21</sup>Umm al-Qura (Mecca), July 24, 1939, p. 1; U.S., Federal Trade Commission, International Petroleum Cartel, p. 117; Assah, Miracle Over the Sand, p. 335.

from Damman was 9.6 million barrels; the company's staff totaled 371 Americans and 3,300 Saudis, and the capital investment reached about \$30 million.<sup>22</sup>

By late 1940, the world situation seriously affected Saudi Arabia, as Italy's entrance into the war threatened the shipment of production supplies through the Mediterranean and the Suez Canal. As expected, Italy bombed the Bahrain and Damman oil fields on the night of October 19, 1940. The immediate result was the closure of the Ras Tanurah terminal and the departure of more than one-half of the company employees, Americans and Saudis. Also, the Saudi Arabian Mining Syndicate Ltd., mining gold in the Mahd Dhahab, area shut down.<sup>23</sup>

By the beginning of 1941, the Saudi government's position became increasingly precarious. Cessation of oil royalties, due to the shutdown of oil fields, and the almost complete halt of pilgrims to the Holy Places reduced drastically the Saudi income. To protect its oil interests, Casoc rallied behind the Saudi government. The company had always sought to involve the American government, and it again urged the United States to establish full diplomatic and consular representation with Saudi Arabia.

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<sup>22</sup>Lebkicher, Aramco and World Oil, pp. 40-41; and Philby, Arabian Jubilee, p. 227.

<sup>23</sup>Sanger, The Arabian Peninsula, pp. 103-104; Lebkicher, Aramco and World Oil, p. 40-42; Twitchell, Saudi

## CHAPTER IV

### THE OILMEN AND THE DEPARTMENT OF STATE: DIPLOMATIC AND CONSULAR REPRESENTATION IN SAUDI ARABIA

Various persons had long urged the Department of State to establish at least consular representation with Saudi Arabia. The American consul at Aden did so in 1928; the Arab-American writer Ameen Rihani noted in 1930 that American trade extension to Saudi Arabia could come only after the establishment of diplomatic and consular relations; and the American minister in Egypt and the assistant commercial attaché there, Ralph Chesbrough, repeated the same arguments. The United States recognized Saudi Arabia in 1931 and negotiated a treaty of commerce and amity in 1933. Although the treaty provided for the exchange of diplomatic and consular representatives, the Department of State did not believe that the limited American interests in the Saudi kingdom justified representation.<sup>1</sup>

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<sup>1</sup>American vice consul in Aden, Clayson W. Aldredge, to secretary of state, 23 January 1928, 711.90f/7; Ameen Rihani to American consul general in Jerusalem, Paul Knabenshue, 12 July 1930, 711.90f/14; American minister in Egypt, F. M. Gunther, to secretary of state, 11 January 1930, 890f.01/13 and 18 July 1930, 890f.01/19; and assistant secretary of state, Wilbur J. Carr, "Memorandum to Near East Affairs," Wallace Murray and Paul Alling, 13 March 1931, 890f.01/39.



Socal, as seen previously, had obtained the oil concession in Saudi Arabia without significant diplomatic assistance from the Department of State, although it had kept the department posted on its negotiations. The oilmen could well imagine that they were a private government, without the need of Washington. Nonetheless discovery of oil and the increased volume of American trade and contact with Saudi Arabia led Socal to push for American representation with that country.

Only two days after Socal's representatives had concluded the concession agreement with Saudi Arabia in 1933, Karl Twitchell, one of the two negotiators, told officials of the Department of State that "I hope it will mean official representation by our government." Three weeks later the department responded that representation with Saudi Arabia was not likely for two or three years. Francis B. Loomis, Socal's production manager in San Francisco, repeated the same requests to the Department of State between 1933 and 1935. When the Socal-Texaco merging agreement was concluded in 1936 and the possibility of oil discovery brightened, oilmen renewed their pressure. James A. Moffett, of the board of Caltex, a marketing subsidiary of Socal-Texaco, wrote to the secretary of state requesting direct

representation with Saudi Arabia. Secretary Hull promised only an extensive investigation of the question.<sup>2</sup>

Meanwhile officials in the Near East Division of the Department of State argued that representation in Saudi Arabia should be not primarily to protect the interests of Caltex but to protect the interests of American nationals employed in Saudi Arabia. Saudi nationals, it was pointed out, lived under the Islamic Shari'a law which differed considerably from American legal concepts. American nationals employed in Saudi Arabia and involved in legal controversies might need someone to see that they received fair treatment. Persuaded by this argument, Hull authorized a visit to Jiddah by a Department of State official to report on the feasibility or necessity of representation in Saudi Arabia.<sup>3</sup>

Early in 1937 the American consul general at Alexandria (Egypt), Leland B. Morris, visited Jiddah. After a thorough inquiry and meetings with some American as well as European nationals in Jiddah, he concluded that American interests in

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<sup>2</sup>Karl Twitchell, Jiddah, to Wallace Murray of Near East Affairs, 1 June 1933, 711.90f/23; Wallace Murray of Near East Affairs to Karl Twitchell, 26 June 1933, 711.90f/25; Karl Twitchell, Jiddah, to Wallace Murray of Near East Affairs, 15 July 1933, 711.90f/26; Paul Alling of Near East Affairs, "Memorandum of conversation with Francis B. Loomis," 20 December 1933, 711.90f/35; James A. Moffett to secretary of state Cordell Hull, 17 July 1936, 124.90b/9; and secretary of state to James A. Moffett, 24 July 1936, 124.90b/11.

<sup>3</sup>Wallace Murray of Near East Affairs, "Memorandum to Secretary of State," 22 July 1936, 124.90b/10.

Saudi Arabia were not sufficient to warrant direct representation. He cited several reasons for his conclusion. Casoc's oil works in Saudi Arabia, Morris believed, had not developed sufficiently to be assured of permanent establishment. In fact, Morris noted, the absence of representation "smoothed the path" for Casoc "rather than otherwise," because it showed the American government's lack of interest in playing international politics, and favorably influenced Ibn Saud's attitude toward the American companies there. Moreover, Morris pointed out, oil operations were situated in the al-Hasa region (on the eastern coast of Arabia), far from the Saudi diplomatic capital in Jiddah (on the Western coast). American's general relationship with Saudi Arabia was "secondary" and "unimportant" and did not warrant a minister. A diplomatic agent would probably be regarded by the Saudis on the same footing as a minister resident and the idea was also rejected by Morris. A consul general, consul, or vice-consul without diplomatic status would be distinctly disappointing to the Saudis because they would "undoubtedly feel a strong tinge of resentment that the United States did not consider Saudi Arabia worthy of diplomatic representation as the great European powers do." Morris did concede that representation might become necessary in the not too distant future.<sup>4</sup>

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<sup>4</sup>American consul general in Alexandria, Leland B. Morris, to secretary of state, 23 March 1937, 124.90b/5.

The Near East Affairs Division of the Department of State accepted Morris' conclusion and reported it to Secretary Hull. Hull informed James Moffett that relations between the oil company and the Saudi government were good, and likely to remain so. If things changed, the secretary said, the State Department would meet the new situation. The Morris report was a disappointment to Casoc officials.<sup>5</sup>

Hull's position was the same when Senator Key Pittman, chairman of the Foreign Relations Committee, asked about American interests in Arabia and the need for diplomatic representation. Hull told Pittman that representation "would entail expenditures far out of proportion to the benefits that could be expected." The hands behind Pittman's inquiry, it should be pointed out, were Caltex officials who had also approached the chairman to push their argument for the necessity of direct American representation in Saudi Arabia.<sup>6</sup>

During the summer of 1938, the Saudi minister in London, Hafiz Wahba, visited the United States. Caltex's Moffett, a friend of President Roosevelt, took the opportunity to introduce Wahba to the president and to high officials in

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<sup>5</sup>Wallace Murray of Near East Affairs to secretary of state, 7 May 1937, 124.90b/19; secretary of state to James A. Moffett, 12 May 1937, 124.90b/21.

<sup>6</sup>Senator Key Pittman to secretary of state, 5 May 1937, and secretary of state to Senator Key Pittman, 12 May 1937, both 124.90b/1.

the Department of State. The major topic of these conversations was the remarkable new oil discovery in Saudi Arabia-- that of March 4, in the Dammam field. Moffet again urged American representation with the Saudi kingdom, and again he was told that the Department was aware of these developments and would act in due time.<sup>7</sup>

Nonetheless, oil interests continued to pressure the Department of State. Socal's Loomis, a former under-secretary of state in Theodore Roosevelt administration, and Caltex's Moffett visited the department in January, 1939, and sent a memorandum in April. They contended that American prestige had suffered in the Persian Gulf region and Saudi Arabia. They pointed out that the company had no actual troubles with the Saudi government, but that there could be British, German, or Japanese designs in Saudi Arabia for the future, since citizens and companies of these countries were "trying to profit by our long efforts and heavy expenditures in Saudi Arabia . . . and are supported actively by their governments, and have diplomatic representatives who have frequent access to high Arabian officials." American companies, the memorandum emphasized, should be protected by an official presence in Saudi Arabia. Loomis' and Moffett's argument was misleading, for neither Germany nor Japan

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<sup>7</sup>Wallace Murray of Near East Affairs, "Memorandum of conversation with Shaikh Hafiz Wahba and James A. Moffett," 5 July 1938, 124.90b/2.

maintained any diplomatic or consular representation in Saudi Arabia at the time. Germany had merely accredited its minister in Iraq, Fritz Grobba, to Saudi Arabia. What actually had frightened Caltex and Casoc officials was that negotiations for a supplemental oil agreement were in progress at the time, and serious competition appeared from both the Japanese and the IPC.<sup>8</sup>

Despite these arguments, the Department of State refused to be swayed. The chief of the Near East Affairs Division, Wallace Murray, dismissed the argument as unwarranted, and believed the company's urgent request was inadmissible because

We could not establish a Legation in Saudi Arabia merely to please the Standard Oil Company of California in contravention of the unbiased recommendations of an experienced Foreign Service Officer who has studied the situation on the ground.<sup>9</sup>

Murray added that Loomis seemed to believe that among an American minister's tasks was the prevention "of any further oil concessions not already taken by the Americans in that country."<sup>10</sup>

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<sup>8</sup>Paul Alling of Near East Affairs, "Memo of Conversation," Francis B. Loomis, 18 January 1939; Wallace Murray of Near East Affairs, "Memorandum to Secretary of State," 27 January 1939; Francis B. Loomis to secretary of state, 25 April 1939, all 124.90f/6.

<sup>9</sup>Wallace Murray of Near East Affairs, Memorandum, 27 April 1939, 124.90f/7.

<sup>10</sup>Ibid.

The question of representation, however, remained open because of the increasing oil production in Saudi Arabia. A report from the American Consulate in Cairo attracted attention in the Department of State. This report, entitled "Survey of American Interests in Saudi Arabia," explained how these interests had grown since 1936. With this report in mind, Secretary Hull instructed the Near East Division to solicit opinions from foreign service personnel in the area, especially in Egypt and Iraq.<sup>11</sup>

Bert Fish, the American minister in Cairo, noted in a telegram to the secretary of state that American interests were increasing in Saudi Arabia, that other big powers were paying more attention to Saudi Arabia, and that the number of American nationals employed by American companies there were growing. Paul Knabenshue, the American minister resident in Baghdad, also noted that representation would please Ibn Saud, would enhance American prestige in the area, and might soften Arab resentment of American support for Zionism. Both Fish and Knabenshue recommended representation, but not on a permanent basis.<sup>12</sup>

Secretary Hull accepted the recommendation of the American ministers in Cairo and Baghdad and passed it on to

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<sup>11</sup>American vice consul in Cairo, Jay Walker, to secretary of state, 1 April 1939, 124.90b/6.

<sup>12</sup>See communications between the secretary of state and the American minister in Cairo, Bert Fish, and the American minister resident in Iraq, Paul Knabenshue in May and June, 1939, in FR, 1939, IV, 824-27.

President Roosevelt. Hull suggested that the "Minister in Egypt and his staff be accredited also to King Ibn Saud and that diplomatic relations be established with his government." After the president's approval, Hull informed Bert Fish in July, 1939, of his concurrent appointment as minister to Saudi Arabia. Fish presented his credentials to King Ibn Saud on February 4, 1940, and served in this post until February 20, 1941, when he retired and was replaced by Alexander C. Kirk.<sup>13</sup>

Caltex and Casco officials now began to press the Department of State to appoint a minister resident in Saudi Arabia. The department, after entry of the United States in the Second World War, reviewed its overall position in Arabia. The need of petroleum for the war machinery and the political and strategic considerations of the whole area necessitated establishment of a legation at Jiddah. James S. Moose, who spoke good Arabic and previously had served in Iran, was appointed as second secretary of legation and consul at Jiddah. He opened a legation there on May 1, 1942, with Alexander Kirk, the American minister in Cairo, attending the ceremonies with Ibn Saud. The following year, Moose was

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<sup>13</sup>See the correspondence between the secretary of state, President Roosevelt, and the American minister in Egypt in Ibid., 830-38.



promoted to minister resident and presented his credentials in September, 1943.<sup>14</sup>

Throughout the 1930s, and until the United States entered the Second World War, oil-producing company representatives in the United States kept pressure on the Department of State for diplomatic and consular representation in Saudi Arabia. The Persian Gulf, in general, and Saudi Arabia, in particular, entered for the first time into American political and strategic considerations when the United States became a major partner in the Allied War effort. The importance of the area led the United States government to care about the stability of the Saudi government and to support it when dangers threatened that stability.

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<sup>14</sup>American charge d'affairs in Jiddah, James S. Moose, to secretary of state, 1 May 1942, 890f.01/12. For a description of these ceremonies see Sanger, Saudi Arabia, pp. 4-5, and Twitchell, Saudi Arabia, pp. 168-70; Hull, Memoirs, II, p. 1512; American minister in Saudi Arabia, James S. Moose, to secretary of state, 19 September 1943, 890f.01/16.

CHAPTER V

AMERICAN LEND-LEASE AID FOR  
SAUDI ARABIA

Wartime conditions brought a financial and economic crisis in Saudi Arabia. Until the end of 1942, assistance to the Saudi kingdom came from two sources, the British government and Casoc. Despite the latter's pressure on Washington to extend direct aid to Saudi Arabia, the American government still considered the Saudi kingdom as lying within the British sphere of influence. American entry to the war, participation in the North African campaign, and establishment of vital American supply lines to the Soviet Union through the Middle East made preservation of security in that area a matter of great concern to the United States. As the war progressed, Washington came to recognize that stability in Saudi Arabia was essential to stability in the Middle East. Because of American interest in the petroleum resources of Saudi Arabia and the continued pressure from Casoc, the Roosevelt administration considered it unwise to permit King Ibn Saud to lean too heavily upon the British for aid. Early in 1943, therefore, the president declared Saudi Arabia eligible to receive lend-lease support.

## I

World War II had a profoundly negative effect on Saudi Arabia. Three effects were obvious. Initially, the outbreak of war created panic in the Saudi Arabian market, and money and gold were withdrawn from circulation. Despite the government's attempts to control the situation, prices spiraled. Secondly, the number of Muslim pilgrims to the Holy Places, a major source of government revenue, declined. The number of visitors had been falling since the beginning of the world economic crisis early in the 1930s, but the war sharpened the decline. During 1938 there were about 64,000 pilgrims; the number dropped to 58,000 in 1939, to 32,000 in 1940, and to 10,000 in 1941. The average annual number of pilgrims in the previous decade was between 100,000 and 130,000. Wartime restrictions on shipping accounted for the great decline. As a result, pilgrimages by the richest Muslims from the Netherlands East Indies almost halted. Moreover, the Saudi government's receipts from customs duties, the country's second major source of revenue before oil discovery, were severely reduced. Finally, there was a drastic decrease in oil production by Casoc, and the PDL, a subsidiary of the IPC, having surveyed and drilled for oil in the Hijaz with no promising results was considering giving up its concession (it did give it up in 1943). A severe lack of supplies and wartime restrictions caused oil exploration and

production to drop, and government oil royalties dropped accordingly. The Saudi kingdom faced a severe financial crisis by mid-1940.<sup>1</sup>

The Saudi Arabian government turned for assistance to Casoc, and to its old ally, the British government. Ibn Saud reasoned that the extensive underground oil reserves of the kingdom would provide adequate security for any advance amounts the company might provide. Moreover, the king knew that the Iraqi and Iranian governments, whose oil revenue were also drastically curtailed, were receiving annually about \$6.5 million each from the American and British governments. In 1940 the Saudis approached Casoc and the British government for help and received about \$3 million above royalties and rentals from the former, and about \$400,000 from Britain. Despite this aid, the Saudi financial crisis continued.<sup>2</sup>

The president of Casoc, Fred A. Davies, accompanied by Lloyd Hamilton, the company's legal adviser, visited Saudi Arabia in the autumn of 1940 to discuss with Ibn Saud the financial needs of his country. The king emphasized to his

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<sup>1</sup>Foreign Commerce Weekly, December 4, 1943, 7-8; Raymond F. Midesell and H. B. Chinery, Arabian Oil, America's Stake in the Middle East (London, 1949), appendix ii, table 6; U.S. Congress, Senate, Special Committee Investigating the National Defense Program, Petroleum Arrangements with Saudi Arabia, Hearings: Part 41, on S. 46, 80th Cong., 1st sess., 1947, pp. 25380, 24713; Cordell Hull, The Memoirs of Cordell Hull, 2 vols. (New York, 1948), II, 1511.

<sup>2</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 24713.

visitors the desperate financial conditions of the kingdom. He explained that Saudi needs for 1941 were estimated at \$10 million, for which he hoped to get \$4 million from the British and \$6 million from the company. The king added that he would need this amount annually for five years. The British, the king continued, had promised to increase substantially their subsidy to Saudi Arabia.<sup>3</sup>

Davies' and Hamilton's discussions with the king extended over three months. Ibn Saud's doubts about the future political stability of the kingdom and his demands for money frightened both men and caused anxiety about the safety of the oil concession. That concession, the company executives reasoned, was granted personally by Ibn Saud. Should the latter forfeit power or control, the company might have to surrender its concession. Moreover, troubled circumstances in neighboring countries, the general wartime conditions, and big power ambitions in the oil fields heightened the concern of Davies and Hamilton. During their visit Italy bombed the oil fields in Bahrain and Dammam. In Iraq, there was unrest among the armed forces and the populace because of British domination. In April, 1941, Rashid A. al-Kilani led a successful coup d'état against the Iraqi government. The Axis forces, led by General Rommel, were pushing their way east in North Africa, threatening to occupy the Suez Canal,

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<sup>3</sup>Ibid., p. 24804.

Britain's artery to the eastern colonies. The Soviet Union, although neutral at the time, seemed a threat because of its nonaggression pact with Germany in 1939. Furthermore, if Casoc did not provide financial aid to Ibn Saud, the king would be forced to rely more heavily on the British. The oilmen reasoned that the British would then increase their influence on the king and possibly threaten the American character of the Saudi oil concession, or they might ask for a share in the concession and thus make the company's position untenable.<sup>4</sup>

Davies and Hamilton, reflecting on Ibn Saud's demands, considered the king's estimate as "moderate and close to a minimum figure for essential expenditures." Therefore, after the authorization of home offices, they agreed to advance Ibn Saud \$3 million, and although they considered the international situation discouraging for further capital investment in Arabia, they promised to make every effort to provide the additional \$3 million needed.<sup>5</sup>

The Saudi government kept pressure on Casoc. In a letter to Davies, after he had returned to the United States from his visit to Saudi Arabia, the Saudi finance minister wrote that

. . . you personally have endeavored, with all earnestness and diligence, to increase the loan and to raise it to the figure of six million

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<sup>4</sup>Ibid., pp. 24805, 24997.

<sup>5</sup>Ibid., pp. 25381, 23389; Survey of International Affairs, 1939-1946, George Kirk, The Middle East in the War, II (London, 1952), pp. 344-47.

dollars. We have no doubt at all that your efforts will be crowned with success in increasing the loan to the final figure, i.e., six million dollars for the year 1941 and, accordingly, we are figuring our budget for this year on six million dollars as explained to you on several occasions.<sup>6</sup>

Back in the United States, Davies and Hamilton called for a meeting of officials from Casoc, Bapco, and Caltex, and their parent companies, Socal and Texaco. During late March and early April representatives of these companies considered various problems of Saudi Arabia. Their discussions centered on two questions. Would the British through their financial advances to Saudi Arabia attempt to acquire part of the oil concession? Could the company risk pouring more money into Saudi Arabia without some guarantee of recovering it? Company representatives in seeking answers for these questions decided to ask the American government to extend financial aid to the Saudi kingdom under provisions of the Lend-Lease Act.<sup>7</sup>

Company representatives thought that their case with the American government would be strengthened if their request was accompanied by a statement from King Ibn Saud to the American government stressing his need for such aid.

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<sup>6</sup>Shaikh Sulaiman to Fred A. Davies, 18 January 1941, in U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25409-11; U.S. Congress, Senate, Congressional Record (hereafter cited as CR), 80th Cong., 2d sess., 1948, 94, pt. 4:4945.

<sup>7</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25392.

Accordingly, William Lenahan, Casoc's public relations official in Saudi Arabia, was instructed to ask Ibn Saud for such a statement. The king, always suspicious of governmental procedures, refused to go along. He declared that he could borrow the money from the American government if he so desired, and he could do so directly and not through the company. Arrangements for the advance loan, Ibn Saud maintained, should be made between the company and the outside source without participation of the Saudi government. He proposed that the company borrow the money from the American government on its own account.<sup>8</sup>

Looking for a man to make the initial contact with President Roosevelt, company representatives thought that the most suitable choice was James A. Moffett, chairman of the board of both Caltex and Bapco since 1936. Moffett's past experience and service with the government, his acquaintance with the Roosevelt administration, and his personal friendship with the president made him a good choice. During the First World War Moffett was a supervisor for the purchase of petroleum for the Allied forces, in which capacity he worked closely with Franklin D. Roosevelt, then assistant secretary of the navy. After the war Moffett worked for the Standard Oil Company of New Jersey, and became its senior vice-president by 1924. In 1933 Moffett resigned his job with Standard of New Jersey and was named Federal Housing

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<sup>8</sup>Ibid., p. 25393.



Administrator by President Roosevelt. After serving one year he returned to Standard Oil as the official in charge of handling the company's foreign concessions until 1936, when he became chairman of the board of Caltex, and later Bapco. Thus Moffett had experience in both the domestic and international oil business.<sup>9</sup>

Davies and Hamilton called upon Moffett on April 8, 1941, and asked him "if he would be willing to discuss the matter with the president . . . and if possible, secure a minimum loan of \$6 million per annum for a period of five years against royalty oil in the ground." Moffett consented, and the same day he arranged a meeting with the president for April 9. In his meeting with the president, Moffett reviewed the financial crisis of Saudi Arabia and sounded the company's apprehension for the safety of its concession there. He suggested that the United States government use lend-lease funds to reimburse the company the amount paid by it to Saudi Arabia with royalties from oil as collateral. The president doubted that legislation would allow such a loan from lend-lease funds, but he indicated an interest in the problem. There was a possibility, thought Roosevelt, of oil purchases by the United States navy from Saudi Arabia, or from Casoc for the account of Saudi Arabia. The president requested a memorandum about Casoc's concession, Ibn Saud's needs, and the proposed solutions by Casoc.<sup>10</sup>

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<sup>9</sup>Ibid., p. 24708.

<sup>10</sup>Ibid., p. 24712.

After consultation with Davies and Hamilton, Moffett sent the president a memorandum in which he detailed the information requested by Roosevelt. In the accompanying letter Moffett officially requested a loan from the American government to Saudi Arabia. Moffett emphasized the loan's effect on the internal stability of Saudi Arabia, and proposed a plan by the company to meet the financial crisis of that country. The plan called for the United States government to purchase from Saudi Arabia finished petroleum products at a very low price, to the value of \$6 million annually for six years. Casoc would contract with Saudi Arabia to produce oil, while the king would waive the royalty on an amount of crude oil corresponding, at current royalty rates, to \$6 million annually. Moffett's initial contact with the president and his subsequent memorandum have come to be known as the "Moffett mission."<sup>11</sup>

The president, anxious to find a solution to the problem, sent the Moffett memorandum to Secretary of State Hull and to Secretary of the Navy Frank Knox. Hull solicited the opinion of officials in the Division of Near East Affairs of the Department of State. In a memorandum to the secretary, that division recommended that the Saudi loan be discussed

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<sup>11</sup>Ibid., pp. 25359-61, The Moffett mission became significant in subsequent development, when Moffett brought a suit against Aramco in 1947, "for services rendered" to the company in using his influence with Roosevelt to obtain assistance for Saudi Arabia (see below pp. 200-02).

with the British government, that consultation be held with the Navy Department with regard to the purchase of oil from Casoc, and that an alternative of combining part of the Moffett proposal with lend-lease be found. Secretary Hull, however, strongly recommended a United States loan to the Saudi government. Knox, on the other hand, maintained that the navy, despite the merits of the proposed purchase of petroleum by the government, had no funds for such a purchase. In addition, the secretary explained, the navy had "contractual commitments" to buy oil from the Dutch East Indian Company. Moreover, Rear Admiral Herbert A. Stuart, administrator of naval petroleum reserves, reported that Saudi Arabian oil, due to its low quality, would not meet navy standards.<sup>12</sup>

In spite of the refusal of navy officials to buy Saudi oil through Casoc, company representatives continued efforts to obtain American aid for Saudi Arabia. On May 19, 1941, William Rodgers, chairman of the board of Texaco, and James Moffett submitted a detailed memorandum to Jesse Jones, secretary of commerce and federal loan administrator, in which they gave their opinions on how the Saudi loan might be granted under the lend-lease legislation. Three weeks later Moffett urged the president's assistant, Harry Hopkins, to

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<sup>12</sup>Wallace Murray of Near East Affairs, "Memorandum to secretary of state," 21 April 1941, 124.90f/25; U.S. Senate, CR, 80th Cong., 1st sess., 1948, 93, pt. 3:3401; and 2d sess., 1949, 94, pt. 4:4946.

take up the matter of the Saudi loan again with Roosevelt. Hopkins informed Moffett that his earlier memorandum to the president together with a letter from Hopkins on behalf of the president had been sent to Jesse Jones. In his letter Hopkins had informed Jones that the president was "anxious to do something about the matter," and that possibly something "might be done in the shipment of food direct to Saudi Arabia under the Lend-Lease Bill." <sup>13</sup>

The president, after consulting again with the State and Navy Departments, instructed Jones, in a letter dated July 18, 1941, to discuss the Saudi loan with the British because "it is a little far afield for us." Because Saudi Arabia was in the British sphere of influence, because the British were already subsidizing that kingdom, and because British strategic and political interests in the area were greater than those of the United States, Roosevelt believed the British should undertake such assistance. Jones wrote Hopkins on July 22 to inform Moffett that "there appears no legal way" to assist Saudi Arabia under the Lend-Lease Act. Although lend-lease aid seemed impossible, Roosevelt and Hull wanted the British to advance to the Saudis the necessary financial aid. Jones had already contacted Lord Halifax, the British ambassador, about the matter. Since Britain was receiving lend-lease aid from the United States at the time,

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<sup>13</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25436-38, 25415.

subsidies by it to the Saudi government would amount to indirect United States assistance.<sup>14</sup>

The London government agreed to increase its aid to Saudi Arabia. During 1941 British aid amounted to about \$5.3 million, and during 1942, about \$12.1 million.<sup>15</sup>

Upon hearing from Hopkins, Moffett met with Jones and protested the administration's decision. He noted that the company wanted British assistance only as a supplement to advances from the American government and Casoc. Moffett pointed out that the British would gain a dominant position in the Saudi kingdom if the American government permitted them to be the major source of outside aid. William S. S. Rodgers, chairman of the board of Texaco, voiced the same concern when he said,

. . . that was one of the most obvious steps that had been made along the route that [sic] we have been afraid of all the time over there, the encroachment of the British into the oil picture in Saudi Arabia. I never feared the loss of the concession, but I was mightily afraid that we might, through some ingenious means such as this, lose a portion of our control.<sup>16</sup>

Frustrated in their efforts to lessen what they thought would be increased British influence in Saudi Arabia, Casoc officials felt that

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<sup>14</sup>Ibid., 25415; U.S. Senate, CR, 80th Cong., 2d sess., 1949, 94, pt. 4:4937.

<sup>15</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25381.

<sup>16</sup>Ibid., pp. 25094-95.

. . . the money that the Saudi Arabian government was receiving from the British was in effect money that we have passed over to the British, and we, as a company, felt that the United States government should be getting the credit for it rather than the British.<sup>17</sup>

Casoc officials believed the British were increasing their influence in Saudi Arabia at American expense. Casoc feared that British prestige and influence would be so enhanced that Saudi Arabia might be drawn economically into the sterling area and that the companies might not be able to maintain the American character of the enterprise. Specifically, Rodgers pointed out that

We felt that the United States should receive the credit for the advances which would actually come from American sources, and that it should use this opportunity of cementing friendship between Saudi Arabia and the United States by going directly to the assistance of the king.<sup>18</sup>

Casco fears of British influence in Arabia, in the opinion of some government officials, were unwarranted. Herbert Feis, an economic adviser in the Department of State and a member of the interdepartmental committee on petroleum policy, pointed out that there seemed to be scant evidence that either the British government or British oil companies were deliberately attempting to oust or injure American

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<sup>17</sup>Ibid., p. 25090.

<sup>18</sup>Ibid., p. 24805.

interests. He thought the British probably tried to accommodate their activities with the Americans.<sup>19</sup>

Had it not been for the economic and strategic importance of Saudi Arabia, Casoc, the Americans, or the British probably would not have ventured much assistance to such an "ill-administered regime." But Casoc officials had to make the best of a difficult position. Under pressure from Ibn Saud, Casoc continued financial assistance to the king. The company advanced to the Saudi government \$2.4 million above royalties during 1941 and \$2.3 million during 1942. Fearing that the influence of the British would become too great in Saudi Arabia, Casoc officials let it be known among Saudi government officials that the British aid was possible only through special arrangements with the president of the United States. Throughout 1941 and 1942, company representatives tried to conceal their fear that Ibn Saud might cancel Casoc's concession. Nonetheless, fear was clearly indicated in the voluminous correspondence between company representatives in Saudi Arabia and company executives in San Francisco.<sup>20</sup>

Casco officials were not without friends in the Roosevelt administration, some of whom had worked hard to advance the

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<sup>19</sup>Herbert Feis, Three International Episodes: Seen From E. A. (New York, 1947), pp. 110-11.

<sup>20</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25381, 25429-35, 25116.

interests of the oil industry in Washington. It was not improbable that the oil companies had sought the appointment of their advocates to key governmental positions in order to advance the companies' economic interests. The final report of the Senate Committee Investigating Petroleum Arrangements with Saudi Arabia asserted that

. . . When the Aramco interests first came to Washington on the idea of taking more active interests in the Arabian oil field, they infiltrated our government with a technique which was extremely intriguing, putting men from these various oil companies into various key positions in our State Department and into the oil picture where, at any rate, they would be fully informed regarding the evolution of our oil policy, and be able perhaps to exert a very considerable influence upon its evolution.<sup>21</sup>

An example of an oil company advocate was Max Thornburg who was a vice-president of Bapco and Caltex. Thornburg was appointed in July, 1941, as a special assistant to the under-secretary of state. He played a significant role in the negotiations and correspondence between Casoc officials and the administration during 1941 and 1942. Thornburg also counseled the Department of State on all matters concerning oil. Herbert Feis, the economic adviser to the department, and one who participated in the appointment of Thornburg, discovered in September, 1943, that Thornburg was receiving annual compensation of \$29,000 from Casoc while drawing an annual salary of \$6,000 from the government. As a result,

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<sup>21</sup>U. S. Senate, CR, 80th Cong., 2d sess., 1949, 94, pt. 4:4937.



Feis transferred Thornburg from the Department of State Committee on International Petroleum Policy, which dealt with Middle East oil affairs, to another committee in the department. Feis was not certain that Thornburg was "planted" in the Department of State, but Secretary of the Interior Harold L. Ickes commented that he thought Thornburg's "principal interest . . . in the government, was to protect the interests of the big integrated companies." Senator Owen Brewster of Maine, chairman of the committee investigating petroleum arrangements with Saudi Arabia, emphatically believed that Thornburg "was planted" in the Department of State.<sup>22</sup>

It appears from Thornburg's record that he had worked harder to promote the interests of private enterprise than to promote the interests of the United States government. Thornburg's correspondence with Reginald Stoner, vice-president of Standard Oil of California, shows his attitude clearly. This correspondence illustrates that at least part of Thornburg's preoccupation in his government position was with the welfare of the oil companies operating in Saudi Arabia. In a letter to Stoner dated September 29, 1941, Thornburg, for example, stated that although Karl Twitchell's aims in connection with a suggested agricultural mission to Saudi Arabia were good, "his interests are not ours." By

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<sup>22</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25213, 25304, 25212, 25262; Feis, Seen From E. A., p. 120.

"ours" Thornburg apparently meant the oil companies active in the Saudi kingdom.<sup>23</sup>

Whatever assistance was rendered to Casoc from its friends in the administration, the president was not inclined to provide the Saudi government with American aid during 1941 and 1942. For the time being, oil company officials admitted failure.

## II

United States entry into World War II put Saudi Arabia and the Middle East in a new dimension. The American government could no longer remain indifferent, for the German advances across North Africa focused on the Suez Canal and Middle Eastern oil. Thus Saudi Arabia's oil and stability assumed greater significance in American policy.

Casoc, still fearful of British dominance in Saudi Arabia, especially since London had increased its aid in the last two years, wanted again to impress upon the American government the need for direct American aid to the Saudi government. The new role of the Middle East, company officials thought, would strengthen their case. Moreover, Casoc was no longer able to advance financial aid to Saudi Arabia

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<sup>23</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia pp. 25444-45; U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4953.

for 1943 beyond oil royalties, as it did in the previous two years.<sup>24</sup>

The company's alarm over British behavior and activities in Saudi Arabia increased at the end of 1942, when company officials discussed with Ibn Saud and the British representatives the king's needs for 1943. Casoc officials believed that the British were trying to bring Saudi Arabia into the sterling bloc, for the British suggested the creation of a currency control board for Saudi Arabia in London. The board was to include a British government representative, a representative of the Bank of England, and the Saudi ambassador in Britain. Furthermore, the British sent a mission to Saudi Arabia to destroy locusts. The mission, Casoc officials complained, was infested with British geologists whose purpose was "just a scheme to get in and get their hands on the oil concession." Despite Ibn Saud's rejection of the currency control board, Casoc's fears of British intentions remained.<sup>25</sup>

In reality the proposed British currency control board was an honest attempt of the British government to convince the king to approve some sort of competent financial administration for money they were supplying to the Saudis. Company fears were unwarranted.<sup>26</sup>

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<sup>24</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25384.

<sup>25</sup>Ibid., p. 24830.

<sup>26</sup>Ibid.

Nonetheless Casoc executives became more determined in early 1943 to persuade the American government to extend direct aid to Saudi Arabia. During January and February, company officials had a series of meetings with the secretaries of the interior, war, navy, and state. In these meetings the company emphasized the richness of Saudi oil reserves and their fear that the British were infringing on Casoc's concessions. Company officials also noted that they had tried earlier to obtain direct United States assistance to Saudi Arabia, but the Department of State had blocked their efforts; if State continued to stymie their efforts, they suggested, the American oil concession might be cancelled and given to British interests. They stressed, especially with Ickes, who had been appointed petroleum administrator for war in December, 1942, the urgent need to save the situation, and hoped he could impress the president with the urgency of the matter. Ickes, in reply, asked William S. S. Rodgers, chairman of the board of Texaco, and Harry D. Collier, president of Casoc, in his meeting with the two men on February 5, to submit the facts in an official letter to be brought to the attention of the president. On February 8, Rodgers submitted the requested letter to Ickes and attached a memorandum in which he explained the nature of Casoc's concession and its development and suggested a means by which the American government might approve lend-lease aid to the Saudi kingdom. In this proposal, Casoc suggested setting aside a specified

oil reserve for the United States government, at prices below the world market, if the "British government's present creditor position could be transferred to the United States by crediting to the British government's lend-lease debt to the United States the amount now owed by the Saudi Arabian government to the British government." Moreover, the company proposed allocating additional oil reserves to guarantee to the American government the recovery of at least part of its lend-lease advances to Saudi Arabia. This reserve would be delivered to the American government any time it was needed. The overall tone of the proposal emphasized Casoc's fears of British domination of the oil resources in Saudi Arabia.<sup>27</sup>

Officials in the Department of State, who had steadfastly opposed direct American aid to Saudi Arabia during 1941 and 1942, now reconsidered their position. Unexpectedly, Casoc found an ally within American diplomatic circles. On the basis of a new evaluation from the American minister in Egypt, the Near East Affairs Division in the department recommended direct aid under lend-lease. The minister, in a message to the department, pointed out that, in fairness to the British, there seemed no indication that they wanted to gain political advantages out of this aid, that it was a pity that the United States was not contributing, and that he hoped that American aid could be arranged. The Near East

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<sup>27</sup>Ibid., pp. 25232, 25204, 24857; U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4947-48.

Division now wrote a memorandum to Assistant Secretary of State Dean Acheson, recommending lend-lease aid to Saudi Arabia. The division's recommendation was now justified, not on a legal basis, as the argument had centered before, but on the basis that Ibn Saud had granted the United States army non-stop fly-over privileges which were vital to Allied communications with the Soviet Union and the Far East; that the king, who was influential in the Muslim world, was an Allied supporter; that the Dhahran oil fields were the nearest supply area for all of the Allied forces in the Near East and North Africa; and that the British, who had increased their aid to the king in the last two years, might demand oil as repayment. The memorandum concluded that lend-lease to the Saudi king would strengthen his support for the Allied cause. Dean Acheson endorsed the memorandum and passed it to Edward R. Stettinius, the lend-lease administrator.<sup>28</sup>

On January 11, Stettinius sent a memorandum to President Roosevelt in which he pointed out that Saudi Arabia was the only large country in the Middle East which had not been made eligible for American lend-lease aid. To support the

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<sup>28</sup>American minister in Egypt, Alexander Kirk, to secretary of state, 22 May 1942, 711.90f/221; Paul Alling of Near East Affairs, "Memorandum to Assistant Secretaries of State Dean Acheson and Adolf Berle, Jr.," 14 December 1942, 711.90f/415; and Assistant Secretary of State Dean Acheson to director of lend-lease administration, Edward Stettinius, 9 January 1943, 711.90f/14.

Saudi case, Stettinius recounted the Department of State's justification for aid.<sup>29</sup>

Casoc's position had strong support from two major officials--Harold Ickes, petroleum administrator for war, and Edward Stettinius, the lend-lease administrator. The arguments impressed the president. Ickes conferred with Roosevelt on February 16, reiterating the position outlined in the Rodgers memorandum. Although Ickes later denied that he sanctioned lend-lease aid to Saudi Arabia, Roosevelt informed the lend-lease administrator on February 18, 1943, that

. . . by Executive order No. 8926, dated October 28, 1941, and in order to enable you to arrange for lend-lease aid to the Government of Saudi Arabia, I hereby find that the defense of Saudi Arabia is vital to the defense of the United States.<sup>30</sup>

The official reasons for granting lend-lease to the Saudi government were the important geographic location of the Arabian peninsula, the oil resources of the area and their vital importance for the war effort, and the increasing influence of King Ibn Saud among Muslim leaders.<sup>31</sup>

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<sup>29</sup>Director of lend-lease administration, Edward R. Stettinius, "Memorandum to the President," 11 January 1943, 711.90f/19.

<sup>30</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 24861; U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4948.

<sup>31</sup>Richard Sanger of Near East Affairs, "Department of State paper covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147; U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 24921-22.

The efforts of Texaco and Casoc during three years paid off. The oil companies were relieved of financing Saudi Arabia; their position and prestige with the king were enhanced; and, for the first time, the United States government was committed to protect the American oil concession in Saudi Arabia. Saudi Arabia's connection with the national interest and security of the United States was clear. These developments removed the possibility of British penetration of mainland Arabia. This was so because American oil interests, who dominated the oil production in Saudi Arabia, were assured of a continuous dominance by the introduction of the American government into the picture. This introduction had removed any chances for British oil interests to be a participant in the oil production of the Saudi kingdom.

Under instructions from the Department of State, the American minister in Egypt, Alexander Kirk, visited Saudi Arabia during April, 1943, to explain the procedures of handling and delivery of lend-lease aid. The minister assured the king that the substantial needs of Saudi Arabia would be met under the program, with priority of course given to the supply of Allied military forces in the area. Saudi requests for supplies would be presented to the American representative at Jiddah, and the latter would transmit them to the Middle East Supply Center (MESC) in Cairo, an



Anglo-American agency authorized to handle all lend-lease materials for the area.<sup>32</sup>

In September, 1943, a United States Treasury representative, John W. Gunter, was sent to Saudi Arabia to study Saudi financial needs and assist in development of a sound financial administration. As a result, there was an arrangement to meet a shortage of silver in the kingdom. The Treasury Department sent several shipments of silver coins under the lend-lease program to Saudi Arabia between 1943 to 1945.<sup>33</sup>

Also during September of 1943, President Roosevelt sent Brigadier General Patrick J. Hurley to Saudi Arabia to investigate the United States' oil position there and arrange for a state visit from that country. In early October, the king's son, Amir Faisal, paid an official visit to the United States. Faisal's discussions with American officials in Washington included the lend-lease program, the shipment of arms and ammunition, automotive and medical supplies, and general Saudi economic needs for the coming two years. As a result of Faisal's visit to the United States, a joint Anglo-American military committee decided in early 1944 to supply

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<sup>32</sup>Secretary of state to American minister in Egypt, Alexander C. Kirk, 6 March 1943, 711.90f/98; American minister in Egypt, Alexander C. Kirk, to secretary of state, 26 April 1943, 711.90f/126.

<sup>33</sup>Near East Affairs, "Memorandum of conversation between Near East Affairs officials and John W. Gunter," Department of the Treasury, 17 July 1943, 711.90f/261; and Near East Affairs, Memorandum, 1 November 1943, 711.90f/861.

Saudi Arabia with military arms and equipment under the lend-lease program. The decision was based on the need of this material for the internal security of the Saudi kingdom, which the committee affirmed was essential to the security of the Allied forces in the Middle East.<sup>34</sup>

Total United States government advances to Saudi Arabia under the lend-lease program for the duration of the war were \$33,008,507. Of this amount a total of \$17,869,000 was considered nonrecoverable. Through a joint Anglo-American program, the nonrecoverable portions advanced by the United States to Saudi Arabia were matched by equal advances from the British. Nonrecoverable aid from this joint program was in the form of food materials, cotton, medical supplies, and automotive repair parts.<sup>35</sup>

The American lend-lease aid to Saudi Arabia sustained the Saudi government through a wartime financial crisis which threatened the internal security of the country. The lend-lease program was an investment in goodwill justified by Saudi Arabia's strategic location and importance for the Allied cause, by the Allied forces' need for oil, and by potential American oil interests in Saudi Arabia.

Although the aid program was officially terminated on August 17, 1945, the Saudi government continued to receive

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<sup>34</sup>American minister in Saudi Arabia, James S. Moose, to secretary of state, 25 October 1943, 711.90f/665.

<sup>35</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4949.

lend-lease supplies during 1943 and 1946. While the American aid was substantial, the British government's nonrecoverable aid to Saudi Arabia during wartime exceeded that of the United States.<sup>36</sup> Nonetheless, the American aid program to Saudi Arabia tied the American and Saudi governments in a promising long-term friendship. The Saudi oil resources had become so vital to American national security interests that the United States needed to guarantee the continuous flow of oil.

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<sup>36</sup>The United Kingdom's nonrecoverable aid totaled approximately \$51 million.

## CHAPTER VI

### THE PETROLEUM RESERVE CORPORATION: SAUDI OIL CONCESSION, GOVERNMENT OWNERSHIP?

To guarantee the supply of oil for United States armed forces during wartime, Harold Ickes wanted the president to form a Petroleum Reserve Corporation (PRC). This Corporation, the secretary envisioned, would, among other things, buy the Saudi concession from the oil companies. President Roosevelt accepted the idea, which had the support of some government departments, and he approved the formation of the PRC on June 30, 1943. Negotiations with the companies started in earnest in late summer, 1943. At first the companies were eager to sell at least part of their concession, but finally refused the idea altogether. This refusal came after strong opposition to the project from inside and outside the oil industry.

As the war progressed, the question of assuring oil supplies for the armed forces became more pressing. Some government departments began to conduct surveys of oil reserves abroad. The Department of State was first to be concerned about such reserves. Within the department, a committee on international petroleum policy was formed in early January, 1943. The committee was composed of the economic and petroleum advisers and the head of the

geographic division, and was chaired by Herbert Feis. The committee met for the first time on January 11, 1943. Deliberations of the committee covered oil reserves abroad, aid to Saudi Arabia, and Casoc relations with the Saudi government. After two months of deliberations the committee submitted three recommendations to the secretary of state: that lend-lease aid be given to Saudi Arabia in exchange for an option on oil; that an international oil agreement be sought; and that a government corporation (PRC) be formed to direct government operations connected with the acquisition, development, and conservation of foreign oil reserves. The committee wanted the corporation to own or have the option to buy foreign oil reserves. This was the first proposal for a PRC.<sup>1</sup>

In view of the potential importance of such a corporation, the secretary of state asked the committee to elaborate on the proposal. The petroleum committee explained that the functions of the proposed PRC would include promotion of and participation in international agreements on the exploitation of oil reserves and their development; the corporation would watch over foreign oil reserves to assure their safety; it would develop good relations with foreign governments; it would assist producing companies or foreign

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<sup>1</sup>Richard Sanger of Near Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147.

governments where reserves existed; and it would formulate long-range petroleum policy. The secretary of state instructed that copies of the committee's proposal and recommendations be circulated to the War, Navy, and Interior Departments, and several conferences were held among officials of these departments during April and May.<sup>2</sup>

By early June, Harold Ickes, the secretary of the interior, became the sponsor of the proposed corporation. Ickes, as previously shown, was instrumental in convincing President Roosevelt to approve lend-lease for Saudi Arabia. He was in turn impressed by company executives' arguments which linked the oil question with the general welfare and interest of the United States. Meanwhile, his suspicions of the British had grown, as had his fears of the Saudi king's vulnerability after he had read the Rodgers' memorandum concerning establishment of a British bank in Jiddah.<sup>3</sup> As petroleum administrator for war, Ickes believed the most pressing and urgent need was the continuous flow of petroleum for the war machinery. Although he approved the arguments of company executives concerning lend-lease aid to Saudi Arabia, he acted for other reasons of his own. His scheme was for the government to step in not only as a customer, as the oil company executives envisioned, but also

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<sup>2</sup>Ibid.

<sup>3</sup>W. S. S. Rodgers in an earlier memorandum cautioned against British economic designs in Saudi Arabia (see above pp. 108-9).

as an outright owner of resources. Ickes believed that the government would be in a better position to acquire concessionary rights if lend-lease were granted.<sup>4</sup>

In a letter to President Roosevelt on June 10, 1943, Ickes stressed that the United States would face a shortage in crude oil by late 1944, that the United States should obtain a proprietary and managerial interest in overseas petroleum reserves, that the United States government ought to establish a PRC to be administered by the Department of Commerce, and that the proposed corporation ought to acquire a participating and managerial interest in the crude oil concessions then held in Saudi Arabia by the California-Arabian Oil Company. This acquisition, Ickes concluded, would meet the demands of the United States army and navy and would "serve to counteract certain known activities of a foreign power which presently are jeopardizing American interests in Arabian oil reserves."<sup>5</sup>

In suggesting this proposal, Ickes was influenced by the company's arguments, which stressed that British oil interests were mostly owned by the British government, that private American companies could not compete with the British government, that the only way to prevent the cancellation of the American concession by Saudi Arabia was direct United States

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<sup>4</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 24725-26, 24801.

<sup>5</sup>Ibid., pp. 25237-38.

government involvement there, and that aid to Saudi Arabia through lend-lease funds was the solution. Thus Ickes saw the ultimate answer to be in creating a government agency to acquire the oil concession. Although the proposed corporation was very broad in nature and covered all possible overseas areas, its main objective was the oil concession in Saudi Arabia.<sup>6</sup>

In early June, a majority of officials in the Army, Navy, and State Departments supported Ickes' position. The depletion of American oil reserves and the below capacity production of Saudi oil influenced the thinking of these officials.

On June 8, 1943, the United States Joint Chiefs of Staff sent a report to the president in which they stressed their concern about United State oil reserves. In their view a way had to be found to guarantee future oil supplies through the government's acquisition of foreign oil concessions. The United States government, the chiefs suggested, should start negotiating directly with Ibn Saud to acquire an oil concession. Admiral William Leahy discussed the report with the secretary of state. Nonetheless Roosevelt and his advisers rejected the proposal as impractical, because they thought such negotiations with Ibn Saud might prejudice the company's position as an exclusive owner of the Saudi

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<sup>6</sup>Ibid.



concession. Anyway, all areas of potential oil reserves in Saudi Arabia lay within Casoc's concession.<sup>7</sup>

On June 11 and 12, the director of the office of war mobilization, James F. Byrnes, presided over meetings in the White House which were attended by the Secretary of War Henry Stimson, Secretary of Navy Frank Knox, Secretary of the Interior Harold Ickes, and Herbert Feis of the Department of State. Discussions in these meetings revealed two divergent opinions. Ickes and Knox believed the government, should obtain stock ownership in the Saudi oil concession while Stimson and Feis favored option contracts with Casoc. Feis pointed out certain disadvantages of stock ownership. Saudi Arabia might object to such a plan because provisions of the concession agreement forbade Casoc from transferring any of its ownership rights without approval of the Saudi government. Furthermore, government ownership in such companies would encourage competition between a government-controlled agency and private companies. Feis feared such action might stimulate movement for nationalization abroad. Feis and his committee favored a PRC which would be administered by a board of directors formed of representatives from the State, Interior, War, and Navy Departments, with the State Department representative as chairman. At the end

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<sup>7</sup>Office of the adviser on international economic affairs, William Leahy, to secretary of state, 11 June 1943, 711.90f/132; Hull, Memoirs, II, 1518-19.

of these meetings the committee agreed to solicit the opinion of the secretary of commerce.<sup>8</sup>

All concerned parties agreed that a PRC be created, but Ickes and Hull disagreed on the functions of the corporation. While Ickes strongly suggested the purchase of all, or controlling share, of the stock of the oil companies in Saudi Arabia and Bahrain, Hull opposed the government's becoming a partner in the oil business and proposed instead a contract with the oil companies for oil reserves to be delivered to the American government when needed. Hull added that even before attempting any action on Ickes' proposal to purchase Casoc's stock, it was imperative to determine Ibn Saud's attitude toward the purchase, since one of the provisions of the oil concession clearly prohibited the company from transferring any of its obligations or privileges to anyone without the approval of the Saudi government.<sup>9</sup>

Ickes communicated his view to the president in his letter of June 10. Hull, in opposition to Ickes' views, sent a memorandum to the president on June 14. In this memorandum he noted that

Experience clearly shows that the acquisition and maintenance of foreign concessions required carefully directed negotiations with foreign

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<sup>8</sup>Richard Sanger of Near East Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147; U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4948.

<sup>9</sup>Hull, Memoirs, II, p. 1519.

governments, and these negotiations are always closely connected with other questions in the political and economic field being dealt with at the same time. In each and every negotiation the Department [State] has had to reckon with many and variable factors . . .

It will be recalled that in many conferences after the last war the atmosphere and smell of oil was almost stifling. It is essential that our own efforts in the period ahead be so directed as to achieve our ends without stimulating new restrictive moves on the part of other countries and creating intense new disputes. Nonetheless the Department of State must not be deprived of the role to play in the [PRC] because of the relations of the oil question to foreign policy.<sup>10</sup>

In view of the divergent proposals from the State and Interior Departments, an independent interdepartmental committee on international petroleum policy was formed in mid-June. The committee was composed of representatives from the State, Navy, War, and Interior Departments, who met between June 17 and 24. Despite the objection of State Department representative, the committee recommended the organization of the PRC, with authority to purchase and own petroleum reserves overseas, and with the power to "develop, export, retail, lease or finance such reserves." The Reconstruction Finance Corporation (RFC) would organize such an enterprise before July 1, 1943, with the board of directors for the new corporation to be composed of the Secretaries of State, War, Navy, and Interior. With regard to Saudi Arabia, the committee recommended that

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<sup>10</sup>Position paper on "Petroleum Policy, 1939-1947," Cordell Hull Papers, Library of Congress, Box 58, No. 365, Washington D.C.; Hull, Memoirs, II, 1519.

. . . the interest to be acquired by our government in the Saudi Arabian oil reserve shall be the ownership of 100% of the stock now owning the oil concessions. The corporation which now owns the oil concessions is the California-Arabian Standard Oil Company, a Delaware Corporation. . . . It is [also] suggested that Mr. Byrnes on a confidential basis should inform certain members of Congress of this program . . . to obtain their informal approval in advance of the initiation of the negotiation with the two American companies now owning the concession.<sup>11</sup>

President Roosevelt received the committee's report on June 26, 1943. Four days later Roosevelt authorized creation of the PRC under the subsidiary-creating powers of the RFC. The PRC was empowered

. . . to buy or otherwise acquire reserves of proved petroleum from sources outside the United States, including the purchase or acquisition of stock in corporations owning such reserves or interests therein.<sup>12</sup>

In the view of Herbert Feis, a member of the interdepartmental committee, Harold Ickes was primarily responsible for Roosevelt's decision to create the PRC. The president favored the enterprise because he was convinced that government regulation of the oil resources would insure sufficient oil supplies in time of emergency, that government development of the oil reserves would be carried out without regard for profit or loss, and that oil companies might overcharge

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<sup>11</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4961-62.

<sup>12</sup>Feis, Seen From E. A., p. 124; Hull, Memoirs, II, 1511-27.

the government for oil if the concessions remained under their control.<sup>13</sup>

When the subsidiary-creating powers of the RFC were terminated on July 1, the PRC was transferred to the Foreign Economic Administration, headed by Leo T. Crowley. The president designated Ickes to head the newly organized corporation and to chair its board of directors. The board included Secretaries Hull, Stimson, Knox, and Crowley.

Although Roosevelt had shown interest in and approval of the stock purchase plan as envisioned by Ickes, the Departments of War and Navy gave the purchase plan strong support and wanted to take credit for it. The first order of business for the PRC was to enter into negotiations with representatives of Casoc and Bapco--the Saudi and Bahrain concession owners--to buy part or all of their stock.<sup>14</sup>

The interdepartmental committee on petroleum policy favored purchase of the entire stock of the companies holding the Saudi and Bahrain oil concessions. The committee feared German advances in North Africa and their threat to the Middle East, and believed the United States must be prepared to defend the oil fields in Saudi Arabia and Bahrain. The government's position, most of the committee members thought,

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<sup>13</sup>Feis, Seen From E. A., pp. 123-24, and Petroleum and American Foreign Policy (Stanford University, California, 1944), p. 37.

<sup>14</sup>Feis, Seen From E. A., p. 122.

would be stronger if these fields were government-owned. In addition, Washington must assert its influence in the Middle East in order to neutralize the positions of Great Britain and the Soviet Union. Finally, the committee believed that the oil companies, due to wartime conditions, would not take the economic risks necessary for further expansion of oil production without the participation of the United States government.

Herbert Feis argued against the purchase of the entire stock. To him, that action would give the operators in the field a false sense of security because they would believe that the United States would defend the concession area. He also feared that public ownership of the concession might lead to unnecessary disputes with, and possibly attacks from, private enterprise. In short, Feis doubted that the purchase of the entire Saudi concession was essential to America's defense, and he saw the purchase as an infringement upon private business.<sup>15</sup>

On August 9, 1943, Harold Ickes, armed with Roosevelt's support for the stock purchase plan, headed the government team to negotiate with the representatives of Casoc and Bapco. With Ickes were Herbert Feis and William Wintz, under-secretary of the interior. Ickes' initial proposal to buy the entire stock outraged company representatives, Harry D. Collier and William S. S. Rodgers, for the plan seemed

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<sup>15</sup>Feis, Seen From E. A., pp. 115-18.

far more sweeping than they had anticipated. Nevertheless, the negotiations continued.<sup>16</sup>

After company representatives refused to sell all of the stock, Ickes gradually reduced his purchase offer to 70 percent of the stock, to 51 percent, and then to 33 percent. Under the last proposal the government and the companies would share representation in the board of directors, the companies would maintain supervision of commercial operations, and the government would have ultimate authority in policies relating to national security.<sup>17</sup>

As Ickes amended the government's offer, company representatives appeared to soften their position and seemed eager to sell. Surprisingly, however, the companies refused to sell any stock. In Ickes' view, the course of the war in North Africa influenced the companies' willingness to sell. In late summer of the previous year, Rommel appeared ready to overrun the Middle East after reaching el-Alamein--close to the Suez Canal. Later, in the summer of 1943, after the German setback in North Africa, the military fortunes of the Allies looked brighter. The change in the military picture caused a change in the companies' stand. In October the companies no longer wanted to sell even the one-third agreed upon earlier. While they wanted the government to assume

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<sup>16</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25234.

<sup>17</sup>Feis, Seen From E. A., p. 132.

direct diplomatic responsibility for United States oil enterprises, they did not want the government to own any part of them. Consequently, negotiations broke off on November 3. In describing these negotiations Ickes stated that

. . . they came up here . . . and built a fire under us on the theory that this was an attempt on the part of the government to take over a private business enterprise, which, of course, was against the American tradition, as they put it and perhaps was. But this was more than a business enterprise, this involved the defense and safety of the country, and I felt if there ever should be exception it would be proper in that case.<sup>18</sup>

Company executives busily lobbied congressional leaders to oppose the executive branch in the purchase of the Saudi and Bahrain oil concessions. Ickes bitterly noted that these executives

. . . were reaching into certain members of the Senate and House to oppose any deal of any sort, and at the same time just polly-foxing and stringing us along.<sup>19</sup>

William Rodgers, the chairman of the board of Texaco, blamed Ickes for termination of the negotiations. He said

When I went into that meeting that day, I had been talking with Secretary Ickes that morning, and I thought we were just about of a meeting of minds . . . and we would go into the meeting that afternoon, and without any preliminary remarks at all, Secretary Ickes said the deal

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<sup>18</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25240-41; U.S. Senate, CR, 80th Cong., 2d sess., 1948 94, pt. 4:4948.

<sup>19</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25240-42.



is all off. I have done a lot of trading in my day, but I have never had anything like that happen before.<sup>20</sup>

Secretary of State Hull opposed the activities and certain policies of the PRC as conducted by Secretary Ickes. Under Ickes' directives, the PRC began to develop plans for the injection of the government into oil fields not only in Saudi Arabia but in other areas as well. The PRC drew up plans for expanding operations of the Anglo-Iranian Oil Company, a wholly British-owned concern, through a refinery in India and a new pipeline to the Mediterranean from the British-controlled Iraq oil fields. In a letter to Ickes dated November 13, 1943, Hull complained that these activities might weaken Casoc's and Texaco's positions with the Saudis. Hull also objected to the PRC's attempts at aiding the expansion of British oil interests. Such action, Hull asserted, would retard development of American enterprises, jeopardize their holdings, and tend to make the United States dependent on British oil in the future. Furthermore, Hull charged that the failure of the negotiations with the companies was due to these "overambitious" plans of the PRC.<sup>21</sup>

Several obstacles accounted for the failure of the stock purchase plan by the government. First was the difficulty of agreeing on a price for a concession which had been

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<sup>20</sup>Ibid., p. 24868.

<sup>21</sup>Hull, Memoirs, II, 1520-21.

developed slowly and under difficult circumstance. In addition, the companies were afraid that the government might go into the oil business in all foreign oil investments, and thus prejudice chances of other companies in securing overseas concessions and lead to overall government control of the oil industry. Furthermore, the companies' lobbying in the Congress against such a plan and the lack of a precedent contributed a great deal to that failure. In fact, the Roosevelt administration was always under pressure from conservative opposition, which accused it of continuous encroachments upon private enterprise. Failure of the government's stock purchase plan led to increased opposition to the PRC inside and outside the oil industry. Ralph T. Zook, president of the Independent Petroleum Association, for example, vehemently attacked the PRC in his statement of January 6, 1944, accusing the PRC of infringement upon private enterprise. The Petroleum Industry War Council did the same in its resolutions of December 9, 1943, and January 10, 1944. Had the government's plan succeeded, it would have marked an important departure in United States foreign economic policy --the first time the United States government would have owned foreign oil properties.<sup>22</sup>

In view of the failure of the stock purchase plan and the pressing needs of the Allied war machinery during 1943

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<sup>22</sup>Feis, Petroleum and American Foreign Policy, p. 39.

and 1944, Ickes, as the petroleum administrator for war, developed a new idea. He proposed that the American government in conjunction with a private oil company finance and build an oil refinery with a 100,000 to 150,000-barrel capacity on the Persian Gulf. The interdepartmental committee on petroleum had strongly recommended construction of an oil refinery as early as June, 1943. It was considered an alternative if the stock purchase plan failed. In this regard, the committee had stated in its June 26, 1943, report that

matters connected with the construction of an oil refinery for the Saudi Arabian fields are primarily questions of military policy and as such should be determined by the Army and Navy Petroleum Board . . . [but] it is suggested that such programs . . . go forward without delay and that questions as to the ultimate financing and ownership be reserved for future determination.<sup>23</sup>

After Ickes had Roosevelt's approval of the refinery plan, he headed a team of government negotiators in a series of meetings with company representatives during January, 1944, to discuss construction needs. Company representatives declared that such a project was impractical and that war conditions precluded any attempt at such an enterprise. Later, the companies informed Ickes and his team that they had decided to build, without government participation, a refinery of 50,000-barrel capacity. The companies decided to build the refinery at Ras Tannura, the pipeline terminal

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<sup>23</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948 94, pt. 4:4962.

from Dammam, where Casoc had originally built its own small refinery in 1940.<sup>24</sup>

The American Joint Chiefs of Staff gave the refinery project top priority for steel and other vital materials needed for the construction, which started in March, 1944, financed entirely by the companies. The government, by issuing a 35 percent certificate of necessity, permitted the companies to charge off 35 percent of the cost over a number of years. The entire cost of the project to the companies was about \$70 million.<sup>25</sup>

Increased opposition to the PRC finally culminated in mid-January, 1944, in a move in Congress to dissolve the corporation. The move was led by Oklahoma Senator Eugene H. Moore and Senator Owen Brewster, a leading Republican opponent of the administration. The two senators introduced a joint resolution on January 21 to liquidate the PRC (S. J. Res. 110). The resolution was referred to the Committee on Interstate Commerce, where it failed to get a majority vote. On March 6, 1945, Senator Moore introduced another resolution (S. J. Res. 42) to the same effect; it was referred to the Committee on Banking and Currency, where the resolution also failed. On September 27, 1945, by Executive Order No. 9630,

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<sup>24</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, 24863-65; Feis, Petroleum and American Foreign Policy, pp. 38-44.

<sup>25</sup>Ibid.; Capacity of the refinery was enlarged to 113,000 barrels daily.

the PRC was transferred to the RFC, whose name shortly thereafter was changed to War Assets Corporation. A second Executive Order, No. 9689, of January 31, 1946, merged the Surplus Property Corporation with the War Assets Corporation to form the War Assets Administration.<sup>26</sup>

The initiative of the ever-active secretary of the interior, however, did not stop. Ickes devised another plan by which the United States government could become a partner in the oil concession in Saudi Arabia. This plan will be discussed later in this study. Meanwhile, the significance of the Saudi kingdom for United States security requirements led to more active relations between the two countries.

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<sup>26</sup>Richard Sanger of Near East Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147.

CHAPTER VII  
SAUDI-AMERICAN RELATIONS,  
1943-1945

After the granting of lend-lease aid to Saudi Arabia in 1943, American contacts with that country increased sharply. These contacts included diplomatic representation, the sending of missions, the building of communication equipment and other domestic projects, and the meeting of officials.

I

Increased contacts between Saudi Arabia and the United States in the latter part of the war period was seen first in the diplomatic representation between the two countries. James S. Moose was first appointed as chargé d'affaires in March, 1942. Later, American representation was increased to a minister resident, in July, 1943. Under pressure from Aramco and with special permission from the Saudi government, the Department of State opened an American consulate in Dhahran, near the east coast, in March, 1944. All foreign embassies, it should be noted, are confined to Jiddah, on the west coast, and they are not permitted, especially those of non-Muslim countries, to have any establishments anywhere else in the country. This has been done for religious purposes; non-Muslim foreigners are not welcome in the Holy

cities of Mecca and Medina. The American consulate in Dhahran was the only foreign establishment on the east coast.<sup>1</sup>

Colonel William A. Eddy, who was first appointed as a special assistant to the American minister in Saudi Arabia and general envoy to the Middle East, became the first American minister plenipotentiary in Saudi Arabia on August 11, 1944. Eddy was born in Sidon, Lebanon, of American missionary parents, and spoke fluent Arabic. He taught at the American University at Cairo and at Dartmouth, and served as president of Hobart College, 1936-1944. The appointment delighted Saudi officials, for Eddy's background suited his new position. Eddy served in Saudi Arabia until 1946.<sup>2</sup>

During the war period the United States also became generally more concerned about issues and policies in the Middle East, in particular Saudi Arabia. Thus, during 1944 and 1945, when negotiations between the Arab states were progressing toward the establishment of an Arab confederation (later called the Arab League), the United States indicated interest in and approval of the idea. The secretary of state stressed the need for economic improvement and development throughout the area. In American thinking, Saudi Arabia and the Middle East became increasingly connected to United

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<sup>1</sup>FR, 1943, IV, 834-40.

<sup>2</sup>Department of State Bulletin (hereafter cited as DSB), 11 (August 13, 1944): 168.

States security and national interest. Consequently, different contacts were initiated between the two countries.<sup>3</sup>

## II

The first of these contacts was the sending of an American agricultural mission to Saudi Arabia, headed by Karl S. Twitchell. Twitchell, as previously noted, had participated in negotiating the Casoc oil concession in Saudi Arabia in 1933 and had accompanied Casoc's first oil exploration trip in 1934. In that year Twitchell resigned from Casoc and joined the service of King Ibn Saud as an engineer and consultant on matters related to natural resources. Twitchell's original endeavor when he first visited the king in 1931 was to advise on the development of water resources. Prospects for such development seemed remote, and attention was diverted to explorations for oil and gold. The king, however, kept reminding Twitchell of the need to improve water supplies. When drought struck Saudi Arabia in the late 1930s and war-time shipping difficulties cut imports of foodstuffs, the need for developing water resources for agriculture became urgent. In mid-August, 1940, the king summoned Twitchell and consulted him about the matter. Ibn Saud suggested that Twitchell solicit the help of private American companies who might be interested in developing such projects in the Saudi kingdom.

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<sup>3</sup>FR, 1943, IV, 840-52.



In September Twitchell traveled to the United States, where he approached several companies for capital and expertise to satisfy the king's request. Twitchell's trip was not successful, and on returning to Saudi Arabia he suggested that Ibn Saud request assistance from the United States government. The American government, Twitchell pointed out, could at least send a mission to make agricultural surveys and recommendations.<sup>4</sup>

In October, 1940, the Saudi government gave Twitchell an official letter for the American government requesting an agricultural mission to investigate possible irrigation and related projects in Saudi Arabia. Twitchell relayed the request to the Department of State and lobbied for its approval during the remainder of 1940 and early 1941. The Department of State solicited the opinion of the American embassy in Cairo, where Alexander Kirk, the American minister, advised against an agricultural mission, since there was no representation between Saudi Arabia and the United States. In Kirk's view, the presence of a consular officer in Jiddah was essential as a "condition precedent" for approval of an agricultural mission.<sup>5</sup>

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<sup>4</sup>U.S. Senate, Committee on Military Affairs, Warren R. Austin, transmits a memo by Karl S. Twitchell about "American Aid to Ibn Saud," to secretary of state, 15 May 1941, 890f.001/2, Twitchell here recommends an agricultural mission to Saudi Arabia; Karl S. Twitchell, Saudi Arabia, pp. 165-66.

<sup>5</sup>Karl S. Twitchell to Wallace Murray of Near East Affairs, 14 May 1941, 711.90f/8; Paul Ailing of Near East Affairs, "Memo of conversation with Karl S. Twitchell," 8 September 1941, 711.90f/21; FR, 1939, IV, 824.

Department of State officials, meanwhile, felt that the United States government had not participated in any direct way to ease the economic crisis facing the Saudi government. The sending of an agricultural mission, these officials believed, would at least be a goodwill gesture.

Pondering an agricultural mission to Saudi Arabia, Department of State officials suggested that since no government department had appropriations for projects of this kind, the president might finance the mission out of his emergency funds. On September 26, 1941, after the president's approval, the Department of State acted upon Kirk's recommendation. The department informed Ibn Saud of the desire to open an American legation at Jiddah and the decision to send an agricultural mission, which would arrive with Kirk, who would attend to the formalities of opening the legation in May, 1942.<sup>6</sup>

Meanwhile, Under-Secretary of State Sumner Welles wrote a letter to the president on February 12, 1942, suggesting that Saudi Arabia could be useful as a link between the United States Army North African Mission, stationed on the Red Sea, and the United States Army Iranian Mission, based on the Persian Gulf. With the concurrence of Secretary Hull, Welles suggested to the president the establishment of an airfield

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<sup>6</sup>G. P. Merriam of Near East Affairs, "Memo of Conversation with Karl Twitchell," 19 September 1941, 711.90f/45; Paul Alling of Near East Affairs, "Memorandum to Under Secretary of State," Sumner Welles, 27 September 1941, 711.90f/68.

in Saudi Arabia. Welles' idea appealed to the president, who approved it. Thus Welles instructed Kirk to send with the agricultural mission some army survey officers to study the feasibility of constructing an airfield, but Kirk was told not to inform the Saudi government until the officers had arrived. The question of establishing the airbase would come up every now and then until it was approved in 1945.<sup>7</sup>

The agricultural mission was composed of Karl S. Twitchell as head, Albert L. Wathen, chief engineer in the Bureau of Indian Affairs, Department of the Interior, and James G. Hamilton, of the Soil Conservation Service, the Department of Agriculture. Members of the mission were especially selected from among agronomists who had experience with agriculture in the American southwest, where climate and soil conditions were comparable to those in Saudi Arabia. The president's emergency funds provided a budget of \$50,000 for the mission, which arrived in Saudi Arabia on May 10, 1942.<sup>8</sup>

Members of the mission first inspected al Kharj, located fifty-four miles southeast of Riyadh. Al Kharj was the site of huge natural water wells which varied in diameter from 500 to 1500 feet. The wells provided reason for hope in the middle of a desolate area. If this extensive water supply could

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<sup>7</sup>Under-Secretary Sumner Welles to the president, 12 February 1942, 711.90f/239. The construction of the airfield will be discussed later in this chapter

<sup>8</sup>Karl S. Twitchell, Saudi Arabia, p. 166; Hull, Memoirs, II, 1912; and FR, 1942, IV, 561-67.

be tapped, large tracts of land could be brought under cultivation. The members of the mission also visited other parts of Saudi Arabia until December 5, 1942. Upon their return to the United States they proposed an extensive development for al Kharj which they thought was most promising; they suggested a plan for the increase by more than 50 percent of the productive agricultural capacity of Hofuf, a large oasis located seventy miles east of Riyadh; and they recommended a plan to fill in a swampy area near Jabrin and plant it with palm trees.<sup>9</sup>

Acting upon recommendations of the Twitchell mission, the Foreign Economic Administration of the Department of Agriculture dispatched a group of agronomists in October, 1944. David Rogers of the Department of Agriculture headed the group, which included a soil technician, Walter E. Emerick, an agricultural specialist, Carl W. Quast, and an irrigation expert, Raleigh J. Sanderson. The group, mostly Texans, set out an experimental farm of over 3,000 acres at al Kharj. Despite shortages in supplies due to wartime shipping restrictions, the group tried several planting methods and techniques and experimented with the adaptation of American plants to the Saudi soil. By mid-1945, irrigation ditches were completed, pumps installed, and a variety of crops and trees were successfully grown. The American minister to

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<sup>9</sup>Karl S. Twitchell, agricultural mission leader, Saudi Arabia, "Report to Ibn Saud," 6 November 1943, 890f.001/4; Twitchell, Saudi Arabia, pp. 172-76.

Saudi Arabia reported to the secretary of state that the group's success at al Kharj was remarkable. The minister believed that a plan for a larger permanent mission should await availability of larger resources and that the program should be one which the king wanted and not one devised at a distance. Aramco executives gave generous help to the group in men and equipment. The work of the Rogers mission continued throughout 1945.<sup>10</sup>

### III

The need for constructing an American base in Saudi Arabia became more urgent as war progressed, especially after the German push in North Africa. Thus in April of 1942, visiting Aramco employees in the United States told of the need to protect the oil fields with antiaircraft guns. At the same time the minister resident and the American embassy in Cairo requested the Department of State to look into the matter. In response, the secretary of state pointed out that Saudi Arabia and the Middle East were under British control and that the British could not protect the oil fields in Saudi Arabia without in effect invading the area. The secretary

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<sup>10</sup>American Legation at Jiddah, James S. Moose, to secretary of state, 22 July 1943, 711.90f/78; Foreign Economic Administration, John P. Dowson, "Summary of al Kharj Project," to Department of State, 3 August 1944, 890f.61A; American minister to Saudi Arabia, William A. Eddy, to secretary of state, 16 June 1945, 711.90f/6-1645. The name of the company holding the Saudi concession was changed in January 1944 from Casoc to the Arabian American Oil Company, better known since then as Aramco.

concluded that no American plans to protect the fields were likely at the time. This proposal, however, increased the secretary's and the under-secretary's earlier convictions of the need for construction of an airfield in Saudi Arabia, as they suggested to the president in February of 1943.<sup>11</sup>

The first mention of military assistance to Saudi Arabia was a request by the Saudi Minister, Yusif Yasin, to the American resident in Saudi Arabia on June 6, 1943. Yasin's request included a list of needed arms. The military aid was approved, with the participation of the United Kingdom, which was mainly responsible for the Allied Middle East theater of the war. The aid arrived in Saudi Arabia on October 27, 1943; it consisted mainly of small arms and ammunition. The purpose of the aid was to provide Saudi Arabia with the necessary arms for internal security.<sup>12</sup>

In October, 1943, Ibn Saud requested an American military mission to train Saudi officers in the use of the new arms. The United States approved the mission, headed by General Ralph Royce, commanding general of the United States armed forces in the Middle East; it arrived in Jiddah in mid-December, 1943. Besides training Saudis, the mission continued the air survey studies started earlier in May, 1942,

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<sup>11</sup>See the correspondence between the American embassy at Cairo and the Department of State in FR, 1942, IV, 576-83.

<sup>12</sup>See the correspondence between Washington and the American and Saudi officials in ibid., 1943, IV, 854-861, 872-885.

for the purpose of constructing an airfield. Royce was also instructed to determine the Saudi military needs to be supplied under the lend-lease program. General Royce and his deputy, General Benjamin F. Giles, met with the king on March 6, 1944. The two generals showed the king some samples of the American arms supplied to Saudi Arabia and discussed with him future arms shipments, the development of aviation, and the possibility of airbase construction. Concerning the latter, the king was noncommittal. Royce returned soon to Cairo leaving Giles as head of the mission in Saudi Arabia. In dispatches to the secretary of state, the American minister transmitting information and commenting on the need for the military mission pointed out that the United States had more interests in Saudi Arabia, especially regarding oil resources and air routes, than in any other Middle East country.<sup>13</sup>

For the purpose of training Saudi officers, the United States Army replaced Giles with Colonel Garrett B. Shomber, who was introduced to Ibn Saud on May 3, 1944. The mission now included eight officers and four enlisted men. The training began in early June near Ta'if, and continued throughout 1944. Continuation of the mission was prompted by the sending also of a small British military mission to Saudi

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<sup>13</sup>American minister in Saudi Arabia, James S. Moose, to secretary of state, 12 January 1944, 711.90f/25; 19 January 1944, 711.90f/38; and 24 February 1944, 711.90f/215. See also New York Times, December 16, 1943, p. 1.

Arabia. The Americans wanted to "maintain United States lead." Besides training, the mission participated with some Aramco employees in investigating and surveying medical conditions and water supply resources in Hijaz. The mission operated in Saudi Arabia until April 30, 1945, when it was officially terminated.<sup>14</sup>

As noted earlier, the United States Army had conducted surveys of the Saudi territory for the purpose of constructing an airfield. In August, 1943, the Saudi government informed the Department of State that the king had approved the non-stop fly-over rights for American military aircraft. The king was at first hesitant to give his permission for an airbase. The reluctance, according to the American minister to Egypt, stemmed from British advice against construction of such a base. Also, in a memorandum of conversation with British officials, an assistant secretary of state told of British disapproval of an airbase because they thought it was unnecessary to the war effort. After the secretary of state explained to the British government that the airfield was

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<sup>14</sup>American minister in Saudi Arabia, James S. Moose, to secretary of state, 3 May 1944, 711.90f/65; 28 July 1944, 711.90f/78; and 29 September 1944, 711.90f/85; American minister in Saudi Arabia, William A. Eddy, to secretary of state, 4 December 1944, 711.90f/102; 7 December 1944, 711.90f/104; and 16 June 1945, 711.90f/6-1645; Garrett B. Shomber, Col. Cavalry, chief of Saudi Arabian mission, "Progress Report, December 1, 1944, to January 14, 1945," to the Commanding General, United States Armed Forces in the Middle East, Cairo, Egypt, 17 January 1945, 711.90f/1-1745.



urgent for the execution of war in the Pacific, the British gave their approval on April 19, 1945, and informed the Saudi government of their decision. The Saudis went along.<sup>15</sup>

Consequently, another study group was formed to report on airbase construction. The new group included Colonel William A. Eddy recently appointed United States minister to Saudi Arabia, Colonel Harry R. Snyder, and Colonel V. Henry Conner. The group met with Ibn Saud on March 15, 1945, and conducted an inspection of the proposed airbase site. After the approval of the president, an agreement was signed with the Saudi government on May 21, 1945, granting the United States permission to build an airbase at Dhahran. According to the agreement, the United States would construct the base, train competent Saudis in aviation at the base, and deliver the base to the Saudi government at the end of the war. The United States Air Force would use the base facilities for three years after the cessation of hostilities, during which time the airport would be open for other nations' use. On January 2, 1946, the agreement was amended to permit use of the base for civilian purposes without hindrance to the military, and to provide for training Saudi personnel to operate the field gradually. The airbase was finished on March 15, 1946, at a cost of \$4 million. According to the

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<sup>15</sup>FR, 1942, VI, 567-71; 1944, V, 661-70.

agreement, ownership was then transferred to the Saudi government, since the war was over.<sup>16</sup>

Also, in civil aviation, an air transportation agreement was negotiated by Trans World Airways in 1943. The agreement provided for internal air transportation and for a route connecting Cairo, Jiddah, Rayadh, and Dhahran. The agreement was made with the insistence of Aramco.<sup>17</sup>

#### IV

Increased contacts and relations with Saudi Arabia since mid-1942 put the United States on an equal footing with the British, who for so long had held primary influence there. The two countries, for a time, seemed headed for a confrontation during 1944 and early 1945. British and American high officials in London and Washington always had had harmonious relations concerning the Middle East, but their representatives in Saudi Arabia often viewed each other with suspicion and distrust. This suspicion increased in 1944,

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<sup>16</sup>American Minister in Saudi Arabia, James S. Moose, to secretary of state, 29 August 1942, 711.90f/16; American minister in Saudi Arabia, William Eddy, to secretary of state, 24 March 1945, 711.90f/3-2445; FR, 1945, VIII, 966-68, 915-17; DSB, 16 (May 18, 1947): 962. The American navy also had an interest in Saudi Arabia. The secretary of the navy told the secretary of state that the navy desired to supplement the Western Hemisphere oil reserves.

<sup>17</sup>American legation at Jiddah, William Sands, to secretary of state, 31 October 1945, 711.90f/10-3145; FR, 1944, V, 755; and 1945, VIII, 1034.

when the American representative considered the British minister's activities to be against American national interests. The American minister's reports of these activities to the Department of State caused department officials to bring the question to the attention of Lord Halifax, the British ambassador in Washington. Halifax denied any British activities in Saudi Arabia detrimental to American interests. The Americans, however, continued to suspect that the British were trying to make their subsidies to the Saudi government pay off at the expense of American interests. The case in question during 1944 involved the activities of the British minister in Jiddah, S. R. Jordan. James S. Moose, the American minister there, reported that Jordan was over-zealous and was influential with the king's aides in convincing them to remove Saudi officials who were friendly to the Americans, in having them appoint a British economic adviser, and in persuading them to select a British oil adviser to the king. Moreover, Moose reported that the British army was engaged in road construction in Saudi Arabia, a job which the king had previously permitted the Americans to do. The minister pointed out that the best solution would be to make United States assistance to Saudi Arabia equal to that of the British; otherwise he saw a danger in the perpetuation of the present conditions.<sup>18</sup>

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<sup>18</sup>American minister to Saudi Arabia, James S. Moose, to secretary of state, 31 March 1944, 711.90f/52; and 13 April 1944, 711.90f/61; secretary of state to American Embassy, London, 5 April 1944, 711.90f/41; Hull, Memoirs, II, 1514.

Receiving Moose's report, the Department of State complained to the British ambassador in Washington again and requested him to inform his government "that the continuance of Mr. Jordan at Jiddah was unacceptable to the United States." The British Foreign Office undertook an investigation of the matter, and finally succumbed to American pressure and transferred Minister Jordan from Jiddah.<sup>19</sup>

Another question which strained relations between the United States and Britain in Saudi Arabia in 1944 was the selection of advisers requested by Ibn Saud. The British insisted that their political interests were dominant in Saudi Arabia and that the economic importance of thousands of pilgrims to the Holy Places from the British empire outweighed American oil interests. Thus they maintained that all advisers to Ibn Saud should be British. Nonetheless the British reluctantly agreed to compromise. Accordingly, an American would be responsible for any financial mission requested by Ibn Saud, and a British subject would head any military or political mission.<sup>20</sup>

The Office of Economic Affairs in the Department of State, in an attempt to clarify the United States position in Saudi Arabia and relations with the British there, drew up a memorandum outlining that position. The memorandum pointed out three main United States interests. Foremost was protection of the existing oil concessions, including the right

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<sup>19</sup>Hull, Memoirs, II, 1516.

<sup>20</sup>Ibid., 1515.

of reasonable expansion and development. The best insurance to protect this interest, the memorandum suggested, was to win Saudi goodwill. Furthermore, the Americans should ask the Saudis for full civil aviation privileges and the right to establish a direct radio circuit. The memorandum suggested that full and frank discussions be conducted with the Saudis and the British, that the British be requested to stop obstructing United States interests, because the Americans were not looking for a pre-eminent position in Saudi Arabia, and that Americans emphasize their ability to meet certain Saudi requirements in agriculture, road and hospital construction, and pilot training.<sup>21</sup>

William A. Eddy, who was loaned by the United States Marine Corps to the Department of State and had served as assistant to the American minister in Jiddah since March 1944, replaced James Moose as the American minister in August 1944. Eddy described the general conditions in Saudi Arabia and the relation of both the British and the United States to it. The Saudis were uncertain, he said, about their future economic resources and the stability of their country, that the British should desist from opposing the American presence there, and that the Americans had an obscure and vague policy in Saudi Arabia, contrasted with the presence of a clear British policy. Eddy in effect recommended that

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<sup>21</sup>The Department of State, Office of Economic Affairs, Memorandum, 30 July 1945, 711.90f/7-3045.

American aid to the Saudis be contingent upon treatment of the United States on a non-discriminatory basis in all political, economic, and trade matters. He saw the need for a new commercial treaty and noted that the "divorce between United States assistance and United States rights in Saudi Arabia has been regrettably complete." Before making any commitment of aid to the Saudis, Eddy believed that Saudi Arabia should resist all British efforts to close the Arabian door to American interests. Transfer of the British minister from Jiddah and the compromise on advisers removed the major obstacles to Anglo-American cooperation in Saudi Arabia. Consequently, American relations with the British in Saudi Arabia improved gradually.<sup>22</sup>

## V

On the basis of Eddy's recommendations and the increasing American interests in Saudi Arabia, the Department of State suggested to the Saudi government in November, 1945, that the two governments conclude a new commercial agreement to supplement the old one signed in London on November 7, 1933. No discussions in this regard took place until May, 1947.<sup>23</sup>

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<sup>22</sup>American minister in Saudi Arabia, William A. Eddy, to secretary of state, 13 September 1945, and other correspondence in FR, 1945, VIII, 924-30.

<sup>23</sup>Secretary of state to the Saudi Minister of Foreign Affairs, 14 November 1945, and the latter's response in Ibid., 1031-33.

Meanwhile, the Saudi government in late 1945 requested the United States to send another special mission to study developmental programs for the country. Through the efforts of the Near East Affairs Division in the Department of State and the secretary of state, a group of engineers in different fields was assembled. The group was composed of engineers from Bechtel McCone Company, the Morrison, Knudson, and Severdrup Inc., and Parcell Company. The mission was to report to the Saudi government on the feasibility of several projects for water, electrification, and the building of a harbor for the city of Jiddah.<sup>24</sup>

## VI

The most explosive issue in Saudi Arabian-United States relations during the war years was Palestine. The Americans, as a great power and newcomer to the Middle East, could not maintain an indifferent stand toward Palestine. Ibn Saud, as an influential Arab and Muslim leader, was articulate in his opposition to the Zionist movement and the establishment of a Jewish national home in Palestine. The Zionist congress held in Baltimore in 1942 raised the question anew for the Americans and the Arabs. This congress proclaimed the intention to make Palestine a Jewish commonwealth. Ibn Saud shortly thereafter commented that any unfriendly action by the United States or Britain in Palestine might cause a

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<sup>24</sup>Ibid., 1946, VIII 750.

break in relations with the Arab and Muslim world. He pointed out that

The last thing I want is that circumstances should compel me in my own right to become the enemy of Britain and America in order to repel this harm which would be deadly to us all. But you must be absolutely sure that persistence in this policy of immigration, sale of lands and denial to the Arabs of their natural rights . . . will incur not only the enmity of Arabs, but the enmity of all Muslims as far as India and China.<sup>25</sup>

The clearest statement issued by the king on Palestine was in an interview granted to Life magazine correspondent in the Middle East, Noel Busch, on March 21, 1943. In the interview the king noted that

I have withheld my opinion concerning the Palestine problem from the Arabs in order to avoid placing them in an embarrassing position with the Allies. But because you are one of our friends, I wish to acquaint you with my opinion so that it can be made known to the friendly American people, so that they may understand the truth of the matter.

First, I know of nothing that justifies the Jewish claims in Palestine. Secondly, I am not afraid of the possibility of the Jews ever having a state or power, either in the land of the Arabs or elsewhere . . . [but] I hold the demands of the Jews upon this land an error . . . because it constitutes an injustice against the Arabs . . . [and] it causes dissensions and disturbances between the Moslems and their friends the Allies.<sup>26</sup>

In the rest of the interview the king defended the national rights of the Palestinians in their homeland; and he

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<sup>25</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 24991-92.

<sup>26</sup>Noel F. Busch, "The King of Arabia," Life, 14 (May 31, 1943): 71-84.



suggested the safeguarding of Jewish population of Palestine through an agreement between the Arabs of Palestine and their western allies.<sup>27</sup>

In June, 1943, Stephen S. Wise, a leading American Zionist, also used Life magazine to rebut the Ibn Saud statement. Wise's article defended the rights of the Jews in Palestine and justified Jewish immigration from eastern Europe.<sup>28</sup>

The debate in the press stirred the attention of American public opinion and the Roosevelt administration. Consequently, in July, 1943, President Roosevelt dispatched Lt. Colonel Harold B. Hoskins as his special envoy to discuss with Ibn Saud the Arab-Jewish problem in Palestine. Roosevelt wanted to find out the facts and explore the situation. Hoskins met with the king on August 14 in Riyadh. The conversation included Saudi Arabia's relations with the Allied powers, the French suppression of Arabs in Syria and Lebanon, and the question of Jewish immigration to Palestine. Hoskins noted intransigence on the part of Ibn Saud concerning the Palestine issue. Ibn Saud had refused to meet with Haim Weizmann, a Zionist leader, or any of the Jewish agency representatives, and was hesitant at first to meet with Hoskins and his company, for he had nothing to discuss with them about Palestine. Ibn Saud's stand on Palestine, which

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<sup>27</sup>Ibid.

<sup>28</sup>Stephen S. Wise, "In Reply to King Ibn Saud," Life, 14 (June 21, 1943): 37-40.

became more clear from his conversation with Hoskins, put an end to a plan reportedly developed by Roosevelt, Churchill, and Weizmann. These men wanted Ibn Saud to mediate the dispute between the Arabs of Palestine, who were giving trouble to British authorities and the new Jewish immigrants from eastern Europe. Ibn Saud told Hoskins that Weizmann had attempted to "bribe" him into selling Palestine to the Jews. The king also emphasized to his visitor that the United States was in the best position to bring peace in Palestine and to press the De Gaulle government to desist from oppressive activities in Syria.<sup>29</sup>

Roosevelt became more interested in discussing Palestine with Ibn Saud personally. Thus he extended an invitation for the king to visit the United States, or, if he could not come, to send one of his sons. Because the king was in bad health, he sent his son Faisal, who arrived in Washington on November 1, 1943. News of the visit leaked out before the arrival of Faisal and his party and was exploited by the Zionists, who considered the visit as an effort by the Roosevelt administration to support the Arab cause in Palestine at the expense of the Jews. Because Roosevelt was annoyed by this Zionist reaction, he did not discuss with Faisal any issues related to Palestine. Faisal's discussion

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<sup>29</sup>American minister in Saudi Arabia, James S. Moose to secretary of state, 16 August 1943, 711.90f/34; H. St. John Philby, Arabian Jubilee, pp. 216, 206.

with other American officials concentrated upon various economic questions, especially the lend-lease aid recently approved for Saudi Arabia.<sup>30</sup>

In the following two years, Roosevelt frequently assured Ibn Saud that the United States would not take definite action in Palestine without first consulting him. Nonetheless, Ibn Saud remained uncertain about the American attitude toward Palestine. Increasing Zionist activity in the United States had led in 1944 to congressional passage of a resolution urging unlimited Jewish immigration to Palestine and endorsing the 1943 Baltimore conference calling for the establishment of a Jewish commonwealth there. Only through careful diplomacy during 1943 and 1944 was crisis on the issue avoided. The situation in Palestine then, it should be recalled, was becoming very tense, and any fighting between the Arabs and the Jews would have endangered the position of the Allied forces in the Middle East as a whole.<sup>31</sup>

President Roosevelt, believing in the effectiveness of personal diplomacy, arranged a meeting with Ibn Saud after the Yalta conference early in February, 1945. The meeting took place on February 14 aboard the cruiser, U.S.S. Quincy on the Bitter Lake on Suez Canal. Ibn Saud travelled to

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<sup>30</sup>President Roosevelt to secretary of state, 15 August 1943, 711.90f/11; secretary of state, "Memorandum to President Roosevelt," 18 August 1943, 711.90f/13.

<sup>31</sup>Ibid., Hull, Memoirs, II, 1533-36.

the Suez Canal aboard the American destroyer Murphy from Jiddah on February 11. William A. Eddy, the American minister to Saudi Arabia, served as an interpreter for the two leaders.<sup>32</sup>

The king in these discussions acted as a self-appointed spokesman for the independent Arab states. The meeting lasted for five hours and covered three major topics. The first was the question of Jewish immigration from Germany and other parts of Europe to Palestine. Roosevelt asked the king to use his influence in Palestine and other Arab countries to permit settlement of German Jewish refugees in Palestine (then under a British mandate). The king replied that new immigration would create friction with the Arab inhabitants; that the country was too small to absorb new immigrants without dispossessing the Arabs; and that he preferred these refugees to return to the countries they had left or to settle in countries able to absorb them. The king strongly opposed establishment of a Jewish commonwealth in Palestine. At this point in the discussion, the king reportedly stood up, placed his hand in the president's hand, and asked him to "swear that you will never support the Zionist fight for Palestine against the Arabs." Roosevelt shook Ibn Saud's hand and pledged that the United States would not aid the

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<sup>32</sup>William A. Eddy, FDR Meets Ibn Saud (New York, 1954) records the details of the meeting; also W. Barry McCarthy, "Ibn Saud's Voyage," Life, 8 (March 19, 1954): 59-64.

Zionists against the Arabs and that no basic change of policy toward Palestine would take place without prior consultation with the Jews and the Arabs.<sup>33</sup>

The second major topic was the proposed establishment of an Arab regional confederation. The king asked the American government to support the confederation and proposed sending an Arab mission to the United States and the United Kingdom to explain the idea and its objectives. Roosevelt assured the king that the United States "would make no move hostile to the Arabs concerning the confederation question."<sup>34</sup>

The third major subject arose when the king asked America's support for the independence of Syria and Lebanon from the French, who had administered the two states as mandated territories since 1922. Roosevelt promised United States support "short of the use of force."<sup>35</sup>

William Eddy, the American minister to Jiddah and interpreter for the meeting, and Harry Hopkins, Roosevelt's aide and companion, have written about FDR's meeting with Ibn Saud. Their observations of the meeting are of interest. Eddy, who observed the president closely, stated that Roosevelt was

. . . in top form as a charming host, witty conversationalist, with the spark and light in his eyes and that gracious smile which always won people over to him whenever he talked with

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<sup>33</sup>Eddy, FDR Meets Ibn Saud, p. 29; U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 24991.

<sup>34</sup>Eddy, FDR Meets Ibn Saud, p. 31.

<sup>35</sup>Ibid., p. 32; FR, 1945, VIII, 1-3; see also Life, 12 (March 19, 1945): 3-6.

them as a friend. However, every now and then I would catch him off guard, and see his face in repose . . . he was living on his nerve. With Ibn Saud he was at his very best; but he was living on borrowed time, and eight weeks later he was dead.<sup>36</sup>

Hopkins knowing FDR's sympathy for the Zionists, described the president's reaction to Ibn Saud's views on Jewish immigration in this way:

. . . The President seemed not to fully comprehend what Ibn Saud was saying to him, for he brought the question up two or three times more and each time Ibn Saud was more determined than before. I fancy Ibn Saud was fully prepared for the President's plea to which he, the President, was wholly committed publicly and privately and by conviction.

There is no doubt that Ibn Saud made a great impression on the President that the Arabs meant business. . . . I know the conference in relation to Palestine never came to grips with the real issues but developed into a monologue by Ibn Saud and I gained the impression that the President was overly impressed by what Ibn Saud said.<sup>37</sup>

Hopkins' overall view about the conference conveyed the impression that the president was disappointed in his conference with the king. Nonetheless, writing to Eddy about the conference with Ibn Saud, the president described the meeting as a "most interesting and stimulating experience . . . not only in the arrangement, but also in the conversation itself in making our meeting so outstanding a success." In sum, although the president might have anticipated what

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<sup>36</sup>Eddy, FDR Meets Ibn Saud, pp. 31-32.

<sup>37</sup>Cited in Robert E. Sherwood, Roosevelt and Hopkins: An Intimate History (New York, 1948), pp. 871-72.

Ibn Saud would say in regard to the Palestine question, the conference provided the president with the first opportunity to hear the Arab position directly from one of its concerned leaders.<sup>38</sup>

Some Americans thought that Roosevelt made commitments to Ibn Saud at their February conference. A number of American Zionists blamed Roosevelt for United States failure to support more strongly the Jews in Palestine. These Zionists were also joined by some Washington newspaper correspondents, who charged the Roosevelt administration with collaboration with Ibn Saud at the expense of the Jews in Palestine. These charges led to the publication of correspondence exchanged between Ibn Saud and Roosevelt shortly before the latter's death. Ibn Saud wrote Roosevelt on March 10, 1945, reaffirming his stand concerning the Palestine question, reviewing the Arab point of view, and accusing the Zionists of brutal aggression in Palestine. The president replied on April 5, reiterating his commitment in the February conference with Ibn Saud that the United States would not take any action which might be considered hostile to the Arabs in Palestine, and that his attitude concerning the Palestine problem had not changed.<sup>39</sup>

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<sup>38</sup>FDR to William A. Eddy, American legation, Jiddah, 16 February 1945, 711.90f/2-1645.

<sup>39</sup>See John O'Donnell, in the Washington Times-Herald, October 22, 1945 and correspondence between Ibn Saud and Roosevelt quoted in U.S. Senate, CR 79th Cong., 1st sess., 1946, 91, pt. 13:A4477, A4559-60.

Roosevelt died at the high point of American relations with Saudi Arabia and the Middle East. Certainly never before, possibly never since, were Saudi-American relations so cordial. The increased contacts between the two countries was accompanied by greater United States concern about the relevance of Saudi Arabia to American national interest. Significance of Saudi Arabia to American national interest was exemplified in different developments which took place between 1945 and 1948.



## CHAPTER VIII

### THE PROPOSAL FOR A TRANS-ARABIAN PIPE LINE

Although negotiations for United States government participation in oil production through the PRC had failed, the government and the companies had not abandoned the idea. The government wanted assurance of petroleum reserves in the area. The companies wanted to strengthen their hold there and increase the value of their concession. Attempting to satisfy these various desires, Harold Ickes proposed construction of a government-owned pipeline from the Persian Gulf region to the Mediterranean. The proposal received an adverse reaction in the United States and was opposed by Britain, who had predominant influence in the area.

#### I

First mention of a Trans-Arabian pipeline project, better known as Tapline, was in a message from Fred A. Davies, president of Casoc, to the Department of State, in late December, 1943. Davies explained that production from the Saudi fields was expected to increase by the end of the war to serve a consuming area formerly supplied from Western Hemisphere resources. He was writing the Department of State, Davies pointed out, because his proposed pipeline involved

United States political relations with foreign governments through whose territories the suggested pipeline would pass. Davies was asking the advice and consent of the department.<sup>1</sup>

The Department of State relayed Davies' message to the Interior, War, and Navy Departments for their views. Studying the prospects of oil supplies for United States armed forces committed in Europe and the Mediterranean in 1944, Admiral Andrew Carter, the executive officer of the Army-Navy Petroleum Board, visited the Middle East to investigate the feasibility of such a project. On his return, Carter consulted with Harold Ickes. In order to guarantee a larger supply of cheaper oil for United States armed forces, Carter pointed out to Ickes that the United States government might have to sponsor the construction of such a pipeline as suggested by Fred A. Davies. The Army and Navy Departments, Admiral Carter emphasized, would support such a project if they were guaranteed an underground reserve in Saudi Arabia of a specified quantity of oil at a favorable cost.<sup>2</sup>

Admiral Carter convinced Ickes, who soon sponsored the idea. Ickes felt that if such a pipeline was built, paid

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<sup>1</sup>Fred A. Davies, president of Casoc, to Wallace Murray of the Near East Affairs, 27 December 1943, 890f.6363/Socal.

<sup>2</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25244; Richard Sanger of Near East Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 71190f/4-1147; "Mr. Ickes' Arabian Nights," Fortune, 14 (June, 1944): 123.

for, and administered by the United States government, it would be almost as beneficial as a direct interest in the oil concession in Saudi Arabia. He envisioned a network of pipelines throughout the Middle East to transport crude oil from Bahrain, Saudi Arabia, and Kuwait (if oil were discovered there) to a port on the Mediterranean. Ickes immediately sought to win support of the oil companies for such a project. The initial cost estimates were between \$130 and \$165 million. Within the cabinet, however, Cordell Hull opposed the idea of government ownership. Ickes and Hull compromised by agreeing that the project be government-owned and privately operated until the end of the war.<sup>3</sup>

In late January, 1944, Ickes started negotiations with Aramco and the Gulf Exploration Company. The latter was a wholly owned subsidiary of the Gulf Oil Company, which held a half interest in the oil concession in Kuwait. Ickes assumed that a government-owned pipeline would serve as common carrier of crude oil from both Saudi Arabia and Kuwait. He explained to the representatives of the two companies that the pipeline would guarantee adequate supplies for the military and naval needs of the United States. The secretary of interior called attention to British government control of the Anglo-Iranian Oil Company, and warned the companies that the British might hold back their wartime production in the

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<sup>3</sup>Hull, Memoirs, II, 1522; Feis, Petroleum and American Foreign Policy, p. 44; and Feis, Seen From E. A., pp. 140-51

Middle East and permit Europe to drain the oil resources of the Western Hemisphere. He added that in case of a world oil war, "the Iraq pipeline [owned by the British government] would probably fire the last shot." The pipeline, explained Ickes, would start from Dhahran, cross Saudi Arabia to Jordan, and then cross Jordan to Lebanon or Palestine, preferably the latter. A possible obstacle to the project, Ickes continued, was the British, who administered the territories through which the pipeline would pass. Ickes believed American interests were entitled to equal opportunities in the mandated territories of the Middle East, for this question was settled in 1928, when Britain accepted the principle of American oil companies' participation in the oil interests there. The pipeline would reduce the cost of shipping oil around the Arabian peninsula through the Suez Canal and into the Mediteranean. Transportation costs, Ickes believed, would be reduced from forty-five cents to eighteen cents per barrel. Ickes' efforts marked the first time that government concern about future United States political involvement in Middle East affairs entered considerations of oil policies.<sup>4</sup>

Ickes insisted on negotiating with the companies in secret. He planned to keep the British and Ibn Saud in the dark until he had concluded an agreement with the companies, and then would present both with an accomplished fact. Ickes

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<sup>4</sup>Ibid.; "World Oil and World Politics," *Life*, 16 (February 28, 1944): 34; U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 24847; "Mr. Ickes Arabian Nights," 123.

also reasoned that if the negotiations were open, the domestic oil-producing companies might protest against government control of or participation in foreign oil fields.<sup>5</sup>

The companies' reaction to Ickes' proposal was favorable. The companies owned only one-half of the total oil tankers required for transportation, and pipeline construction would reduce transportation costs. Moreover, if the companies constructed the pipeline, they would face greater difficulties than the American government would. The pipeline would cross nations with conflicting and often hostile policies; the American government was better equipped to deal with these problems. In addition, company representatives thought that government ownership of the pipeline would involve the government in problems of oil profits, and soon the government would find itself directly interested in protecting the producing companies. The international petroleum companies had been seeking this protection since the 1920s.<sup>6</sup>

Ickes' attempts to keep the negotiations secret failed, for part of the story was leaked to newspapers. Consequently on January 24, 1944, Ickes hurriedly signed an agreement with Casoc, Texaco, and Gulf oil companies, whereby

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<sup>5</sup>Feis, Seen From E. A., pp. 144-145.

<sup>6</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25243.

. . . upon recommendation of the War and Navy Departments, the Joint Chiefs of Staff, and Army-Navy Petroleum Board, and the approval of the Department of State, the PRC agreed to construct and to own and maintain a pipeline for the transportation of crude petroleum from a point near the oil fields of Saudi Arabia to a point at the east end of the Mediterranean.<sup>7</sup>

On January 27, the board of directors of the PRC amended the proposal to state that "the government shall," besides constructing, owning and maintaining the line "determine the most feasible plan for the operation of the facilities and shall retain supervision thereof." On February 5, Ickes announced the approval of the president of the pipeline idea, and on the following day released the "Agreement on Principles."

The agreement included the following basic principles. The preamble recognized the importance of oil reserves in times of war and peace, especially for the use of United States armed forces. The United States government would construct, own, and maintain a pipeline system; the PRC would charge fees for oil transport service adequate to cover maintenance, operating costs, and the government's initial investment within a period of twenty-five years. The companies would maintain an underground crude oil reserve of one billion barrels to be available for United States military forces at

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<sup>7</sup>Full text of the announcement and agreement was published in The United Nations Review, 4, No. 3 (March 15, 1944): 120-22; Richard Sanger of Near East Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147.

a 25-percent discount from the market price in the Persian Gulf region or the average of United States market prices, whichever was lower. Before negotiating the sale of oil products to any foreign government, the companies were to notify the Department of State of such negotiations. If the department objected to the sale, the companies would abide by the decision. Moreover, all policies and other commercial deals of the companies "must conform to the foreign policy of the United States." In addition, paragraph eleven of the agreement stated that the intention of the signatories was to promote development of petroleum in the Middle East, to support the governments of that region, and to respect their sovereignty and protect their rights. The agreement was to be submitted to the governments of Saudi Arabia and Kuwait and to the board of directors of the signatories for approval. Ickes signed for the PRC, Frederick A. Davies for Aramco, and J. F. Drake for the Gulf Exploration Company. On behalf of the parent companies of Aramco, Harry D. Collier, president of Socal, and W. S. S. Rodgers, president of Texaco, also signed the agreement.<sup>8</sup>

Reaction to the pipeline agreement was mixed. As always, questions involving oil, especially foreign oil,

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<sup>8</sup>U.S. Senate, Special Committee Investigating the National Defense Program, Report of the Subcommittee Concerning Investigations Overseas, Section I, Petroleum Matters, 79th Cong., 1st sess., 1944, pp. 77-79; text of the agreement is found also in the U.S. Senate, CR, 78th Cong., 2d sess., 1944, 90, pt. 2:1466-71; Hull, Memoirs, II, 1522; Feis, Seen From E. A., pp. 140-51.

traditionally evoked strong feelings in the United States; this one was no exception. The agreement triggered debate which involved the press, the public, the oil industry, and Congress. Of all the oil companies in the United States, only three stood to benefit from the pipeline project--Socal, Texaco, and Gulf. The other companies, fearing the advantages which these three might derive from the project, used every conceivable argument against the plan. Opinions, insinuations, and accusations flowed freely. The three companies directly involved were mostly content with letting government officials do the talking.

Those who favored the proposal emphasized that American oil resources were being rapidly exhausted, that the project was indispensable for the war effort, and that it would be highly profitable. Ickes proclaimed that the pipeline proposal was the answer to American's petroleum problem. Admiral Andrew Carter, the first to propose the project, and Secretary of the Navy Frank Knox defended the agreement. The latter pointed out how the project would "protect American ownership in these tremendous concessions; that was a major factor, because we assumed [that] . . . if the United States government was vitally interested in this field, no one was going to come there or take the concession away." The petroleum adviser to the Department of State, Charles Rayner, also strongly approved the agreement. Of the oil company officials directly involved, Harry D. Collier of Aramco and



W. S. S. Rodgers of Texaco defended the agreement in their annual report to stockholders. Rodgers stressed that the pipeline proposal should not be decided by the oil industry but by

. . . those in authority who are entirely neutral and have only the welfare of the American people at heart. In my mind this question transcends not only the interests of the companies involved, but also those who feel their interests might be adversely affected. Furthermore, I feel very strongly that the decision should not be unduly influenced by publicity emanating from interested companies.<sup>9</sup>

The counter-arguments emphasized that there was no danger of domestic oil depletion if the American government aided home companies in acquiring enough drilling equipment to open new fields, and that the pipeline project could not be a war measure, since it would take about two years to build. The opponents agreed that the project would be indefensible in time of war and would involve the United States in the political intricacies of the Middle East. Protecting the pipeline, they said, would involve military commitments like the establishment of air bases in foreign countries, and would entangle the United States government in world affairs. The proposed pipeline was against the Atlantic Charter provision

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<sup>9</sup>"Mr. Ickes, Arabian Nights," 124-125; Time, 78 (April 3, 1944): 43; and New York Times, April 26, 1944, p. 16; see also "Arabian Pipeline Defended by Knox," New York Times, March 10, 1944 p. 5; "Pipeline in Arabia Defended by Ickes," New York Times, March 17, 1944, p. 1; "Ickes Defends, Oilmen Assail Pipeline Plan," Christian Science Monitor, May 10, 1944, p. 3.

for equal access to raw materials, and would antagonize an important American ally, Great Britain. The most critical argument against the project was that the United States government was interfering in private business.

Opposition to the pipeline varied from one public group to another. Liberals denounced the agreement as a step in the cartelization of the oil industry; they stressed the status of the government as a privileged buyer rather than as a controlling operator of the pipeline. To liberals the project seemed to be a "glistening corridor for imperialism." Conservatives saw it as government intervention in free enterprise. This charge is reminiscent of the struggle experienced in the early years of the New Deal, when conservatives assailed FDR's legislative program. The isolationists feared that the project would draw the United States into the historic struggle between the British empire and the Soviet Union in the Persian Gulf region.<sup>10</sup>

The first and most devastating attack against the pipeline came in Congress in early March, 1944. Many congressmen expressed concern over the potential effect of the pipeline proposal upon United States foreign policy and American private oil interests. In the House, a representative from Nebraska, Howard Buffett, warned that the government of the United States "may conscript your boy and mine and send them

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<sup>10</sup>The Economist, 146 (February 18, 1944): 240; Feis, Seen From E. A., p. 152.

to fight and . . . defend this pipeline. Why? Because then it will be the patriotic duty of that boy to defend the honor and the possessions of the United States, as represented by this investment." In the Senate, some senators were determined to scuttle the project and to dissolve the PRC. This group included Oklahoma Senator E. H. Moore, an independent oilman, Senator Owen Brewster, a leading Republican opponent of the Administration from Maine, Senator Tom Connally of Texas, Senator John Overton of Louisiana, and Senator Joseph O'Mahoney of Wyoming. The first two senators effectively assailed the PRC. Their major criticism centered on what they called dictatorial actions of Secretary of the Interior Harold Ickes. This criticism was diverted by the appointment on March 13, 1944, of a special committee to investigate the national petroleum policy of the United States. The committee, whose investigations will be discussed later in this study, included ten members from the Senate committees on Foreign Relations, Commerce, and Interstate Commerce.<sup>11</sup>

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<sup>11</sup>U.S. Senate, CR, 78th Cong., 2d sess., 1944, 90, pt. 8:A1036, A1070, 1466-71, 2489-90, 2559-60; Feis, Seen From E. A., p. 154; "Mr. Ickes, Arabian Nights," 125-28. The committee included the following Senators: Owen Brewster of Maine, Chairman, Harry P. Cain of Washington, Homer Ferguson of Michigan, Carl A. Hatch of New Mexico, Joseph McCarthy of Wisconsin, J. Howard McGrath of Rhode Island, George Malone of Nevada, Herbert R. O'Conner of Maryland, Claude Pepper of Florida, and John J. Williams of Delaware (see below pp. 196-200).

The strongest opposition to the agreement came from independent domestic oil companies and international companies who operated outside the Middle East. One of the most outspoken critics was Eugene Holman, vice president of the Standard Oil Company of New Jersey. He feared a partnership between the government and the three companies--Aramco, Texaco, Gulf--operating in the Middle East, which would put independent oil producers in an unfavorable position. The United States, he declared, did not really need Middle East oil because there existed enough oil at home for a long time to come. On March 2, 1944, the Petroleum Industry War Council (composed of fifty-five oil companies) objected to the project; Aramco and Gulf did not. The objecting group issued a white paper prepared by George A. Hill, Jr., vice president of the Independent Petroleum Association of America and president of the Houston Oil Company. The objection to the project was based on three major arguments. Economically, the project was more of a postwar plan than a wartime necessity and there was no justification for a government-owned enterprise in what had always been a private sector. Strategically, government involvement would implicate the United States in security obligations for which there was no historical precedent in American relations with the area. The United States would need naval and air bases in the Mediterranean, Red Sea, and Persian Gulf regions. Finally, the project signified an entirely new American foreign policy respecting oil.

This policy, according to the white paper, was prepared by the PRC, which was basically a body equipped to deal with economic and not political matters. Ralph T. Zook, president of the Independent Petroleum Association of America, in an address to the association assailed the project; he declared that the pipeline could lead to a depression of the domestic oil industry, which would threaten the safety of the country. The cry that American resources were depleted was simply not based on facts, he said, and the pipeline could not be defended in time of war. He concluded that the government should refrain from interfering in private enterprise, and he called for the dissolution of the PRC.<sup>12</sup>

Various individuals expressed their opposition to the pipeline project in the press. The New York Times, in which the first news leak of Ickes' negotiations with the oil companies appeared, strongly opposed the project on grounds similar to those voiced by George Hill. Views expressed in the press against the pipeline project generally conformed with the views of independent oil producers. The project, these views emphasized, would draw the American government into the center of all Middle Eastern political affairs and "would make this government a significant factor in the petroleum affairs not only of the Middle East but of the

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<sup>12</sup>New York Times, March 3, p. 16, March 5, p.5, and March 7, p. 11, all of 1944; "The proposed Arabian Pipeline: A Threat to our National Security," an address by Ralph T. Zook to the Independent Petroleum Association of American, 28 April 1944, 711.93E/112.

world." Herbert Feis, the economic adviser in the Department of State who had previously participated in all discussions related to oil policies and who was opposed to the stock purchase plan, also opposed the pipeline project and attacked it in the press. The segment of the press which was loyal to the administration generally conformed with Ickes' views. Everette L. DeGolyer, the geologist who headed a government mission dispatched to the Middle East in 1943 to report on oil reserves there, asserted in an interview with a Time magazine correspondent that "whether or not objections to the present enterprise are convincing, its initiation or method of handling are valid; the project [pipeline] was conceived in the interest of national security and for no other purpose." In general, most opinions expressed in the press were against the government's building the pipeline.<sup>13</sup>

## II

Reaction of foreign governments to the pipeline project also varied. Ibn Saud remained silent throughout the discussion. He knew that before anything definite could be done his approval would have to be sought. While the Soviet Union seemed too involved in the war with Germany to take much note of the issue, the British reacted strongly. From the beginning British official and non-official circles resented

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<sup>13</sup>New York Times, January 28, 1944, p. 1; April 26, 1944, p. 16; Feis, Petroleum and American Foreign Policy, pp. 44-45; Feis, Seen From E. A., pp. 147-152; Time, 78 (April 3, 1944): 43.

American interest in the project. The British government expected to be consulted. When Foreign Secretary Anthony Eden was questioned in Parliament about the pipeline project, he stated that the project was in the very preliminary stage and that the United States would not make any further move without consulting other governments concerned. Asked whether the British government should have been consulted, even though the project was in its early stages, Eden replied yes. Nevertheless, as late as the end of April, Eden had not received official information about the pipeline proposal.<sup>14</sup>

British press reaction was bitter. The Economist editorialized that the pipeline was an American intrusion into an area long considered a British sphere of influence and that the project was out of keeping with the close cooperation and consultation common in Anglo-American relations. The editorial blamed the United States government for failing to relate the project to the general interests of the area. British press reaction to the pipeline project was best summarized by a New York Times correspondent in London, who said the British were irritated because the plan had been developed without prior consultation. Furthermore, the strategic implications of the project, particularly the possibility of an American naval base in the eastern Mediterranean, generated

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<sup>14</sup>Parliamentary Debates, House of Commons, 396, col. 1744, February 9, 1944, and 399, col. 786, April 26, 1944

considerable British anxiety and created grave political dangers. Perhaps more irritating for the British, according to the correspondent, was the American failure to give a clear answer to London's request for financial assistance in constructing a pipeline in Iraq to connect the oil field in Musil to the port of Basrah on the Persian Gulf. Now the Americans were proposing a pipeline of their own nearly twice as long. The British saw the American project as competition for the IPC which produced oil in the area.<sup>15</sup>

The continued agitation about the pipeline project caused serious concern for Washington. The petroleum advisor in the Department of State, appearing on May 5 before the Special Senate Committee to Investigate Petroleum Resources, found it hard to justify the pipeline on the basis of national security. Top-level conferences followed between representatives of the Senate Committee chaired by Senator Francis Maloney of Connecticut and Interior and State officials. In a meeting of the board of directors of the PRC on May 12, Ickes reported that the Maloney committee refused an administration's proposal to postpone action on the pipeline project for ninety days, or to postpone action until negotiations or understandings with the British had been achieved. In late June, 1944, Secretary Hull cabled the American minister at Jiddah that no affirmative action on the pipeline

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<sup>15</sup>"America in the Middle East," *The Economist*, 146 (March 11, 1944): 328-29; *The New York Times*, March 23, 1944, p. 12.



project would be taken until after an oil agreement with the British and the Senate committee's investigation were concluded. The administration never revived the proposal, and Aramco later built the pipeline with its own capital. The agitation about the Tapline project was enough to kill it.<sup>16</sup>

In Herbert Feis' view, the fate of the Tapline project was not decided by politics, as the media implied, but through the opposition of oil industry groups who believed that it would have an adverse effect upon their business prospects. Ultimately most of the companies considered the project needless and unfair. Harold Ickes blamed the failure of the proposal on independent oil producers and American journalists who had "done to death without benefit of clergy" a plan proposed by him and the Army-Navy Petroleum Board. The ill-fated Tapline proposal led also the death of the PRC in March, 1945.<sup>17</sup>

Failure of the American government's Tapline project cleared the way for the administration to seek an agreement with the British concerning oil policies in the Middle East.

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<sup>16</sup>Richard Sanger of Near East Affairs, "Department of State Paper Covering United States-Saudi Arabian Relations," 11 April 1947, 711.90f/4-1147; secretary of state to American legation at Jiddah, James S. Moose, 27 June 1944, 890f.6363/Socal; Hull, Memoirs, II, 1524.

<sup>17</sup>Feis, Seen From E. A., pp. 152-54; Harold Ickes, "Oil and Peace," Colliers, 60 (December 2, 1944): 55.

CHAPTER IX  
FROM THE ANGLO-AMERICAN OIL AGREEMENT  
TO SENATE HEARINGS

British predominance in the Middle East, and opposition to the Tapline proposal caused the American government to seek ways and means to the coordination of the two countries' oil policies in the area. To that end, the American government negotiated an oil agreement with the British in 1944; the agreement was redrafted in 1945, but was never acted upon by the Senate because the American oil industry opposed it. Aramco, after the failure of the government-sponsored pipeline project, built it with company capital. The company's domestic and international deals, meanwhile, became subject to a major senate investigation in 1947 and 1948. The investigation centered around Navy oil purchases from Aramco and its affiliates during the 1940s.

I

In order to coordinate Anglo-American oil policies in the Middle East, President Roosevelt, upon the recommendation of the Department of State, appointed a committee headed by Cordell Hull to negotiate with Britain on the development and production of oil resources. Accordingly, the committee approached the British government in December, 1943. The

pipeline proposal and the consequent agitation about it in the American and British press, however, seriously hampered any progress. The British refused to appoint an appropriate cabinet committee to meet with Hull. In Hull's view, they were suspicious of Ickes' motives and of Roosevelt's insistence that the negotiations be on a cabinet level; they feared American presence in an area long considered a British sphere of influence. Prime Minister Winston Churchill informed President Roosevelt in February that some Englishmen feared the Americans were trying to deprive the British of their Middle East oil interests, and that any Anglo-American conference concerning the Middle East oil would raise serious questioning in Parliament, which he, Churchill, would be unable to answer. President Roosevelt replied that if the British were apprehensive, the Americans were even more so, because they were fearful of a rumored British desire to "horn in" on the Saudi oil concessions. Roosevelt believed that the best way to clear up such apprehensions and rumors was to have an Anglo-American conference on a cabinet-rank level to seek an agreement.<sup>1</sup>

Only after assurances of good intentions between Roosevelt and Churchill with respect to American interests in Saudi Arabia and British interests in Iraq and Iran did the British agree to negotiate. A public announcement was made on March 7, 1944, in both Washington and London that

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<sup>1</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25243; Hull, Memoirs, II, 1523-24, also cites Winston Churchill's cable to FDR, 20 February 1944.

discussions would be carried out first on a technical level and later on a cabinet-rank level. Accordingly, the British appointed a technical group headed by Sir William Brown, and the Americans appointed a group led by Charles Rayner, an oil adviser to the Department of State. The two groups met in Washington between April 8, and May 5, 1944.<sup>2</sup>

The substance of the discussions, as revealed at the end of the meetings, had been to explore both countries' interests in petroleum and discuss long-range plans for development of abundant oil supplies. Specifically, the two groups discussed oil production in the Middle East, the American-proposed Tap-line, and the British-proposed (IPC's) pipeline expansion, which now included the addition of a pipeline from Kirkuk, Iraq, to the port of Haifa in Palestine. In its final report the technical committee recommended that negotiations at a cabinet-rank level be initiated as soon as possible.<sup>3</sup>

Meanwhile, the British hesitated in the appointment of a cabinet-rank delegation because of tension which was developing between the two governments during the months of March and April, 1944, over Saudi Arabia, when the American Minister in Jiddah, James S. Moose, viewed the activities of

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<sup>2</sup>Position paper on "Petroleum Policy, 1939-1947," Cordell Hull Papers, Library of Congress, Box 85, No. 365; Hull, *Memoirs*, II, 1522-23; *DSB*, 10 (March 11, 1944): 238, and 10 (May 6, 1944): 411.

<sup>3</sup>*DSB*, 10 (May 6, 1944): 411; Cordell Hull Papers, Reel No. 116, No. 16488.

S. R. Jordan, the British Minister, as prejudicial to American national interests. The British reluctance was also due to opposition to the American government's proposed Tapline project whose fate (in April and May) had not yet been decided. As soon as the British government was assured that the Tapline proposal was shelved in late June, 1944, they announced their intention to appoint a cabinet-rank committee to discuss an oil agreement with the United States.<sup>4</sup>

On July 12 the British government appointed a committee of ten members, headed by Lord Beaverbrook, the Lord Privy Seal, and assisted by Richard Law, the minister of state. The American committee included eleven members, with Cordell Hull as chairman and Harold Ickes as vice-chairman. The two committees conducted discussions in Washington between July 25, and August 7, 1944. On August 8, the first Anglo-American petroleum agreement was signed, and on the 24th Hull submitted the agreement to the president. The president sent the agreement to the Senate on the same day for approval. Although the agreement mentioned nothing specifically about the Middle East or pipelines, its primary objective was to meet problems of oil development encountered in that area.<sup>5</sup>

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<sup>4</sup>Ickes, "Oil and Peace," 55; see above pp. 146-50.

<sup>5</sup>DSB, 11 (August 13, 1944): 153-56; U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. 25243-44; Cordell Hull Papers, Reel No. 116, No. 16488; Hull, Memoirs, II, 1517-27.

The agreement included a preamble and six provisions. The preamble stressed that ample supplies of petroleum were essential for the security and economic well-being of nations, that such supplies should be derived with due consideration of available reserves, sound engineering practices, and the interests of producing and consuming countries, and that such supplies should be available in accordance with the principles of the Atlantic Charter. To this end, the two governments agreed to cooperate in efforts to ensure that petroleum would be available in international trade to the nationals of all peace-loving countries on an equitable basis. With respect to the acquisition of exploration and development rights in areas not under concession, both governments recognized the principle of equal opportunity. Each country was to respect all valid concession contracts and lawfully acquired rights, and was not to interfere directly or indirectly with such contracts or rights. Developments of any concession held by the nationals of either country was to respect the sound economic advancement and welfare of the countries in which the concessions were held. Finally the two nations proposed to the governments of other interested producing and consuming countries an International Petroleum Commission which would handle problems that might arise between all signatory countries. The commission would engage

in continuous study of issues of mutual interest and make reports and recommendations to the respective governments.<sup>6</sup>

American public reaction to the oil agreement with Britain was similar to the response to the Tapline proposal. Foremost in opposition to the ratification of the agreement were the American independent oil producers. George A. Hill, Jr., vice president of the Independent Petroleum Association, vehemently attacked the agreement. He was followed by Howard Pew, president of the Sun Oil Company, and eventually almost all independent producers who had previously attacked the pipeline proposal. They believed that the agreement might be interpreted to cover domestic as well as international oil production, and that Washington might assume control over all international oil sales by Americans. Above all the American oil producers were unhappy that they had not been consulted before the United States government signed the agreement. In addition, they all agreed that the agreement was very vague. Herbert Feis, in a candid assessment of the agreement, pointed out that it was "daring," because it established guide lines for the international petroleum policy of both the United States and Britain, that it was "timid," because it ignored the realities of the oil situation in the Middle East, and that it was "obscure"

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<sup>6</sup>Cordell Hull Papers, Reel No. 116, No. 16488; the full text of the agreement is found in U.S. Senate, CR, 79th Cong., 1st sess., 1945, 91. pt. 8: 10323-24.

because it was hard to see what had been agreed upon. The agreement met strong opposition in the senate; the chairman of the Senate Foreign Relations Committee, Tom Connally, proclaimed on December 2 that the agreement would probably never be ratified.<sup>7</sup>

On January 10, 1945, President Roosevelt asked the Senate Foreign Relations Committee to return the agreement for redrafting. There ensued a series of prolonged discussions among representatives from the oil industry, the Senate Foreign Relations Committee, and the Department of State to eliminate objectionable features from the document. Provisions dealing with the international scope of the agreement were clarified, and assurances that recommendations of the proposed International Petroleum Commission would not be binding upon the governments and companies concerned were added. Despite the revisions the agreement remained basically the same, because it was feared that the British would object to any drastic changes. Although the redrafting was completed at the end of February, Ickes did not announce that renegotiation of the revised agreement would take place in London until September 7, for he felt that the agreement did not meet enough public support. After a week of

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<sup>7</sup>Hull, Memoirs, II, 1526; New York Times, August 10, 21, and December 3, 1944, respectively pp. 3, 1, 5; Mikesell and Chenery, Arabian Oil, p. 96; Feis, Seen From E. A., p. 159.



conferences with the British, the new document was signed on September 24, 1945.<sup>8</sup>

President Truman submitted the revised Anglo-American oil agreement to the Senate on November 1. Although the Senate Foreign Relations Committee scheduled hearings on the agreement on January 20, 1946, the hearings did not begin until June 2, 1947, because of continued opposition to the new document. Its opponents maintained that it would be a first step toward placing the American oil industry under supervision of an international body; if it were approved, the Middle East oil would flood American markets and ruin the American domestic oil industry. During hearings on the new agreement, two minor amendments and some unimportant reservations were made. Finally, with the expressed reluctance and doubts of some senators, the committee approved the agreement almost unanimously on July 1, 1947. Senator Tom Connally of the oil-producing state of Texas cast the one negative vote. Despite the committee's approval, the Senate never acted on the agreement because of public opposition to it. This was the last effort of the United States government to get a commitment from the

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<sup>8</sup>U.S. Senate, CR, 79th Cong., 1st sess., 1945, 91 pt. 1: 259; DSB, 12 (January 14, 1945): 63; 13 (September 9, and 30, 1945): 385-86, 481-83; Hull, Memoirs, II, 1526.

British for the development and coordination of oil activities in the Middle East.<sup>9</sup>

## II

As the European war neared its end in early 1945, Aramco's oil production increased sharply due to the loosening of restrictions on transportation and supplies. The development of the Saudi oil concession required rapid and cheap transportation to world markets. Existing transportation facilities, even with a large tanker fleet, were inadequate. Aramco officials realized this problem as early as December, 1943, when Fred Davies, president of Casoc wrote to the Department of State suggesting construction of a pipeline from the Persian Gulf to a port on the Mediterranean. After the congressional and domestic oil industry's formidable opposition blocked the American government's sponsorship of the Tapline project as a wartime measure, Aramco decided to build the pipeline on its own. Early in January 1945, the company started preliminary surveys, and in July the parent companies of Aramco organized the Trans-Arabian

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<sup>9</sup>U.S. Senate, The Committee on Foreign Relations, Petroleum Agreement With Great Britain and Northern Ireland, Hearings, 80th Cong., 1st sess., June 2-25, 1947; U.S. Senate, The Committee on Foreign Relations, Anglo-American Oil Agreement: Report from Committee on Foreign Relations to Accompany Executive H., 79th Cong., 1st sess., July 1, 1947; The Christian Science Monitor, January 4, 1946, p. 3; Mikesell and Chenery, Arabian Oil, p. 97; for British press reaction to the agreement see Times (London), December 30, 1946, p. 5; The Economist, 81 (April 1, 1947): 23.

Pipeline Company as a subsidiary with equal partnership. Preliminary engineering surveys, meanwhile, confirmed the advantage and feasibility of undertaking such a project.<sup>10</sup>

The major obstacles to the project were the acquisition of right-of-way from the various countries and territories through which the pipeline would pass--Jordan, Syria, Lebanon, and Palestine--and the location of a western terminus. The latter was the basic problem which confronted the board of directors of Tapline. The port of Haifa in Palestine was, from the point of view of facilities and of construction fees, the ideal location for the terminus. Because of the tense and unstable situation in Palestine in the late 1940s, however, the company preferred the pipeline to terminate in a port in south Lebanon.<sup>11</sup>

Early in the 1940s, William J. Lenahan, Aramco's public relations manager, started negotiations with the countries through which the pipeline would pass. Although Haifa was not likely to be the terminus of the pipeline, Lenahan

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<sup>10</sup>American vice-consul at Dhahran, Parker T. Hart, to secretary of state, 10 January 1945, 890f.6363/Casoc, transmits a report about the Aramco Pipeline Survey Group; Hull, Memoirs, II, 1524-25; Burton E. Hull (not to be confused with Cordell Hull) "Tapline Presents Great Organization Problem," The Oil Forum, 2 (November, 1948): 450. Burton E. Hull was named president of the Trans-Arabian Pipeline Company.

<sup>11</sup>Hull, "Tapline Presents Great Organization Problem," 451.

concluded an agreement on January 7, 1946, with the British High Commissioner for Palestine, Sir Alan G. Cunningham. Tapline was granted the construction concession in Palestine free of charge because the 1924 Anglo-American convention on Palestine prohibited discrimination against American nationals in granting concessions, and the High Commissioner had previously granted the IPC a pipeline concession in 1931.<sup>12</sup>

Lenahan then opened negotiations with the newly independent Kingdom of Jordan (previously called Trans-Jordan under the British mandate). After some disagreement over fees, an agreement was signed on August 8, 1946, with the Jordanian government at Amman. The concession granted Tapline the right-of-way to build and maintain a pipeline for an annual fee of \$250,000. Negotiating with Lebanon, which had just acquired independence from France, proved an easy task for Lenahan. Lebanon, anxious to have the terminus of the pipeline constructed on her territory, soon granted Tapline a concession to build and maintain a pipeline for an annual fee of \$180,000.<sup>13</sup>

Lenahan's negotiations with Syria proved difficult. Syria had recently acquired independence from France, and her economic plight after independence complicated her negotiating

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<sup>12</sup>U.S. Department of State, Mandate For Palestine, Near Eastern Series, No. 1 (Washington, D.C., 1927), pp. 107-15.

<sup>13</sup>Hull, "Tapline Presents Great Organization Problem," p. 451-52; New York Times, August 9, 1946, p. 1.

position. In addition, Syria faced some administrative problems. These problems led Syria to demand much. Tapline threatened to drop the whole matter and construct the pipeline through Palestine to Haifa. Aware of the unstable situation in Palestine, however, American diplomatic representatives in the area, after a two-week conference with Syrian and Tapline officials, smoothed the way for an agreement. On September 1, 1947, the prime minister of Syria, Jamil Mardam, and Lenahan signed an agreement. The agreement was never submitted to the Syrian Parliament for ratification because of the outbreak of war in Palestine in 1948 and the internal instability in Syria. The tense Middle East situation prevented conclusion of a Tapline agreement with Syria for nearly two years. After the armistice in Palestine, Tapline signed an agreement with the Syrian government at Damasucs. According to the terms of this agreement, Tapline would construct and maintain a pipeline through Syria for a period of seventy years, at the end of which all installations and immovable property of the pipeline would become the property of the Syrian government. The company would pay £.0015 per ton of oil moving through Syria, or £20,000 annually, whichever was higher. The Syrian government agreed to exempt all equipment and materials necessary for the construction maintenance of the project from any import duties, and company employees were exempted from paying Syrian taxes. Aramco would make available a maximum of 200,000 tons of crude oil annually

to the Syrian government at the current world market price. The company agreed to pay the Syrian government an annual fee of £40,000 for protecting the company's property and installations.<sup>14</sup>

### III

Obstacles at home matched those facing Tapline in the Middle East in 1947 and 1948. In the United States, the company had difficulty in securing the necessary steel for constructing the huge thirty-by-thirty-one-inch pipeline because of shortages in the domestic market. The Department of Commerce granted Tapline, on September 26, 1947, an export license for 20,000 tons of steel. This action, decided at cabinet level, was based on the grounds that Arabian oil would serve "American strategic, political, and economic interests." Shipment of the pipe commenced in early November, 1947. American independent oil producers who were clamoring for scarce steel to develop new oil resources, were unhappy about the shipment of the Middle East. These producers objected to the government's action because they believed that if Tapline received steel, they would be at a disadvantage vis-à-vis the Middle East oil companies. Production of Middle East oil would increase at the expense

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<sup>14</sup>New York Times, September 2, 1947, p. 1; The Arabian American Oil Company, "Synopsis of Tapline Conversion with the Government of the Republic of Syria," July 21, 1949, cited in Benjamin Shwadran, The Middle East, Oil and The Great Powers (New York, 1955) p. 334. The Tapline Agreement with Syria was signed on May 16, 1949.

of domestic oil production. Some isolationists in Congress joined the cry and forced the Senate Small Business Committee to investigate the matter. The committee held hearings from October 27, 1947, until July 10, 1948, and persuaded the Department of Commerce to suspend the steel shipment. Consequently, the whole Tapline project faced a complete halt.<sup>15</sup>

In late 1948, when it appeared that Syria at last might conclude an agreement with Tapline, company representatives reopened discussions with officials from the Department of Commerce and the National Military Establishment (a Department of Defense agency which was responsible, together with the Department of Commerce, for licensing steel shipments abroad) for shipment of steel pipe. Since the company would derive considerable profits from the pipeline project at a time of national shortage in steel production, government representatives insisted that the companies share the profits with the National Military Establishment. After three months of negotiations, Secretary of Commerce Charles Sawyer announced on February 24, 1949, the conclusion of an agreement. By the terms of the agreement, the Tapline Company would "transport for the National Military Establishment, at cost, substantial quantities of oil from the Persian Gulf to

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<sup>15</sup>U.S. Senate, Petroleum Arrangements With Saudi Arabia, p. 25322; Senate, Special Committee to Study Problems of American Small Business, Problems of American Small Business, Hearings, pts. 21-28, 33-34, October 15, 1947-July 20, 1948; Lebikicher, Aramco and World Oil, p. 50.

the Mediterranean for a period of ten years after completion of the pipeline." Sawyer explained that the government was not purchasing stock in the Tapline Company as some people were led to believe. The agreement with the company, Sawyer emphasized, was simply an undertaking by the Tapline Company to move oil at cost by granting the navy an option to buy 5 percent of the pipeline capacity at lower than area market price. Thereby the government would save about \$2 million annually. After the conclusion of the agreement, steel shipment was resumed.<sup>16</sup>

Opposition to the government's agreement with the Tapline Company was as loud as it had been to the pipeline proposal and the Anglo-American Oil Agreement. Again independent oilmen and some members of Congress accused the government of "economic imperialism" and called for an investigation. This time, however, the issue did not not generate press or public interest because it was overshadowed by the war situation in the Middle East. The case was considered closed when the Department of Defense ratified the agreement. Work on Tapline progressed rapidly after the signing of the right-of-way accord with Syria in May, 1949.<sup>17</sup>

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<sup>16</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948, 95, pt. 2:2222-23; Oil and Gas Journal, 48 (March 10, 1949): 50.

<sup>17</sup>Oil and Gas Journal, 48 (March 10, and 17, 1949): 50, 59.



Contracts for construction of the pipeline were awarded in 1947 to International Bechtel, Inc., of San Francisco, and to Williams Brothers, Inc., of Tulsa, Oklahoma. Work was begun simultaneously at both ends of the pipeline. Bechtel started on the Persian Gulf and moved westward, while Williams started eastward from the port of Sidon, Lebanon. The pipeline ran a distance of 1040 miles from the oil fields on the eastern edge of Saudi Arabia, westward to Jordan, then northwest to Syria, and west to the port of Sidon (see map on page 4). The line was completed on September 25, 1950. The first oil reached the terminus at Sidon on November 10, and the first tanker was loaded on December 2. In the opinion of some experts, the Tapline "was an engineering and logistics achievement comparable to the construction of the Panama Canal."<sup>18</sup>

#### IV

Full development of the Saudi oil concession, meanwhile, required not only cheap and rapid transportation but new markets and capital. Aramco, as explained earlier, possessed

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<sup>18</sup>Hull, "Tapline Presents Great Organization Problem," 454; Lebkicher, Aramco and World Oil, p. 50; U.S. Senate, International Petroleum Cartel, p. 125. The daily full capacity of the pipeline is 310,000 barrels of crude oil. The pipeline within the boundaries of Saudi Arabia, a distance of about 690 miles, is owned and operated by Aramco while the rest is owned and operated by the Tapline Company. Pipeline construction cost exceeded \$200 million, but estimates suggested that the pipeline saved about twenty cents per barrel in transport costs.

marketing facilities only east of the Suez, which were inadequate when production increased.

Accordingly, Aramco solicited a partnership with other affluent oil companies to meet its needs. At the time, three American oil companies--Standard of New Jersey, Socony-Vacuum, and Shell--possessed the world markets but had no Middle East oil production. Since Standard of New Jersey and Socony-Vacuum always purchased crude oil from Aramco for European markets, a match between Aramco and the two companies seemed appropriate. As early as 1944, Harry D. Collier, president of Aramco, approached Harold Sheets and Eugene Holman, chairmen of the boards of Socony-Vacuum and Standard of New Jersey, about a merger or an arrangement whereby their companies might market Aramco's oil. Sheets and Holman were eager for an agreement, but one obstacle confronted them. Their companies were participants (two of the five American companies forming the Near East Development Corporation) in the IPC, and were signatories of the Red Line Agreement. Members of the IPC objected to any prospective deal because Saudi Arabia was covered by the Red Line Agreement. Due to these objections, negotiations between the two companies and Aramco dragged on for three years while the IPC members took their case against Standard of New Jersey and Socony-Vacuum to British courts.<sup>19</sup>

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<sup>19</sup>"The Great Oil Deals," Fortune, 35 (May, 1947): 183-40, 176. For conditions surrounding the Red Line Agreement see above pp. 38-40.

In the course of these negotiations it became apparent that new markets and capital were not Aramco's only motives in the merger discussions. More important was concern about the safety of the Saudi oil concession. A memorandum of a meeting on December 4, 1946, between Harry T. Klein, president of Texaco, and representatives of Socony-Vacuum and Standard of New Jersey, at which the merger deal was discussed, revealed that Aramco owned a large concession in Saudi Arabia. In order to keep Ibn Saud satisfied with the operation of the concession, the company needed to increase production so that the king would receive greater royalties. Greater production and the increase in royalties would add stability to the concession.<sup>20</sup>

In December, 1946, and March, 1947, Aramco, Standard of New Jersey, and Socony-Vacuum signed a preliminary agreement of partnership pending the outcome of litigation. In order not to reveal company affairs in court, the two American companies and the IPC settled their differences in private discussions, whereby the Red Line Agreement and all claims arising out of it were cancelled. Thus, the partnership agreements between Aramco and Standard of New Jersey and Socony-Vacuum were concluded in December, 1948. According to these agreements, Standard Oil of New Jersey and Socony-Vacuum purchased 40 percent of Aramco's stock (30 percent for Standard and 10 percent for Socony) for nearly \$500

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<sup>20</sup>U. S. Senate, International Petroleum Cartel, p. 121.

million; Socal and Texaco were left with 30 percent of the share each.<sup>21</sup>

The post-war growth of Aramco, exemplified by the plans for construction of the Tapline and the partnership with two companies, coincided with a growing controversy at home about the activities of the company. The controversy started from the claim that Aramco and Caltex had overcharged the Department of the Navy for oil purchased between 1940 and 1947. From May 25, 1940, until July 14, 1945, all purchases of Persian Gulf oil by the navy were made through Caltex. These purchases amounted to \$1,759,041. During this time, no direct purchases were made from Aramco. Until late 1943 and early 1944, the usefulness of Middle East oil was confined mainly to military operations in the vicinity, because oil transportation to more distant areas was hampered by enemy action. Hence the navy purchases from Caltex were modest. With the decline of the Axis powers, access to Middle East oil became easier. Since more oil was needed for the projected invasion of Japan and for the Pacific fleet, the navy's demand for oil was unprecedented. From July 14, 1945, until the summer, 1947, the navy's purchases from Caltex had risen to \$30,197,648 and those from Aramco

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<sup>21</sup>Ibid., pp. 120-28; "The Great Oil Deals," Fortune, 138-40, 176, 179; Oil and Gas Journal, 46 (April 19, 1947): 68; for details of the merger deal and the competition between all these companies see Sampson, The Seven Sisters, pp. 283-319.

to \$37,690,083. These purchases amounted to about one-third of Aramco's production of refined oil.<sup>22</sup>

The increased demand for oil prompted navy purchasing agents to hurry the signing of contracts with Aramco without sufficient caution on the price. Lieutenant D. E. Bodenschatz, the petroleum products negotiation officer for the Fuel and Lubrication Division of the United States Navy, discussed with Aramco agents the purchase of oil at \$1.05 per barrel. Bodenschatz's superior, Commander A. A. Mackrille, head of the purchase section, undertook a hasty investigation of the price demanded by Aramco. The average price of domestic crude oil at the time, Mackrille found out, was \$1.75 per barrel. Upon examination of the records of the Petroleum Administration for War, Mackrille learned that any price for Persian Gulf oil over eighty-four cents was considered unjustifiable. Mackrille ordered his subordinate to quote the eighty-four cents price, but the sales manager of Aramco, H. D. Denham, informed Bodenschatz that the Saudi government was asking for an additional royalty of twenty-one cents on the barrel. Mackrille, without any further investigation, accepted the price demanded by Aramco agents and ordered the purchase.<sup>23</sup>

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<sup>22</sup>U.S. Senate, Petroleum Arrangements with Saudi Arabia, pp. 25364, 25370; U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4951-52; Feis, Seen From E. A., p. 100.

<sup>23</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4942, 4951; Middle East Journal, 2 (October, 1948): 456.

The 1946 congressional elections brought in a Republican-dominated Congress for the first time in sixteen years. The Eightieth Congress vowed to undertake house-cleaning operations and both houses began to look into United States defense programs during war years. During 1947 and 1948, Senate investigation of the national defense program brought the formation of a special committee to investigate navy purchases of Saudi petroleum and petroleum products from Aramco. Senator Owen Brewster of Maine was chairman of this committee, which included nine other members. The committee conducted hearings sporadically from March, 1947, to January, 1948. In a press conference a few days before the hearings started, Senator Brewster discussed the investigation of Aramco oil sales to the navy and pointed out that expenditures by United States government for petroleum products had been a major item in the cost of the war. The senator noted that early in 1947 the committee to investigate the national defense program had received information that the navy had paid excessive prices for petroleum products purchased in Saudi Arabia and Bahrain.<sup>24</sup>

The investigation by the committee was thorough. All persons who were directly connected with relations between the government and oil companies testified. The committee's

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<sup>24</sup> U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt 4:4950; U.S. Senate, Petroleum Arrangements with Saudi Arabia, p. ii.

report, submitted on April 28, 1948, noted that United States lend-lease assistance to the Saudi Arabian government was initiated mainly by the Arabian American Oil Company. To induce the American government to extend aid to Saudi Arabia, the company proposed in 1941 to sell the government fuel oil at forty cents per barrel; and in 1943, as a further inducement to the United States government to approve lend-lease to Saudi Arabia, the company offered to set aside oil reserves for American use and to sell oil products at "cost plus a nominal profit." Yet when the government needed oil because of war demands, the company had sold the navy oil at \$1.05 per barrel. The committee felt that the company was under a moral if not a legal obligation to disclose to navy purchasing agents its previous proposals in 1941 and 1943 for the sale of oil. In selling oil to the navy at \$1.05 per barrel, the company has overcharged the government by about \$35 million. The committee felt that navy officials failed to exercise sufficient caution in awarding contracts to Aramco and its affiliates, and recommended that all government agencies purchasing oil products should be more closely coordinated through the establishment of a federal agency. Moreover, the committee suggested a study of American corporations creating foreign subsidiaries to avoid payment of United States taxes. Finally, the committee urged the Attorney-General to investigate the purchase of a 40 percent interest in Aramco by Standard Oil of New Jersey and Socony-Vacuum.

Did the transaction lessen competition in the domestic market? The Brewster committee concluded that Aramco and its affiliates had overcharged the government in oil sold to the navy, and that the extension of financial assistance (lend-lease) to Saudi Arabia was primarily for protection of the oil concession held by Aramco there.<sup>25</sup>

## VI

In the investigation of national and international activities of Aramco, an example of the problems encountered was the case of James A. Moffett against the company. Moffett brought a suit in the Federal District Court of Southern New York on January 23, 1947, against Aramco asking for \$6 million, for "services rendered." The compensation, Moffett claimed, was for his influence on government officials during 1941, when he encouraged the American and British governments to extend aid to Saudi Arabia, relieve the company of Saudi pressure, and save the corporation approximately \$30 million. The compensation, Moffett asserted, was reasonable in view of the savings to the company.<sup>26</sup>

After two years of legal maneuvering Moffett's claims came to a jury trial presided over by United States Judge Edward A. Conger. Charles Evans Hughes Jr. and Joseph M.

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<sup>25</sup>U.S. Senate, CR, 80th Cong., 2d sess., 1948, 94, pt. 4:4954-55.

<sup>26</sup>United States District Court of Southern New York, file civ. 39-779, cited in Benjamin Shwadran, The Middle East, p. 294.



Proskaur, Armaco's counsels, maintained that Moffett, chairman of the board of Caltex, a Socal subsidiary, had volunteered to go to Washington in 1941 and had never been retained by Aramco for lobbying. Furthermore, the company counsels argued, no one could contract to sell his influence with public authorities.<sup>27</sup>

Throughout the trial both parties exchanged attacks in the press, and Moffett attempted to convince the Saudi government to expropriate Aramco's properties and turn them over to him and his associates, whom he refused to name. The company unleashed a campaign against what they called Moffett's questionable business ethics. At the end of the trial, the jury awarded Moffett \$1,150,000 and an additional \$500,000 for eight years' interest on the principal award. Company counsels vowed to appeal the case all the way to the Supreme Court if necessary.<sup>28</sup>

A few days after the trial, Judge Conger set aside the ruling of the jury by granting two motions of the defendant. The judge decided that the evidence in the trial was insufficient to justify Moffett's claim, and that even if the evidence were sufficient, such use of influence was against public

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<sup>27</sup>Ibid.: Oil and Gas Journal, 48 (February 10, 1949): 44.

<sup>28</sup>James A. Moffett, 4 East 72d Street, New York, to envoy extraordinary and minister plenipotentiary of Saudi Arabia, Saudi Arabian embassy, Washington, D.C., 18 February 1946, 890f.6363/Socal; Fortune, 30 (August, 1949): 124; Time, 53 (February 28, 1949): 80-82.

policy and could not justify monetary compensation. In addition, Judge Conger continued, United States courts had always viewed lobbying contracts with great displeasure, and Moffett's efforts were nothing more than high-level lobbying. Moffett appealed his case to the United States Supreme Court, but to no avail.<sup>29</sup>

Thus Aramco, after a turbulent three years in which it faced problems at home and abroad, had emerged by 1948 bigger and richer than perhaps any oil company in the world. In addition, the oil industry prevented the American government from participating in any form in the production of the Saudi oil. But more important, however, in terms of American presence and influence in the Middle East, United States government and interests attained hegemony in what became the richest oil country in the world.

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<sup>29</sup>Fortune, 30 (August, 1949): 124; see Newsweek, 33 (May 9, 1949): 96 for a comment praising Judge Conger's decision.

## CHAPTER X

### CONCLUSION

Great Britain assumed unrivaled hegemony over most of the Middle Eastern area from the mid-nineteenth through the mid-twentieth century. Throughout that time the United States accepted British influence over the area. Consequently, until the Second World War American relations with the Middle East were primarily cultural and philanthropic. Before the war's end, however, the United States attained a firm economic foothold in the Middle East and British hegemony began to decline. The American foothold was Saudi Arabia, and from that base American interests spread throughout the Middle East.

After the First World War there was growing concern in the United States about domestic oil reserves and the future needs of the navy. For the first time Americans shifted their search for oil from the continental United States to Europe and the Middle East. In the Middle East Americans met stiff resistance from British interests and the British government. Anglo-American controversy during the 1920s resulted in a British compromise. An oil agreement in 1928 permitted a group of American oil companies to participate in the hunt for oil in the Middle East.

In Saudi Arabia, there existed no special interest in the kingdom's oil potentialities during the 1920s. The

discovery of oil in the Bahrain Islands in 1931, by the Standard Oil Company of California, meanwhile, drew the attention of international oil companies to the Arabian peninsula. Socal, despite competition from the IPC and the EGS, obtained an oil concession in Saudi Arabia in 1933, entirely on its own initiative, through direct negotiations with King Ibn Saud. The latter, suspicious of governmental diplomatic procedures, preferred to deal directly with company officials. There was no intervention by the United States government in support of Socal's concession, although the government's support of earlier American requests for American oil rights in the Middle East in the 1920s facilitated Socal's negotiations. Although Washington did not take part in the negotiations, it was kept informed by Socal. In May 1939, King Ibn Saud granted Socal another concession in the form of a supplemental agreement despite competition from British, Japanese, and Italian bidders. Reportedly, Ibn Saud preferred Americans to all other bidders because of their political disinterestedness. In retrospect, however, one is more inclined to think that the king's major consideration was monetary. Saudi Arabia, faced by a drought in the early 1930s and affected by the world economic crisis, was badly in need of revenue. The Americans, in both the 1933 and 1939 concessions, simply outbid the others.

Although American corporate initiative made steady gains in Saudi Arabia, beginning in 1933, the American companies

never felt secure in the Middle East. They were cognizant of the hostility of the British, who thought that these concessions should have been British and believed the American presence was an intrusion. Moreover, British oil companies operating in the Middle East were, for the most part, government-owned; this facilitated their relations with local governments. American companies, on the other hand, were privately owned and were subject to the sovereignty of the local authorities which granted the concessions. The American companies felt insecure, and they sought full support of the American government to counteract potential British ambitions in the Saudi oil concessions. In the late 1930s, American firms operating in Saudi Arabia exerted pressure upon the Department of State to increase American diplomatic representation with that country.

In order to preserve their presence in the Saudi kingdom, American interests came to the aid of that country when it faced an economic and financial crisis resulting from war conditions in 1940 and 1941. Also, Aramco renewed its pressure upon the American government in the early 1940s to extend financial aid to Saudi Arabia. At first, President Roosevelt, although aware of the importance of Saudi oil resources to the war effort and willing to assist Saudi Arabia, could not stretch lend-lease legislation to include that country. When American lend-lease aid was later granted to Saudi Arabia, the aid was granted after unusual pressure

from the oil companies. Later Senate investigations showed that certain Washington officials were on the company payroll and were serving company, not national, interests. As a result of these investigations, the oil companies were charged with "defrauding" and "overcharging" the United States Navy by about \$35 million. The investigations also indicated that the financial assistance to Saudi Arabia was given for the protection of the oil concession held by Aramco. The American government's extension of lend-lease aid to Saudi Arabia, however, was apparently not motivated primarily by a desire to protect American petroleum interests. American participation in the North African campaign and the establishment of vital supply lines to the Soviet Union through the Middle East made the preservation of security in that area a matter of great concern for the United States. Obviously, stability in Saudi Arabia was essential to stability in all the Middle East. Nevertheless, to the oil companies holding the Saudi concession, the American government's extension of lend-lease aid to Saudi Arabia had secured their position vis-à-vis the British. After the war, Saudi Arabia came under the influence of the United States.

The quickening pace of oil exploration and production in the postwar period proved that the Saudi oil resources were far greater than had been recognized. In view of the wartime drain upon United States oil reserves, Saudi oil resources acquired long-term importance for the United States

economy. Thus by the late 1940s the United States government generally recognized that the stability of American oil rights in Saudi Arabia was a matter of concern not only to private American interests holding those rights but also to the nation. For this reason, the observer might appreciate and understand the United States Senate's refusal to ratify the Anglo-American oil agreement of 1945. The Senate, influenced by the oil lobby, thought that the agreement would restrict American interests in seeking oil concessions in other Middle Eastern countries.

From Aramco's modest beginning in 1933 to the multi-billion dollar investment in the late 1940s, one can discern an overall major concern on the part of the company. That concern was found to be the company's constant fear that King Ibn Saud might cancel the concession or modify it extensively. Company executives, therefore, sought to strengthen their position and protect the company's interests against the king, his successor, or any potential oil competitor in Saudi Arabia. This fear was manifest in the manner in which the company conducted its efforts to influence the American government to extend financial aid to Saudi Arabia; it was manifest in the company's favorable reaction to the American government's proposal for constructing the Tapline; and finally it was manifest in the selling of 40 percent of Aramco's stock to Standard of New Jersey and Socony-Vacuum in 1948.

In describing United States policy in the interwar years, historians of American foreign relations are divided. One group applies the term isolationism to United States policy in the interwar period, and cites American abstention from joining the League of Nations as a major example. Another group asserts that, despite American abstention from joining the League, the United States was far from being isolated. The latter emphasizes that different administrations and corporate leaders during that time were united in a concerted effort to discover, develop, and have a leading role in controlling major raw materials in different parts of the world. Thus United States policy, this group believes, was formulated to facilitate the "internationalization of business" through the "expansion of the American corporation." William A. Williams, a major proponent of this view, believes that the open door policy first enunciated by Secretary of State John Hay in 1899 had come to maturity during the interwar period.<sup>1</sup>

The Saudi-American experience adds further evidence to the model described by Williams. The American government in its controversy with the British in the 1920s acted to force the British to accept and honor the policy of the open door in the British Middle East mandated territories--

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<sup>1</sup>William A. Williams, The Tragedy of American Diplomacy (New York, 1962), pp. 123-59.



Palestine, Iraq, and the Persian Gulf protectorates. The American objective was the search for oil.

At first, American oil companies were content with a participatory interest in the IPC in 1928. Thus the door had been nudged open, and American corporations were ready to step in. Later, despite the strenuous restrictions imposed by the British Foreign Office, Socal obtained its concession in the Bahrain Islands in 1931. From there American corporate interests moved to Saudi Arabia, despite high competition from other international oil companies. Socal's Saudi oil concession was the first major breakthrough for American interests in the area. That concession was solidified during wartime after the American government, under concerted pressure from the oil companies, directly entered the picture through lend-lease aid to Saudi Arabia. Economic interests brought American influence and prestige in the area. After the late 1940s, the oil-producing companies, as well as the American government, came to share the belief that the United States possessed an important stake in the Saudi kingdom. To Washington, Saudi Arabia became a place "where the oil resources constitute a stupendous source of strategic power, and one of the greatest material prizes in world history." Moreover, "the American concession," government officials believed, "would be lost unless the government

was able to demonstrate its recognition of this concession as of national interest."<sup>2</sup>

After 1948, American corporate interests moved more securely and surely to other Middle Eastern oil-rich countries. This was done through the quick replacement of the declining British interest and influence in the area. Saudi Arabia was the first country in the Middle East to be important to the United States. From the Saudi kingdom, American interests expanded to the whole Middle East. Thus after Saudi Arabia, American interests moved to Iran, following a turbulent period between the British-owned Anglo-Iranian Oil Company and the Iranian government, between 1948 and 1953. Consequently, American corporations gained a 40 percent participatory interest in the oil production of Iran. American corporations also obtained a dominant role in the oil production of other Persian Gulf states: Kuwait, Qatar, and the United Arab Emirates. Upon a reassessment of American policies and priorities in the area in the late 1940s, the Saudi and Middle East location unquestionably began to equal petroleum as the primary concern of American interest in the area.

Thus, far from being unimportant, the open door policy has become increasingly more significant in the second quarter of the twentieth century. The Saudi-American experience was beneficial for both nations, and more so for the Americans

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<sup>2</sup>FR, 1945, III, 45-46.

in their later experience with other Persian Gulf states. In short, the coming of Americans to Saudi Arabia was an example of the extension of policies formulated under the open door principle.

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