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U.S. MIDDLE EAST OIL: THE PETROLEUM
RESERVES CORPORATION

James R. Ralph, Jr.

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23 February 1972

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THE PETROLEUM RESERVES CORPORATION

BY

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A MONOGRAPH

by

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There is only one little known incident recorded in which the US Government attempted to nationalize private American oil interests. During WW II the USG formed a corporation specifically for the purpose of acquiring proven foreign petroleum reserves. Under a veil of secrecy the Petroleum Reserves Corporation (PRC) was formed by President Roosevelt in June 1943 to buy a controlling interest in the Arabian-American Oil Company. Once the matter became public the White House fell silent. The oil company refused to sell and apparently had a greater lobby in Congress than the Executive Department. The PRC project became a "dead duck". Using an extensive literature search of primary source documents, the author reconstructs this brief but important episode of wartime diplomatic history. The conclusions from the PRC incident showed the need for a clearly established national oil policy which determined resource needs and sources during war or peace. Later policies which came in the fifties saw the role of Government functioning to promote conservation and encouraging development rather than entering into the oil business itself. These policies proved effective since there was adequate petroleum to meet the needs of the Korean and Vietnamese conflicts without nationalization.

PREFACE

This monograph was prepared initially as partial fulfillment of the Master of Arts Degree with specialization in History at the Graduate School, Shippensburg State College, Shippensburg Pennsylvania. The subject, scope and outline were approved in advance by Professor John Offner of the History Department.

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1

US MIDDLE EAST OIL:
THE PETROLEUM RESERVES CORPORATION

Much has been written about oil in the Middle East. The histories written of the experiences of World War I clearly revealed the strategic importance of the Middle East in a world conflict, and the decisiveness of oil in the prosecution of the war. It has been recorded that there was a clash between the British and the Americans for the fruits of victory in the form of oil. During World War II the Middle East had a new role in the relations among the great powers. While it was imperative to hold the area for the allies, it was even more important not to let it fall in the hands of the enemy. Germany would not only have gained a strategic position, but above all, would have acquired a supply of oil for the prosecution of a globular war. The cooperation in prosecuting war objectives among the Americans, British, and Russians caused side effects against the oil companies that were exploring in Saudi Arabia.¹ The American companies there were becoming increasingly disturbed by the growing influence of the British as a result of this cooperation.

In 1940 there was a decline in the activities of the California-Arabian Standard Oil Company and a complete stoppage of the Pilgrimage to Mecca which were the two major sources of income for the government of Saudi Arabia. To offset the losses Ibn Saud had turned to the American company and the British government. During that year the British government advanced Ibn Saud 100 thousand pounds and the California-Arabian Company advanced him 2.9 million dollars. This was over and above the

¹See map Appendix A.

amount due for royalty and rentals and was in addition to \$1,700,000 that had been advanced in the previous year.²

The King's demand for further advances and increasing activities of the British, combined with general uncertainty of war, created a very difficult situation for the company. There were the questions of reasonable guarantee of recovering its money and the increasing influence of the British that could make the company's position untenable. The President of California-Arabian Standard Oil Company, Frederick Davis went to Saudi Arabia and made a deal with the government to advance it a loan during 1941 of three million dollars with a promise to increase this loan to six million dollars. The government's finance minister indicated that he was counting on the six million as a part of the budget for that year. In return the Saudi government agreed to extend the company's concession by two years, and to the curtailment of the companies' activities in the concession, provided that that curtailment did not affect "the government revenue from the reduced exports" of crude oil.³

The company, however, was unwilling to advance the additional three million dollars which had been promised or even the original three million dollars authorized. It determined to obtain the entire six million dollars from the American government under lend-lease. In October 1941, President Roosevelt indicated that the American government could not advance any funds to Ibn Saud under lend-lease. He suggested to the British Ambassador

²U.S., Congress, Senate, Special Committee Investigating the National Defense Program, Petroleum Arrangements with Saudi Arabia, Part 41, Hearings, 80th Cong., 1st sess., January 24, 29, 30, 1948 (Washington: Government Printing Office, 1948), p. 25,381.

³Ibid., pp. 25,052-057, 25,407-411.

that Britain provide the King with such funds as were necessary to meet Ibn Saud's requirements. In a note to Jesse H. Jones, Administrator of the Federal Loan Agency, the President commented: "Jesse--would you tell the British I hope that they can take care of the King of Saudi Arabia. This is a little far field for us!"⁴

So the California-Arabian Oil Company actually was successful in obtaining financial support for Ibn Saud through the British. It had not achieved its objectives of lessening British influence and increasing American power in the area through the use of the United States Government and its funds. To the special committee investigating the National Defense Program the company representative testified that through British financial advances to the King of American funds, the UK had increased its influence in Saudi Arabia at American expense. The company became alarmed at the plans which the British were developing to control the Saudi Arabian monetary system. President Davis said, "We felt all through here that the money that the Saudi Arabian government was receiving from the British was in effect money that we had passed over to the British; and we, as a company, felt that the United States should be getting the credit for it rather than the British."⁵ The leaders of both the Arabian American Company and the Texas Company⁶ feared that the British might gain control over the American concessions. Eventually, with Britain's prestige and influence increasing, Saudi Arabia might be drawn into the sterling area and that

⁴Benjamin Shwadran, The Middle East, Oil and the Great Powers (New York: F. A. Praeger, 1955), p. 306.

⁵U.S. Senate, Hearings Saudi Arabia, p. 25,091.

⁶California-Arabian Standard Oil Company was a Delaware Corporation with stock ownership split 50/50 between Standard Oil of California and the Texas Corporation.

would hinder maintenance of the American character of the enterprise. Moreover, since the money was coming from the British and not the company as promised, the King maintained that the company had not lived up to its agreement of January 1941.⁷

Early in 1943 the company determined again to try to persuade the United States Government to grant Ibn Saud direct lend-lease aid. It was at this time that Harold L. Ickes, the Secretary of Interior, became the Petroleum Administrator for War. Harry D. Collier, the President of Standard Oil Company of California, and W. S. S. Rogers, the Chairman of the Texas Oil Company, parent companies of the California-Arabian Oil Company told Ickes that Saudi Arabia had probably one of the largest and richest oil pools in the world. They were afraid, however, that the British were trying to edge in on the concession, having advanced Ibn Saud some 20 million dollars. They had tried to obtain direct United States assistance but the State Department had blocked their efforts, and they feared that the American oil concession would be cancelled and given over to the British interest. Ickes apparently was impressed with the urgent need for fast action to save the situation. Ickes requested the two representatives to supply him immediately with the pertinent facts so that he could present them to the President.⁸ Rogers complied by sending Ickes a letter in February of 1943 outlining the situation in Saudi Arabia and urging that the country be given lend-lease. To counteract British influence, the company had made monetary advances to the King in 1941 and 1942; but

⁷U.S. Senate, Hearings Saudi Arabia, cables between Davis and Lenahan and other company representatives, pp. 25,417-435.

⁸Ibid., p. 25,232.

in 1943, the situation had become so difficult that it was no longer possible for the company to meet the requirements. American military men were just as disturbed by British activity as was the company since they suspected that the British were trying to take the concession away from the Americans. A British expedition, ostensibly to combat locus, arrived in Saudi Arabia with strong military detachments, and there was a suspicion that many geologists were in the group. What most seriously disturbed the company was a British attempt at the end of 1942 to open a bank in Jeddah to issue paper money. This would have put Saudi Arabia in the sterling area and would have made it impossible for the company to carry on its activities as an American concern. The time for action had therefore arrived.⁹

Secretary of the Interior Ickes, who had the immediate responsibility for oil supplies, was impressed by the arguments of the company representatives as to the importance of Saudi Arabian oil and the national welfare of the United States. He accepted the company's belief that the British were attempting to takeover the American concession in Saudi Arabia, especially as the British government was itself an owner of oil rights. He was therefore instrumental in helping the California and Texas oil companies to obtain lend-lease for Ibn Saud.¹⁰

After seeing Ickes the two company presidents then saw the secretaries of the Navy, War, and State and other officials and impressed upon them the need to grant lend-lease aid to Saudi Arabia. On the 16th of February 1943, Ickes met with the President.¹¹ After a week of

⁹Ibid., pp. 24,829-830.

¹⁰Ibid., p. 24,831.

¹¹U.S., Congressional Record, Proceedings and Debates, 80th Congress, 1st sess., Vol. 94, Part 4 (April 28, 1948), p. 4948.

activity on the part of the company representatives and the secretary, President Roosevelt wrote a letter to Mr. Stettinas on February 18, 1943 declaring that, ". . . 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."¹²

This indeed was an achievement. It relieved the company of the burden of financing the King, enhanced the American company's prestige, committed the United States to the protection of the American concession, and removed the possibility of sizeable British penetration.

By mid-1943, many oil industry leaders and government officials feared an imminent oil shortage. In this pressing oil crisis, Ickes saw an opportunity to establish direct federal control over petroleum resources. He advocated American exploitation of Saudi oil reserves, not by private companies however, but by the federal government itself. Many oil men believed that under the cover of wartime necessity Ickes was seeking to nationalize oil production which he had failed to do during the New Deal. In 1935 and 1940 Ickes had formulated specific proposals toward that end and he apparently had not changed his mind on this matter.¹³

On 8 June, Admiral William Leahy, the Chief of Staff of the Joint Chiefs of Staff, sent a memorandum to President Roosevelt on oil reserves. Leahy commented that there was an insufficient supply of crude oil from local production to meet the requirements of the armed services and civilian needs. It was in the interest of national security that

¹²U.S. Senate, Hearings Saudi Arabia, p. 24,861.

¹³Cerald Nash, United States Oil Policy, 1890-1964 (Pennsylvania: University of Pittsburg Press, 1968), p. 172.

steps be taken immediately to assure a continued control of sufficient oil reserves to meet our country's needs. He proposed that the Reconstruction Finance Corporation be directed to organize a corporation specifically for the purpose of acquiring proven foreign petroleum reserves. "This would include the immediate acquisition of a controlling interest by the US government in Saudi Arabian oil concessions, with the provision that the corporation may acquire interest in other properties when so directed."¹⁴

Two days later the President directed Admiral Leahy to take up the matter personally with the Secretary of State concerning the arrangements to obtain for the United States Government an interest in the Saudi Arabian oil fields. FDR suggested that the American Minister in Saudi Arabia, assisted by a State Department expert who had no connection with the American commercial oil interest, should make an immediate effort to obtain oil concessions from Saudi Arabia for the United States Government. A Naval oil fuel reserve, similar to those existing in the United States, could be established. The United States Government would pay the usual royalties for the oil when it was used.¹⁵

Ickes saw his opportunity when widespread fears of an imminent oil shortage were especially rife among military and diplomatic circles in the nation's capital. On 10 June 1943, Ickes wrote to President Roosevelt urging him to take immediate action in acquiring foreign oil reserves. He warned of an impending oil shortage for the armed forces in 1944, which could also affect critical industries at home. He urged Roosevelt to

¹⁴U.S. Department of State, Foreign Relations of the US, Diplomatic Papers, 1943, The Near East and Africa, Vol. IV (Washington, D.C.: Government Printing Office, 1964), p. 921.

¹⁵Ibid., p. 922.

create a Petroleum Reserves Corporation (PRC) under the Reconstruction Finance Corporation (RFC) which would acquire and develop new foreign oil reserves. He emphasized that in view of the past, and realistic appraisal of the problem "compels the conclusion that American participation must be of a sovereign character compatible with the strengths of the competitive forces encountered in any such undertaking."¹⁶ After outlining the functions and operations of the proposed corporation, he reasoned:

It is suggested that the first order of business of the corporation should be the acquisition of a participating and managerial interest in the crude oil concessions now held in Saudi Arabia by an American company. This potential crude oil reserves underlying this concession have been estimated at approximately 20 billion barrels . . . [i]t is as large as the total current known crude oil reserves of the entire United States.

There acquisition will serve to meet an immediate demand by the Army and Navy for a large volume of petroleum products in or near Arabia and will also serve to counteract certain known activities of a foreign power [British] which are presently jeopardizing American interest in Arabian oil reserves.¹⁷

FDR had turned the matter over to Justice Byrnes, the Director for War Mobilization. Byrnes held a meeting in east offices of the White House on June 12, 1943 at which Secretaries Stimson, Knox, Ickes, State Economic Advisor Feis, and General Wright (JCS) were present. Great concern was expressed over the rapidly depleting domestic reserves of petroleum and recognition was given to the urgent necessity of the acquisition of foreign petroleum reserves by this government at the earliest practicable time. Specifically, all concurred that it was necessary by July 1, 1943, to form a corporation for the general purpose of acquiring foreign oil reserves,

¹⁶U.S. Senate, Hearings Saudi Arabia, pp. 25, 237-238.

¹⁷Ibid.

and to immediately initiate steps for the acquisition of an interest in the highly important Saudi Arabian fields. Questions about the directorate and the control of the proposed corporation as well as the type of interest and ownership to be acquired in the Saudi Arabian reserves and the method of pay for such acquisitions,¹⁸ were left for further study by the interested departments and later recommendation to Justice Byrnes.

On June 14, the Secretary of State Cordell Hull, sent a memorandum to President Roosevelt outlining the entire problem from a diplomatic point of view. He was in complete agreement with regard to the recommendation of the Joint Chiefs of Staff concerning increased production and new refinery construction and offered all assistance with the Saudi Arabian government. He put forth three proposals which were intended to assure that oil of Saudi Arabia serve as a reserve for the United States quite apart from the question of immediately increasing production and refinery capacity. The first proposal was a recommendation, which had been suggested in March of 1943, that the Petroleum Reserves Corporation (when created) enter into a contract with the California-Arabian Standard Oil Company; whereunder, the company would set aside so many billions of barrels of oil in the ground as reserve for the United States Government to be delivered as desired. This arrangement would not require any significant renegotiation with Ibn Saud. The second recommendation addressed the recommendation of Secretary Ickes to the President; that this government purchase, from the two parent companies, a controlling stock interest in the California-Arabian Standard Oil Company. Hull indicated there would appear to be no expressed provision in the agreements between the company and Ibn Saud

¹⁸U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 925.

forbidding such a transaction. But he called attention to a provision which restricted assignment of rights to any other corporations. He concluded that, in any case it would be necessary to notify Ibn Saud of our intention. He added that it wasn't known what attitude the King might take toward the entrance of the American government into the business of developing oil reserves located within his domain. Finally, he addressed the suggestion contained in the memorandum presented by Admiral Leahy, to the Secretary of State, regarding a special mission to negotiate a new concession for oil within Saudi Arabia with Ibn Saud. Hull indicated that the most promising oil bearing land was already included within the concessions held by the California-Arabian Oil Company. They also had preferential rights to other large stretches of territory further away from the Persian Gulf Coast. He believed it was essential to point out that any negotiations, which disturbed the present concession, might have adverse results and cause new demands either upon the company or upon the United States Government to reduce the present concessions or admit representatives of other countries. Secretary Hull concluded his memorandum to President Roosevelt:

In this present critical stage of our international relations, and bearing in mind the extreme importance of petroleum questions in the whole of our foreign relations, the Secretary of State is unwilling to get into controversy with other branches of government as to the course to pursue in regards to the Saudi Arabia situation. He submits the matter for the judgment of the President in the light of the preceding summary. It is his view that the simplest and most advisable way to proceed in Saudi Arabia is along the lines of (1) immediate arrangements with the American companies to develop their production and their refinery; (2) agreements setting aside such reserves as the Army and the Navy find necessary for their requirements.¹⁹

¹⁹
Ibid., p. 924.

Two weeks later, Secretaries Hull, Stimpson, Forrestal, and Ickes concurred in the recommendations of their representatives who had held earlier discussions with Justice Byrnes to consider the situation presented by the shortage of domestic petroleum reserves, the consequent inherent need to assure adequate foreign reserves, and the best means of proceeding to that end. They concurred fully in the report and forwarded it to the President. One of their main recommendations was to put into effect the creation of the Petroleum Reserves Corporation on before June 30.²⁰

It is interesting to note that contained in the recommendations to the President was a caveat in behalf of American foreign policy insured by the State Department.

In order that the activities of the corporation in acquiring foreign oil reserves shall be in accord with the American foreign policy, the following principles shall be observed in the conduct of corporation affairs: (a) the corporation shall not embark on any major projects or undertakings without receiving prior approval of the Secretary of State; (b) all major negotiations with foreign government shall be conducted through the appropriate missions of the State Department or else under its supervision.²¹

The Cabinet recommendation that went forward to FDR allowed for our government to purchase 100 percent of the stock of the corporations now owning the concessions in Saudi Arabia. The Petroleum Reserves Corporation also could enter into an operating and management contract covering all or part of the Saudi Arabian oil fields. The two American corporations which owned the concessions could operate and manage the oil fields should the PRC award such a contract. Included in this would be the right to the Petroleum Reserves Corporation to exercise control over the rate of

²⁰The powers of the Reconstruction Finance Corporation to organize corporations expired midnight 30 June 1943.

²¹U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 926.

production, the development of oil structures, and the sale or other disposition of all the oil produced from such fields.²²

Matters concerning construction of an oil refinery for Saudi Arabia were considered to be military policy and as such should be determined by the Army and Navy Petroleum Board. The report suggested that refinery construction go forward without delay, and the ultimate financing and ownership would be reserved for future determination.

An interesting vignette on how the Cabinet members proposed to deal with Congress in this matter was contained in another recommendation made to the President. It suggested that after a definite determination had been made as to the program to be pursued, Byrnes, on a confidential basis, should inform certain members of Congress of the program and endeavor to obtain their informal approval in advance of the initiation of negotiations with the two American companies which then owned the concessions.²³

To put the plan in motion, negotiations would first start with the President of the Standard Oil Company of California and the President of the Texas Oil Corporation in an effort to arrive at a tentative agreement along the lines that had been set forth in the Departments' recommendations. The representatives of the United States Government would then dispatch an official to Saudi Arabia to confer with James S. Moose, Jr., the United States Minister Resident and Mr. Alexander Kirk, the United States Minister Resident in Egypt.²⁴ They would be briefed on the arrangements proposed

²²Ibid., p. 927.

²³Ibid.

²⁴Kirk has been concurrently serving as Minister to Saudi Arabia stationed in Egypt.

and could express their views prior to discussions with Ibn Saud, if they were indeed required.²⁵

There were two methods proposed by the Cabinet to acquire oil. While the secretaries concurred in recommending that interest be acquired in the Saudi Arabian fields by ownership of stock, they presented an alternative method of contracting the services. The Secretary of State felt a contract would be simple, straight forward, more readily defensible, and understandable method. The PRC and the company contract would not alter or affect existing concessions and would provide for an advance of money and payments to include royalties to Ibn Saud in exchange for a maintenance of a minimum oil reserve. This coincided with the original request from the oil companies. The main advantage of a contract from the international relations point of view was that it would not be so apt to create concern or serve as an incentive to the nationalization of the oil reserves. It was also recognized that, from the domestic standpoint, there would be less force to the contention that the government was entering into the oil business. One of the principle disadvantages was that there would be a danger in such an arrangement no matter how scrupulously and fully it sought to protect the interest of the government. It could be misconstrued and unfairly criticized for the use of resources, prestige, and perhaps even the armed forces of our government to provide profit for private capital. There would also be the possibility that it would be impossible to determine with any accuracy the amount of oil in the ground. Therefore, if

²⁵U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 928.

the reserves were exhausted, the government would be left little or no oil and the company with such profits.²⁶

There was no doubt Ickes had sold the PRC to the President. In approving the Petroleum Reserves Corporation, President Roosevelt directed that the stock acquisition method be used. He took this act after having been told the fact that it could have possible undesirable international repercussions. Specifically, it might cause concern on the part of the United Kingdom and the USSR and may strengthen the tendency of certain Latin American countries to proceed further along the road of oil nationalization. One of the points brought out in the study that did ring true and brought about the eventual defeat of the Petroleum Reserves Corporation was "that it may be contended that this method will put the government in the oil business on a huge scale and by reason thereof a bitter domestic attack may result."²⁷

The last suggested disadvantage was that the desired ends might be obtained, at least in large part, without embarking on such uncharted course.²⁸ [Written, no doubt, and agreed to by those taking the conservative approach and acquiesced in by those who were the proponents of the system adopted.]

Dr. Feis reported that the discussion at the White House was jovial, brief, and far from thorough.²⁹ A boyish note of enjoyment was in the

²⁶Ibid., p. 929.

²⁷Ibid.

²⁸Ibid.

²⁹Herbert Feis, Seen From E.A.: Three International Episodes (New York: A. A. Knopf, 1947), p. 122.

President's talk and nod as usual when it had to do with the land of the Middle East. The boyant certainty of the Secretary of the Navy and the Petroleum Administrator for War prevailed. No shorter step would do in this uncertain world and this longer step could easily be carried off. The Secretary of State assented with an air of faint but cheerful readiness. His burdened spirit, groping among the formulas that might induce man to live in peace, could not bring itself to grapple with the different views of his assertive colleagues concerned with oil. The tangle of purposes made this subject a rough traverse for everyone. No one was to emerge from it unscathed.³⁰

On June 30, 1943, with the President's authorization, the Reconstruction Finance Corporation organized the Petroleum Reserves Corporation. It was given authority,

. . . to buy or otherwise acquire proven reserves of petroleum from sources outside the United States, including the purchase or acquisition of stock corporations owning such reserves or interest therein. To store, transport, produce, process, manufacture, sell, market, and otherwise dispose of such crude petroleum and the product derived therefrom.³¹

According to the approved recommendation, the Board of Directors of the newly constituted Petroleum Reserves Corporation would consist of the Secretary of State, the Secretary of War, the Secretary of Navy, and the Secretary of Interior.

The corporations charter [see Appendix E] and its plans were kept a closely guarded secret, but this did not prevent a welter of rumors as to PRC's purposes from developing in the domestic oil industry. Though oil men did not know just what was

³⁰ Ibid.

³¹ U.S. Federal Register, VIII (July 2, 1943), p. 9044; see also, New York Times, July 2, 1943; see also "Middle East Oil Sale," Oil and Gas Journal, VI (August 26, 1943), p. 21.

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³¹U.S. Federal Register, VIII (July 2, 1943), p. 9044; see also, New York Times, July 2, 1943; see also "Middle East Oil Sale," Oil and Gas Journal, VI (August 26, 1943), p. 21.

happening, they were pretty certain that it was something they wouldn't like--probably something to do with putting the government into the oil business.³²

On July 14, 1943, President Roosevelt called a Cabinet conference to plan US oil strategy on a globular scale.³³ The Cabinet including Dr. Feis, were ushered into the oval office at the White House and officially advised by the President of their responsibilities. In addition he indicated that Secretary Ickes was designated as President of the Petroleum Reserves Corporation³⁴

The duty of safeguarding the American oil position in foreign lands was defused among several branches of the government which met on terms of mutual watchfulness. The job seem to call for a specialized organization with more power to act than any existing one. It might maintain a more intensive watch over the foreign petroleum situation, keep informed of the performance of American companies abroad, and, if need be, harmonize and try to direct them by suggestion. It was viewed by its authors as supplementary to, and perhaps an instrument of, the diplomatic support of private American oil enterprise in foreign lands. To correct this situation, the Petroleum Reserves Corporation was given broad responsibilities since it was impossible to foresee the exact range of its operation.³⁵

All the departments of government which had an interest in foreign oil matters were given a place in the new agency. According to Dr. Feis it was not easy to fit these departments together into a new pattern of

³²Petroleum Administration for War, A History of the Petroleum Administration for War 1941-1945 (Washington: Government Printing Office, 1946), p. 276.

³³Cordell Hull, The Memoirs of Cordell Hull, II (New York: MacMillan Co., 1948), pp. 1511-12; see also New York Times, July 11, 15, 29, 1943.

³⁴Harold L. Ickes, "Oil and Peace," Collier's (December 2, 1944), p. 55.

³⁵See Appendix B for the full text of this broad charter.

authority. It was not achieved without brusing some nuckles and smothered reapproches. The most troublesome problem was whether to include the Federal Loan Administrator. He had long been the mast of all government establishments that dealt with matters such as these but the Petroleum Administrator for War doubted his grasp of the national need and his willingness to risk money on some of the projects that were in Ickes' mind. The Petroleum Reserves Corporation might be called upon to take swift, novel, and verturesome action and it seemed best not to have to struggle with too conservative, too immobile weight. Thus, the Federal Loan Administrator was shunted out of the program.³⁶

The Petroleum Administrator for War assumed the presidency of the new organization with no more comment than a much decorated, grizzled veteran receiving another medal or award; with only a rough, gruff clearing of the throat, in fact. He was assuming a new command, not retiring to a routine job.

According to Dr. Feis anxiety existed, and not for the first time, in certain parts of the state Department as to what that assertive spirit might do. Certain of the right he was sometimes given to prefer a fight to a study of the issues in dispute; and in a fight he could twist and turn with the benefit of the rule book. He had shown little use for some of the more subtle, patient, or evasive maneuvers of the State Department. . . . He was known to feel that the department stood in too great awe of the British imperial aura.³⁷

³⁶Feis, Seen From E.A., p. 125.

³⁷Ibid., p. 126.

In the forthcoming negotiations, Dr. Feis would work very closely with Secretary Ickes. He admired Mr. Ickes assertive figure and supported most of his judgments. He did not subscribe to Ickes impulsive and sometimes unfair methods of enforcing them. "But the favorite technique of negotiation of the self styled 'curmudgeon' seemed that of the blow followed by the kiss; this was not an ideal method for handling foreign affairs."³⁸

Having launched the PRC, the Department of State and the members of the PRC prepared to negotiate. The minister resident in Saudi Arabia was asked to provide an up to the minute report on the activities of the California-Arabian Oil Company. The Secretary wanted a detailed account of the current drilling and exploration activities, production, actual and potential, transportation arrangements and disposition of present production, to include distribution activities within Saudi Arabia. He also requested any new developments in relationship with the Saudi Arabian government, cautioning that the entire inquiry must be kept in utmost secrecy.³⁹

On 23 July, Commodore Carter, the Navy Representative on the Army-Navy Petroleum Board, advised Dr. Feis that the board had concluded that the one refinery project which should be carried out by the government for military reasons was the erection of a refinery in Saudi Arabia. The plans contemplated production of 20 thousand barrels a day of aviation gasoline with a total potential of about 100 thousand barrels a day. Its estimated cost would be about 100 million dollars. The decision to construct a refinery in Saudi Arabia was based on anticipation of military supply

³⁸Ibid.

³⁹U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 933.

needs in the southwest Pacific. This was strengthened by the conclusion that it would be advisable in the long run to draw on Persian Gulf supplies for the quantities needed rather than on our own domestic supplies.⁴⁰

Commodore Carter pointed out that in previous discussions with Dr. Feis regarding the plan of having the government acquire stock ownership in the California Arabian Company, it had been the JCS view that any discussion which might be required with the company for refinery construction should be carried on independently in order not to risk delay. He observed that if an undertaking of this size was begun, it would require government financing and be certain to influence the company's attitude in the prospective discussions with this government about stock purchase. Dr. Feis agreed and brought the matter to the attention of Secretary Ickes who by that time had been designated by the President as the senior negotiator on Saudi Arabian oil matters.⁴¹

During this meeting with Ickes, Feis would hear from Secretary Ickes that he, Ickes was the President of the Petroleum Reserves Corporation and would act as such! Assured of new by-laws Ickes anticipated that the PRC would be in a position to carry out the Saudi Arabian refinery project recommended by the Army-Navy Petroleum Board. Ickes felt that the need for refinery construction strengthened the government position. The investment was so large the private companies could not finance it without immense government aid. Therefore, Ickes proposed that both the purchase of stock and the construction of a refinery be discussed at the same time with the presidents of the Standard Oil of California and the Texas Company.⁴²

⁴⁰Ibid.

⁴¹Ibid., p. 934.

⁴²Ibid., p. 937.

Meanwhile, before negotiations started, word was leaking out through diplomatic channels. Minister Kirk in Egypt had heard through Colonel Hoskins, Economic Counselor in the Middle East, that a project was being considered whereby the oil concessions in Saudi Arabia would be taken over by the American government. In a rather lengthy diatribe to the Secretary of State, Kirk described how successful the company had been in its relations and explorations in the country. He closed with a warning that government operation of the oil concessions would run counter to future plans involving private American enterprise. He foresaw serious complications in the transfer of the present oil concessions to direct United States Government control both in the relations with Saudi Arabia and with other governments, whose suspicions might be aroused. Finally he advised that no step be taken to alter the present status of the oil company and its identity in Saudi Arabia.⁴³

The response from the Secretary of State to Kirk was immediate.

In view of the extreme delicacy of questions involved and the necessity of absolute secrecy in regard thereto, please request Colonel Hoskins to refrain entirely from any further discussions of the matter referred to in your telegram.⁴⁴

It was evident that at least the State Department was trying to keep the lid on the PRC as negotiations were about to begin.

Secretary Ickes began immediate negotiations with Collier and Rogers, the top officers of the California and Texas oil companies, for the purchase of the entire Saudi Arabian concessions by the United States Government. The participants came together in the cool grey offices of the Interior Building in irregular sessions. They drew apart, sometimes for days or

⁴³Ibid.

⁴⁴Ibid., p. 938.

weeks, and the meetings and separations alike in the mind of Dr. Feis were tinged with uncertainty. The government representatives hadn't fully prepared themselves and had to stop frequently to review aims, to compose proposals, and to find answers to objections to the consequences of the stock purchase plan.⁴⁵

The company representatives expressed shock and outrage at the proposals. They feared that their attempts to involve the United States Government in their Saudi Arabian concessions might boomerang and deprive them of the huge wealth-producing resources which they had acquired in the desert of Arabia.⁴⁶

Finding them reluctant to part with 100 percent of their ownership, Ickes went down, first to 70 percent, and then to 51 percent. Finally, the company representatives indicated that they might be willing to give up 33 1/3 percent of their holdings.⁴⁷

The fear of loss to the British, which had led the oil executives to Washington, was not reflected in the price that they placed on their property after the negotiations began. Dr. Feis received the impression that they were afraid of being trapped into a bargain. At every meeting, "the lawyers sat next to their talkers like sentinels."⁴⁸

Secretary Ickes domineered the discussion and, as the days went on, the State Department assistance through the economic advisor faded with each

⁴⁵Feis, Seen From E. A., p. 129.

⁴⁶Ibid.

⁴⁷Shwadran, The Middle East, p. 315.

⁴⁸Feis, Seen From E. A., p. 130.

successive meeting. There was anxiety within the State Department particularly that the British government would strongly object to the transaction. Mr. Ickes, however, disregarded this idea, he did not believe the UK was in such a position.

As the discussions continued Ickes even found himself suggesting compromises in regard to the money value of the property; his attempt at bargaining only made him suspect to everyone. Dr. Feis summarized this effort at negotiating: "It was a weak effort to match the hopes of the company with the pessimistic version of existing realities favored by the government participants."⁴⁹

Negotiations were carried on from August to October 1943. Then, according to Ickes, the attitudes of the companies changed. He attributed this to the military fortunes of the allies. When it looked as if Rommel might break through in North Africa and overrun the Middle East, the companies were eager to have the government in their Middle East concessions. However, after Rommel was chased out of North Africa, and the concessions were secure, they were no longer disposed to permit the government to purchase even a small part of their Saudi Arabian holdings. The negotiation broke off.⁵⁰

Rogers reported that the two sides had actually not been far apart in the negotiations. He personally felt that one morning when he was talking to Secretary Ickes that they were "about of the meeting of the minds."⁵¹

⁴⁹Ibid.

⁵⁰U.S. Senate, Hearings Saudi Arabia, pp. 25,240-241.

⁵¹Ibid., p. 24,868.

However, that afternoon, without any previous warning, Ickes said that the deal was off. Rogers remarked, "I have done a lot of trading in my life, but I have never had anything like that happen before."⁵² Ickes recollected that the negotiations had reached a point where he thought:

They were doing two things: They were reaching into certain members of the Senate and the House to oppose any deal of any sort, and at the same time they were just pollywogging us and stringing us along, and I thought that the time had come when I wanted to call Mr. Rogers' bluff, and I did call it. . . . I think he /Rogers/ was somewhat ingenuous when he said that he came fully prepared to accept that, or any other proposition. I do not think they were ready to accept any proposition.⁵³

A more realistic summary of the reasons for the failure of these negotiations is set forth in Petroleum and American Foreign Policy by Dr. Feis.

The problem of setting a price for this stock, acceptable both to the stockholders and to the government, was very difficult. Second, the companies directly concerned, as well as others engaged in the international petroleum trade, feared that the acquisition of control by the American government would bring it into the oil business everywhere in the world. Third, there was a fear that any such step would prejudice the chances of all the oil companies to secure concessions in foreign lands. These considerations prevailed even though the proposal contemplated that the actual business management of the properties should be left in the hands of the private interest.⁵⁴

While these negotiations were in progress, Secretary Ickes issued a letter of intent on 4 September, backing up a verbal agreement with the oil company executives arrived at on August 26, to accomplish with the greatest possible speed the construction of a very large refinery in

⁵²Ibid.

⁵³Ibid., pp. 25, 241-242.

⁵⁴Herbert Feis, Petroleum and American Foreign Policy, Commodity Policy Studies, No. 3 (California: Food Research Institute Stanford University, 1944), p. 39.

Saudi Arabia. According to the confidential letter of intent (see Appendix C) the refinery was to be designed for initial through-put of 100,000 barrels per day of Saudi Arabian crude oil to manufactured products. Twenty-five percent of the output would be motor gasoline, about 24 percent special fuel, 20 percent aviation gasoline and with the remainder in diesel oil. The letter of intent merely authorized the company to undertake certain expenditures; the method of finance and the relationship between the United States Government and the company were to be determined by future negotiations.⁵⁵

In view of the importance and the consequences of the project, the question of notification to the Saudi Arabian and British governments presented itself. On the basis of discussions that had been held with the Board of Directors of the Petroleum Reserves Corporation, it was decided that the first notification would be made to Ibn Saud by the representative of the California-Arabian Standard Oil Company in light of its close and satisfactory relationships with Ibn Saud. This channel was chosen since the refinery would be constructed under its concession and it would carry out the construction. Almost immediately thereafter the Department would discuss the subject through its diplomatic representatives with Ibn Saud. Finally, notification would be made through the War Petroleum Board to the British. This method was selected to emphasize the military aspects of the project. It was to be made clear to the British that additional discussions could be held with the State Department.⁵⁶

⁵⁵U.S., Comptroller General, Report on Audit of Reconstruction Finance Corporation and Affiliated Corporations, Petroleum Reserves Corporation 1945, Vol. IX, 80th Cong., 2d sess., House Document 622, April 27, 1948 (Washington: Government Printing Office, 1948), pp. 4-5.

⁵⁶U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 938.

Secretary Hull then advised the Minister Resident in Saudi Arabia of the arrangements and authorized him to inform Ibn Saud, cautioning that discussion had not reached a final conclusion. Hull also advised the Ambassador in the United Kingdom that the Petroleum Reserves Corporation was sending a staff of three persons, a geologist and two engineers, to inspect and study the various oil fields in the Persian Gulf area. Their mission was to make a technical study of the oil fields, the production, distribution, and refining installations in the area. They were not authorized to deal in any way with questions of policy concerning government or company relationships.⁵⁷

At this time the secret negotiations were revealed to the public. The Wall Street Journal of Thursday, October 21, 1943, carried a front page story regarding the talks which had been in progress between the Petroleum Reserves Corporation and the Standard Oil Company of California. Exposed was the fact that the US Government was attempting to acquire that company's holdings in Saudi Arabia. These negotiations were supposed to have been conducted in the greatest secrecy but, according to the article, widespread rumors regarding them were current even before the article was published.⁵⁸

The State Department then received word from Saudi Arabia that the King had been advised of the proposed construction of the refinery and had expressed pleasure at the prospects of its development. He seemed to consider the United States Government's participation as perfectly natural

⁵⁷ Ibid., pp. 938-9.

⁵⁸ Wall Street Journal, October 21, 1943, p. 1.

and expressed belief that the project should be beneficial to both Saudi Arabia and the United States.⁵⁹

Just two weeks after the negotiations became public, and after King Ibn Saud had given his approval, Secretary Ickes informed President F. A. Davis of the California-Arabian Standard Oil Company that effective immediately the Petroleum Reserves Corporation was canceling the authorization for the construction of the refinery in Saudi Arabia.⁶⁰ The reasons given were that the oil corporation had proposed a contract which had not been a reasonable basis for an agreement between the PRC Board of Directors and the private corporation. He went one step further to imply that the company did not intend to provide reasonable basis for agreement.⁶¹

These three developments led Secretary Hull to berate Ickes' handling of the affair. In a blistering letter of November 13, Hull advised Ickes of the diplomatic facts of life. Concerned about the relations of this government with the independent governments in the Middle East and the long term effects of any adopted line of action upon the American petroleum position in the Middle East, Hull complained that the main decisions of the Petroleum Reserves Corporation had become public knowledge. He cautioned the PRC to bear in mind that its attitude toward the problems before it and shifts in these attitudes were bound to produce reactions from the foreign governments and the peoples directly or indirectly concerned. When the facts had become known to the public concerning the refinery construction

⁵⁹U.S. Department of State, Foreign Relations, Vol. IV (1943), p. 941.

⁶⁰See Appendix C for a copy of this letter.

⁶¹Dr. Feis gives the best explanation found for canceling the refinery construction in his summary regarding the failure of negotiations. See page 23.

in Saudi Arabia , it became necessary to inform the King since the future of Saudi Arabia of course was ultimately of his primary interest. Then that day there was an item in the press that negotiations over this refinery had broken down. This information coming on the heels of what had been previously announced, "cannot fail to create, in the Saudi Arabian government, a lack of confidence in the sustained interest and purposefulness of this government respecting Saudi Arabian oil, which that country is most anxious to have developed."⁶² He added that it would weaken in the eyes of King Ibn Saud the position of the American company that holds the concessions, since there was no assurance that its holding would be substantially developed in the near future.

This department believes that there should be full realization of the fact that the oil of Saudi Arabia constitutes one of the world's greatest prizes, and that it is extremely short-sighted to take any step which would tend to discredit the American interest therein, whether that interest be of public or private character.⁶³

Hull predicted that pressure would be brought to bear on King Ibn Saud by another government which would attempt to use the recent events to undermine his confidence in the American interest in his country's petroleum resources. He department was convinced, he said, that the British, in handling the Middle Eastern oil, have the long term view in mind as well as the short, and that for the proper protection of American interests it was necessary for us to do likewise. Recounting the current trends within the Middle East as far as British American interest were concerned, Hull felt that maximum consideration should be given to proposals which would

⁶²U.S. Department of State, Foreign Relations, Vol. IV (1943) p. 942.

⁶³Ibid.

be consistent with the direct war requirements and possible expansion of American facilities rather than giving any priority to expansion of British facilities in the area. Secretary Hull referred to projects such as the expansion of the Anglo-Iranian Oil Company, construction of a new pipeline to the Mediterranean from the Iraqi oil fields, and construction of a refinery in British India utilizing the production of Qatar or other British controlled oil. Hull ended his diatribe:

We believe that the strong criticism will develop if British petroleum facilities in the Middle East are further expanded for American purposes and with American materials, for to do so will retard the development of American enterprise, jeopardizing their holdings, and so tend to make this country dependent on British oil in the future.⁶⁴

Now the Secretary of State felt that it was appropriate to bring the British into the picture to ensure resolution of the complex problems involved. Many of the projects that were proposed by the Petroleum Reserves Corporation or the Joint Chiefs of Staff concerning development of oil involved both American and British interest. The minutes of the November meeting of the directors of the Petroleum Reserves Corporation recorded that the negotiations to acquire participation through the stock purchase method was at an end much to the regret of the directors. However, these same minutes authorized the PRC President to continue negotiations with the Gulf Oil Corporation which held one half of the stock of the corporation owning the concessions in Kuwait. Because of this, the overall objective of any discussions with the British would be to develop Middle Eastern oil as though a result of cooperation between the two governments. The purpose

⁶⁴ Ibid., p. 943.

of oil development would be to make supplies available for the long range peacetime needs as well as for immediate security purposes.⁶⁵

Accordingly, Secretary Hull, invoking his authority over foreign affairs written into the PRC by-laws, advised Secretary Ickes that negotiations of the PRC with the California-Arabian Standard Oil Company and with the Gulf Oil Company for the purposes of arranging participation by the government in those companies or their foreign reserves should be held in abeyance, and similar negotiations should not be undertaken with any other countries at this time.⁶⁶ Ickes was told in this manner to stop any oil negotiations with Americans until Hull talked to the British.

This matter finally landed in the lap of the President who told both Secretaries Hull and Ickes to get their heads together and straighten out the problem of the Petroleum Reserves Corporation. Roosevelt felt that it was vital to go ahead rapidly in negotiating with the American companies in order to find out just where the United States stood before taking the matter up with the British. FDR felt that "time is important. . .because after the war the American position will be greatly weaker than it is today. Can't we agree on a policy and on a method of putting it into effect?"⁶⁷

There is no indication in the State Department files that there were further negotiations on the idea of obtaining an adequate stock interest in any of the companies owning concessions in the Persian Gulf area.⁶⁸ In a

⁶⁵Ibid., p. 949.

⁶⁶U.S. Department of State, Foreign Relations of the US, Diplomatic Papers, 1944, The Near East and Africa, Vol. V (Washington: Government Printing Office, 1965), p. 11.

⁶⁷Ibid., p. 16.

⁶⁸Ibid., p. 19.

memorandum of January 25, 1944, to President Roosevelt, the Director of War Mobilization, Byrnes opposed the proposed government purchase of equity in the oil companies and instead approved a proposed pipeline project in Saudi Arabia.⁶⁹

Actually the pipeline proposal was set aside and eventually the government and the petroleum industry turned their attention to a much larger issue of the Anglo-American Petroleum Agreement. The pipeline, described by Secretary Ickes before the Economics Club of New York City on 9 May 1944, as "only a single, not too important, item in what we may hope will be a comprehensive national oil policy, embracing both domestic and foreign operations" was, in effect, swallowed up in that greater undertaking.⁷⁰

The Petroleum Industry War Council condemned Ickes' PRC project. Its National Oil Policy Committee, constituted by Mr. Ickes in order to obtain industry's point of view, submitted a proposed national oil policy which deplored the oil shortage scare.⁷¹ The oil men on this committee urged "that no definite action be taken by any arm of the government committing the people to long range future entanglements in foreign countries without approval of Congress."⁷²

⁶⁹Ibid., for text of the memorandum see U.S. Congress, Senate, Special Committee, Investigating the National Defense Program: Hearings before the Senate Special Committee Investigating the National Defense Program PT 41, 80th Cong., 1st sess., January 24, 29, 30, 1948 (Washington: Government Printing Office, 1948), p. 25,387.

⁷⁰Harold L. Ickes, "Oil and Peace," Collier's V (December 2, 1944), p. 55.

⁷¹Petroleum Administration for War, Text of Preliminary Report, A. National Oil Policy for the United States, February 28, 1944, History of the Petroleum Administration for War, 1941-1945 (1946), p. 395.

⁷²Ibid.

The committee report took issue with other drastic measures to forestall or meet an oil shortage. Stock piling of crude oil and its products in Saudi Arabia was one. Stock piling in sufficient volume for national security would not in fact promote true national security, it delared. Locking up proven reserves by suppressing existing production or by acquiring proven oil fields through purchase or condemnation would be "harmful to the hope of a continued, vigorous domestic industry."⁷³ It concluded:

- (1) The public interest in oil can best be served by a vigorous competitive industry, guided by private initiative.
- (2) Our oil future cannot be charted in advance; our best procedure is to maintain a vigorous, dynamic oil industry competent to meet the problems as they arise and able to create new approaches through dynamic action.
- (3) The Domestic Oil Industry needs no further Federal administrative machinery.
- (4) The operation of United States nationals in foreign fields needs diplomatic support and machinery for international consultation.
- (5) The government of the United States should develop deliberately and only after mature study, an oil policy, both domestic and foreign, based upon experience, knowledge, and insight.⁷⁴

On August 8, 1944, the Anglo-American Oil Agreement "to assure the orderly development of petroleum resources for international trade and to provide the basis for a multilateral worldwide oil accord in the post war era"⁷⁵ was signed by representatives of the United States and United Kingdom. The PRC controversy was set aside for what developed into a new controversy over this agreement which was never ratified by the US Senate.

⁷³Ibid., p. 397.

⁷⁴Ibid., p. 401.

⁷⁵U.S. Congress, Senate, Committee on Foreign Relations, Report on Anglo-American Oil Agreement, 79th Cong., 1st sess., July 1, 1947 (Washington: Government Printing Office, 1947).

About this time the oil shortage scare, having been used by Ickes and the JCS to promote stock purchase of American private oil in Saudi Arabia through the Petroleum Reserves Corporation, faded into oblivion. The continued success of the government-oil industry team in meeting essential oil requirements contributed to the death of the PRC but not without the assistance of Congress and the oil industry.⁷⁶

It remained for Senator E. H. Moore of Oklahoma, who first attacked the governments PRC Arabian pipeline project as a bad deal and who was Ickes archenemy, to be the first to publicly pronounce its imminent demise. Calling it a "dead duck" he said: "There probably will be permitted a cooling off period purely as a face-saving gesture before any announcement is made that the Arabian deal got too hot."⁷⁷

Both the Anglo-American Oil Agreement and the PRC proved to be "dead ducks." A little known and remembered attempt of the United States Government to buy out private enterprise operating in the distant oil fields of Saudi Arabia had failed.

Needed oil was not "pulled out of a hat" by special projects. It came from the reserves built up over the interwar years by the oil industry. More than three-quarters of proven oil reserves in the United States are estimated to have been discovered and developed before Pearl Harbor and by the addition to domestic reserves made by the industry while the war was

⁷⁶The oil lobby was causing extreme pressure on Ickes from certain members of the House and Senate while he was negotiating the PRC projects. See U.S. Senate, Hearing on Saudi Arabia, pp. 25, 241-242. Also the Petroleum Industry War Council condemned the PRC project. See page 30.

⁷⁷Wall Street Journal, May 16, 1954.

going on. It also came from supplementary foreign oil supplies chiefly from Venezuela and the Middle East, the bulk of these reserves also having been discovered before we entered the war.

Ickes did a remarkable job as the Petroleum Administrator for War, but went too far with the PRC project. Although he believed he basically had the interests of the nation at heart in pushing the PRC, he was not concerned about damaging foreign relations or government competing with private industry.

Once the matter was made public, he had no backing from the White House. It seems that the oil industry had a greater lobby in Congress than Ickes or the Executive Department. Defeated, Ickes brushed off the entire matter as unimportant and began to postulate, with the industry's assistance, a new oil policy that considered both the foreign and the domestic aspects. This policy, flew in the face of the principles upon which the PRC was established.

The U.S. government had satisfied the King of Saudi Arabia with lend-lease. The oil companies retained their concessions and the British were stopped short of engulfing private American holdings into its sterling area in Saudi Arabia through negotiation. The oil scare proved to be unfounded once Congress investigated.

The conclusions drawn from the PRC incident showed the need for a clearly established national oil policy which determined the resource needs and sources during war or peacetime. If, as a result of a wartime contingency, it becomes necessary for the U.S. Government to own certain critical industries, it should be a part of an overall government-industry mobilization plan.

Later policies which came to fruition in the early fifties saw the role of Government functioning to promote conservation and encouraging

development, rather than entering into the business itself. These policies have proven effective since there was adequate petroleum to meet the needs of the Korean and Vietnamese conflicts without nationalization.

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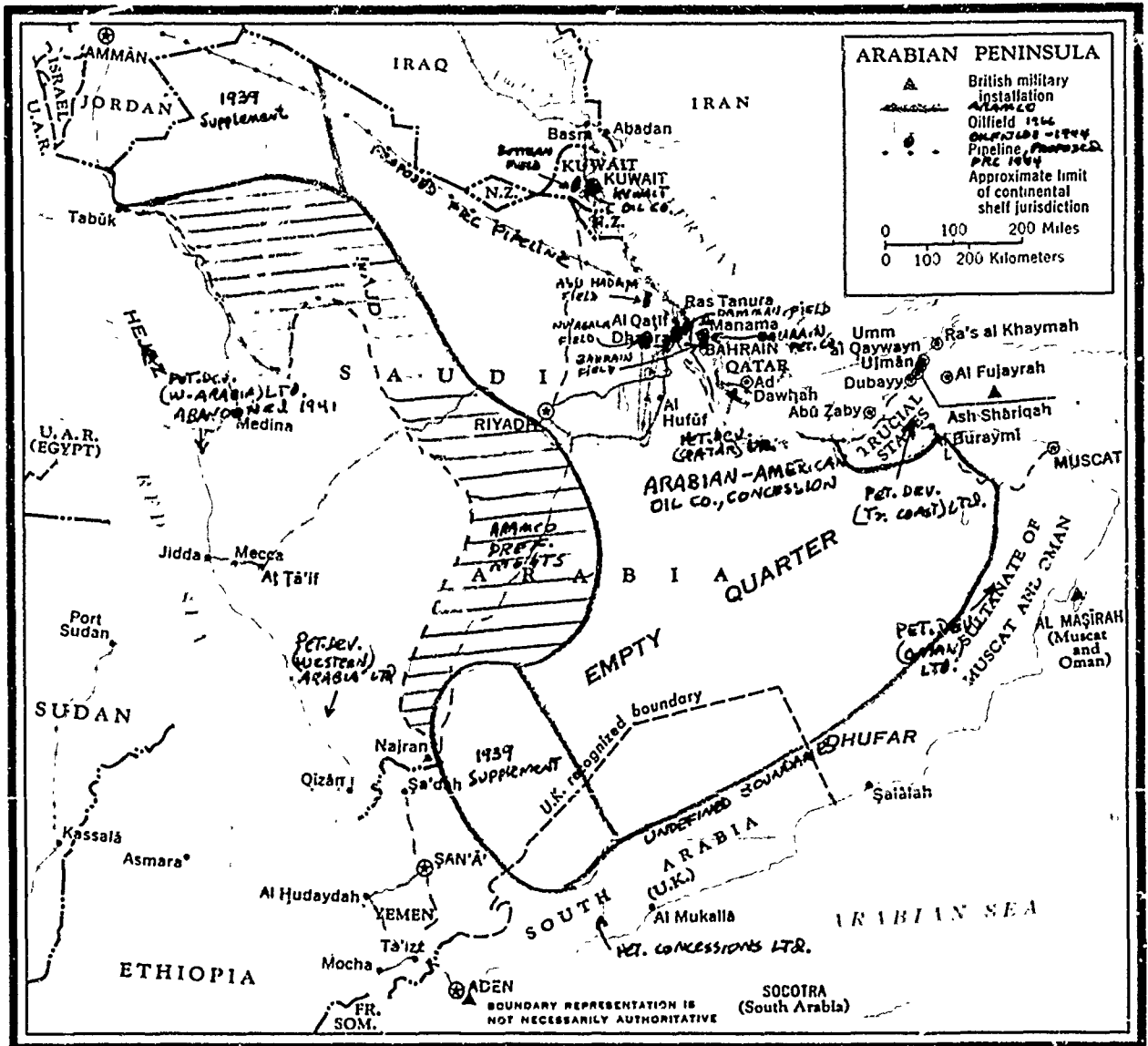
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APPENDIX A



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Map of Arabian Peninsula Region, showing Arabian American Oil Concession 1935-1945; principal oil fields by 1944; proposed PRC pipeline, 1944; and other petroleum development companies.

¹Benjamin T. Brooks, Peace, Plenty and Petroleum (Pennsylvania: The Jaques Cattell Press, 1944), p. 104; see also, Middle East Oil Development (Arabian American Oil Company, n.p., n.n., March 1956), p.9.

APPENDIX B

PETROLEUM RESERVES CORPORATION

CONSTITUTIONAL CHARTER¹

Reconstruction Finance Corporation hereby declares:

First. That pursuant to the authority contained in section 5d of the Reconstruction Finance Corporation Act, as amended, at the request of the Secretary of Commerce, with the approval of the President, there has been created a corporation under the name of Petroleum Reserves Corporation (hereinafter referred to as "the Corporation").

Second. That the principal office of the Corporation shall be in the City of Washington, District of Columbia.

Third. That the objects and purposes of the Corporation shall be to acquire or otherwise receive reserves of crude petroleum from sources outside the United States, including the purchase or acquisition of stock in corporations which own or have or interest therein, and to store, transport, produce, refine, manufacture, sell, market, and otherwise dispose of such crude petroleum, and the products derived therefrom and the Corporation shall have the power and authority to do all lawful acts and things which ever necessary to carry out its objects, but without limitation, the power to borrow money and to accept gifts or secured obligations to borrow to adopt and use a corporate seal, to make contracts, to sue and be sued and to construct and operate outside the United States, such refineries, pipelines, storage tanks, and other facilities as are necessary in connection with carrying out the objects and purposes of the Corporation as above stated.

Fourth. That the Corporation, including its franchise, its capital, reserves, surplus, income, and assets shall be exempt from all taxation now or hereafter imposed by the United States, or any dependency or possession thereof, or by any State, territory, municipality or local taxing authority except that all real property owned by the Corporation shall be subject to State, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

Fifth. That the Corporation shall be an instrumentality of the United States Government, shall be entitled to the benefits of the United States mails, and shall in all other respects be treated as if it were a corporation organized under the laws of the United States.

Sixth. That the total amount of capital stock of the Corporation shall be one million dollars (\$1,000,000) such stock shall be of one class, shall have a par value of ten per share, and shall be paid for in cash only.

Seventh. That the Corporation shall have existence until dissolved by Reconstruction Finance Corporation, or by Act of Congress.

Eighth. That the stockholder shall not be liable for the debts, contracts, or other obligations of the Corporation except to the extent of unpaid stock subscriptions.

Ninth. That the affairs and business of the Corporation shall be managed by a board of directors who shall be appointed by Reconstruction Finance Corporation pursuant to the provisions of this Charter and the Bylaws of the Corporation.

Tenth. That this Charter and the Bylaws may be amended at any time by Reconstruction Finance Corporation.

In witness whereof, Reconstruction Finance Corporation has caused this Charter to be signed by its executive officer, Vice Chairman of its Board of Directors, and by its Secretary, and has caused its seal to be hereunto affixed this 25th day of June 1943.

IN WITNESS WHEREOF,
Attest.

RECONSTRUCTION FINANCE CORPORATION
By H. A. MULLIGAN, Vice Chairman.
A. J. HOBSON, Secretary.

¹Comptroller General of the United States,
Report on the Audit of Reconstruction Finance Corporation...for Fiscal Year 1945, 80th Congress, 2nd Sess., (Washington:Government Printing Office, 1948), p.15.

APPENDIX C

PETROLEUM RESERVES CORPORATION

PETROLEUM RESERVES CORPORATION

AMENDMENT TO CHARTER

Authorized in me by Executive Order No. 9361, of July 28, 1943, Article Seventh, Ninth, and Tenth of the Charter of the Corporation (S. P. R. 9011) are hereby amended to read as follows:

The Corporation shall have existence until dissolved by the Act of Economic Warfare established by Executive Order No. 9361, or by Act of Congress.

Officers and directors of the Corporation shall be named by the Board of Directors who shall be appointed by the Director of the Office of Economic Warfare.

This Charter may be amended hereafter by the Director of the Office of Economic Warfare and that the bylaws may be amended by the Board of Directors of the Corporation.

This Charter of the Office of Economic Warfare has been approved and adopted this 9th day of August 1943.

LEO T. CROWLEY, Director, Office of Economic Warfare

Letter of Intent to Arabian American Oil Company (for Arabian Standard Oil Co.)

PETROLEUM RESERVES CORPORATION, Washington, D. C., September 4, 1943

CALIFORNIA ARABIAN STANDARD OIL COMPANY, 3000 B Street, N.W., Washington, D. C.

Reference is made to the letter of intent of the Arabian American Oil Company dated August 26, 1943, and in order to carry out the provisions of the Petroleum Reserves Corporation Charter, Arabian Standard Oil Company to perform, with its own and necessary aids in connection with the construction of a refinery and related facilities for an initial throughput of 10,000 barrels Arabian crude to manufacturing processes in approximately the

Table with 2 columns: Item, Quantity. Includes Labor (90,700 hrs. per day), Fuel, and other resources.

This authorization shall include but be not limited to the work of design and construction of machinery and equipment, and is to be effective as of the 26th day of August and is to be in full force.

The Corporation as quickly as possible a detailed proposal set and containing the information requested in our letter of

commitment made by you hereunder shall be subject to the approval of this Corporation or such agency as it shall designate. You agree that you will (until other arrangements are arranged) act as contractor, and you will agree to hold this Corporation harmless from all claims, demands, suits, or actions, whether in law or equity, or in connection with any of the work under this contract.

It is understood that the reference to future determination of all other matters in which the project will be financed and in which the United States will be owned. When the arrangements are completed, you will be required to confirm them to the Corporation.

The Corporation agrees to reimburse your company for all payments in connection with commitments made pursuant

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to this authorization subject to verification by this Corporation or an agency designated by it. All vouchers for reimbursement submitted by you shall be accompanied by such records, receipts and pay rolls as may be required by this Corporation. The time and method for such reimbursement will be agreed upon at an early date.

(c) You have advised the Petroleum Administration for War that, to expedite the project to the maximum degree, your company will be required to expand or make commitments for the expenditure of approximately thirty million dollars during the course of the next four months. The Petroleum Administration for War, having advised this Corporation that commitments or expenditures of such amount would be proper in the circumstances, it is understood that the maximum amount to be expended or for which commitments for expenditures shall be made pursuant to this authorization shall not exceed thirty million dollars.

(d) This Corporation shall have the right to cancel this letter of intent at any time by notifying you in writing of its intention so to do. Such cancellation shall be in no manner affect the right of your company to retain the same for approval of expenditures previously made.

In the event of cancellation of this authorization followed by a reimbursement to your company for its expenditures, or the making of payment or of repayment in connection with commitments made hereunder by the Petroleum Reserves Corporation shall cover all materials, machinery, equipment, and the like required and all plans, estimates, reports, specifications, data, and other documents prepared hereunder. Any such property which is not capable or is in the process of being returned to Petroleum Reserves Corporation and which the cost of its storage and maintenance by your company shall be paid for by your company. The original cost or fair value to be fixed by the agreement of your company and Petroleum Reserves Corporation.

Sincerely yours,

PETROLEUM RESERVES CORPORATION,

(Signed) HAROLD L. ICKES, President

Copy of letter terminating letter of intent dated September 17, 1943

PETROLEUM RESERVES CORPORATION, Washington, D. C., November 4, 1943.

Secret

CALIFORNIA ARABIAN STANDARD OIL COMPANY, 3000 B Street, N.W., Washington, D. C. (Attention: Mr. F. A. Davies, President.)

GENTLEMEN: Effective November 4 the Petroleum Reserves Corporation cancels the authorization contained in its communication dated September 4 and terminates further responsibility or liability with respect thereto, including all acts taken in pursuance thereof. Herewith you will terminate and cancel all outstanding orders placed in pursuance of specific letters of approval of expenditures issued by this company.

On November 1 you submitted to this corporation a proposed contract for the construction and operation of a refinery and its facilities. A study of this contract has convinced the Board of Directors of the Petroleum Reserves Corporation that no reasonable basis for an agreement between our respective corporations has been presented or interchanged.

Very truly yours,

PETROLEUM RESERVES CORPORATION,

By HAROLD L. ICKES, President

Comptroller General of the United States, Report on the Audit of Reconstruction Finance Corporation...for Fiscal Year 1943, 80th Congress, 2nd Sess., (Washington: Government Printing Office, 1948), pp.16-17.

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