Cabinet note by State Secretary for Defence, L.C. Hollis, containing a memorandum by the Minister of Fuel and Power on Petroleum Resources in the Middle East, 28 March 1946[[1]](#footnote-1)

TOP SECRET

D.O. (46) 45

28th March, 1946

CABINET

DEFENCE COMMITTEE

PETROLEUM RESOURCES IN THE MIDDLE EAST

Note by the Secretary

On the Prime Minister’s instructions, the attached memorandum by the Minister of Fuel and Power, on Petroleum Resources in the Middle East, is circulated for early consideration by the Committee.

(Signed) L.C. HOLLIS

ANNEX

PETROLEUM RESOURCES IN THE MIDDLE EAST

Memorandum by the Minister of Fuel and Power

The Foreign Secretary raised a point at the Cabinet meeting on Monday the 18th March whether if American oil companies obtained concessions in Persian Azerbaijan they might be able to draw oil away from the Russian oilfields at Baku. I have had this point examined by my technical experts and they advise me that this would not be practicable. The distance from Baku to the nearest point of the boundary of Azerbaijan is over 100 miles and operations in Azerbaijan would, therefore, not enable oil supplies to be drawn from the Baku fields.

Those discussions between Russia and Persia are giving me a good deal of concern in regard to our oil population not only in Persia but in other Middle East areas. I consider, therefore, that I ought to bring the important factors to the notice of my colleagues.

It is generally accepted that reserves of oil in the Middle East are likely to prove greater than in any other part of the world. By the activities of British oil companies we have obtained concessions, sometimes jointly with American and other interests, over a considerable proportion of the oil bearing territories. American interest, in some instances on their own account and others through the joint undertakings already referred to, also hold a considerable share of the territory.

On a long term policy it is vital to this country that our oil position in the Middle East should be maintained, and if possible strengthened. I think there is no doubt that the U.S. Government would take the same view about their own oil interests.

I must emphasise the need to safeguard our Middle East supplies of oil at all costs for our vital strategic needs and our equally vital economic and industrial needs.

The question seems to me to be whether Russian moves are designed only to secure her additional sources of oil in Northern Persia or whether she seeks political domination of Persia and to threaten our oil resources in southern Persia or in Mosul.

At the present time production of crude petroleum from Middle East areas is at the rate of some 32,000,000 tons per annum. Of this just under 20,000,000 tons is being produced in Persia. During the next five years it is estimated that production in the Middle East may increase from 50/60,000,000 tons.

As a result of the heavy demands made on American oil during the war, we must assume, I feel sure, that the United States will attempt to cut back its own production with the object of conserving its resources. There are still very large quantities of oil in America, but even if a policy of conservation is followed it is almost certain that the resources in the United States could not repeat the scale of production which was secured during the recent war.

There are substantial supplies of oil in Central and South America, but in the case of Venezuela, which is the second largest oil producing country in the world, production was also stimulated during the war beyond what may prove to be optimum level. British oil interests will go on in their endeavours to develop oil resources wherever they can be found, but in fact there is no other part of the world which offers the promise of a continued production on a large scale as the Middle East does.

The immediate question may be Persia, but the important Mosul oilfields in Iraq are also not far from Southern Russia. Schakier oil deployment are now being put into operation which in three or four years’ time will result in the production in Iraq amounting to 12,000,000 tons a year.

There may be differences of view whether Russia needs oil outside her own territory, but two years ago this Ministry expressed the view in a letter to the Foreign Office dated 2nd March, 1944, that Russia was likely to take an interest in oil outside Russia. It is true that Russia has large oil reserves in her own country, but so have the United States. Nevertheless, the United States for many years has taken the keenest interest in developing oil resources in all parts of the world, and it would be difficult to argue that Russia was not entitled to follow the same policy. So far as this country and the British Empire is concerned, the proved reserves in British territories are small, and so long as oil remains so important a consideration in regard to strategic matters, we have no option but to continue the policy we have adopted in the past of seeking concessions wherever it was practicable to do so.

The picture as I see it, therefore, is that Russia has her main sources of oil supplies in the Baku region at no great distances from vital sources of oil supply for this country and important sources of oil supply for the United States. It may be that Russia is concerned at the idea of having British and American operations so close to Baku, and that she is looking to establish herself in Persia politically so that a buffer states will be provided which would protect the Baku area. On the other hand, Russia may be desirous of establishing herself nearer to our vital supplies so that she has a jumping off ground which would enable her to put out of action our own resources. I am, however, inclined to feel that Russia is genuine in her desire to secure additional oil supplies outside Russia. As Russia goes on with the development of her country’s industry she will need an enormous development in her own oil resources to provide herself with petroleum products.

If Russia’s object is merely to get more oil in North Persia the question arises whether it would not be wise to seek a solution in the basis of Persia granting a concession to Russia in the North, and at the same time the concessions which the American and the Shell Company have been seeking in South Persia.

The present position is that, following the discussions between the Russians and Persians in the autumn of 1944, the Persian Parliament passed a law which, so long as it stays on the statute book, will prevent the Persians granting any more oil concessions[[2]](#footnote-2). I do not see how Persia can maintain such a situation. Suggestions were made that Persia might develop her own oil resources, but it would be many years before the Persians themselves could become qualified to undertake such work, and in the interval we might find that Russian technicians were being used by the Persian Government to develop fresh supplies. Another suggestion was that a joint Anglo-American/Russian organisation should be formed to undertake the work of developing Persian oil. This I think would be open to considerable objection, since it would bring Russia directly into association with our existing concession in South Persia held by the Anglo-Iranian Oil Company.

Looking at the matter from the point of view of petroleum, there are very strong grounds for endeavouring to secure an amicable settlement under which the Persian Government granted a concession to the Russians in the North and concessions to the Shell Company and the Americans in the South, provided that this will be accepted by Russia as meeting her oil needs. This matter was discussed at the Yalta Conference and the result of that discussion is given in a telegram from the Foreign Secretary to the Foreign Office dated 12th February 1945. The representatives of both the British and United States Governments stated that they did not wish to raise any obstacles in the way of the Russian oil concession, if and when the Persians were prepared to negotiate such a concession. I am not sure that this point has ever been made clear to the Persian Government, and it is probable that, if we still accept the same view, our attitude would have to be clarified with the Persians.

If it is oil that Russia is after and she is resisted we may expect her to find ways and means of getting what she wants. If she succeeds by other than normal negotiations our position becomes worsened by the close proximity of Russia to the supplies which we have developed in South Persia and also to Iraq. It may then become difficult for us to preserve any of our concessions in the Middle East which, besides the areas to which I have specifically referred, includes Kuwait on the western side of the Persian Gulf, where also very large reserves of oil are known to exist.

As things are, there are already signs of an attempt to ferment trouble in the south which, if allowed to continue, might result in the not too distant future in a strike at the Abadan refinery. This would have the most serious consequences for us at present, since, with military requirements still remaining at a substantial level, there is already considerable difficulty in meeting the world demand for oil supplies. We could not, therefore, replace the 20,000,000 tons of production from Abadan. In such circumstances, it would be extremely difficult to maintain the Forces which we at present have in the East, and countries like India would find they would be without supplies of kerosene (burning oil). Bunkers for shipping would suffer, since fuel oil in particular is short at present; amongst shipping which would be affected would be food ships, and a most serious situation would arise.

It may be argued that an objection to what I have suggested is the difficulty of reaching amicable arrangements with the Russians – they never seem to be content, nor can we be certain if they get what they want in Persia that they would be content with that and cease to make trouble.

I am inclined, however, to think that what I have said earlier in this memorandum about the Russian fears concerning their Baku oilfields is that they are anxious to keep a “No man’s land” between the Baku oilfields and the Persian oil resources, or to have their own oil concession in Persia, since this would, from the point of view of geography, give them the same measure of security. Incidentally, according to the information in this Ministry no British or American oil companies have shown any interest in an oil concession in Azerbaijan.

[TNA, CAB 131/2]

Keywords: post-war Middle East, inter-allied relations

1. According to Attlee’s instructions, the memorandum was distributed to members of the Cabinet Defence Committee. [↑](#footnote-ref-1)
2. The likely reference is to the law of 2 December 1944 that was passed by the Majlis and that prohibited talks between the Iranian government and foreign representatives about the granting of oil concessions. See: Kuniholm B.R., *The Origins of the Cold War in the Near East: Great Power Conflict and Diplomacy in Iran, Turkey, and Greece* (Princeton: Princeton University Press, 1980), p. 201. [↑](#footnote-ref-2)