

Note by Harold Macmillan on Middle East oil (London, 14 October 1955)

Caption: On 14 October 1955, Harold Macmillan, British Secretary of State for Foreign Affairs, presents a report on Middle East oil to the Cabinet. The document highlights that if United Kingdom fuel needs during the next 20 years are to be met, imports of oil must be trebled, and emphasises that the Middle East is the only source. The note stresses the danger that this region could slip away from the UK as a result of the growing efforts made by the Egyptians, the Saudi Arabians and the Russians to undermine the British position in the area. The Secretary of State for Foreign Affairs urges the government to endorse the principle that the British position in the Middle East is vital to the national economy and that the UK should be prepared to spend in the area on a scale more closely related to its essential interests there.

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14th October, 1955

CABINET

MIDDLE EAST OIL

NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

The attached report by officials shows that, if United Kingdom fuel needs during the next twenty years are to be met, our imports of oil must be trebled. The Middle East is the only source. British oil companies own investments there valued at £600 millions, and by their sales of oil abroad earn enough foreign exchange to cover the total cost of our oil transactions, including imports.

2. There is a serious danger that the Middle East will slip away from us. The Egyptians, the Saudi Arabians and now the Russians are making great efforts to undermine our position, and spending large sums of money.

3. Apart from the sums spent to fulfil our treaty obligations to Jordan and our contribution to United Nations Works and Relief Agency (Palestine refugees), Her Majesty's Government's total expenditure in the area is at present less than £2½ millions a year.

4. Although the defence of our position depends primarily on the solution of major political problems, our prospects could be considerably improved by an increase in Government expenditure. A great deal could be done even within the range of £1 million a year.

5. I therefore ask my colleagues to endorse the principle in the conclusion of this report that our position in the Middle East is vital to the economy of the United Kingdom and that Her Majesty's Government should be prepared to spend in the area on a scale more closely related to our essential interests there. The report recommends that a working party should be set up to make urgent recommendations for action in the light of this general principle.

H. M.

*Foreign Office, S.W. 1,
13th October, 1955.*

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MIDDLE EAST OIL

REPORT BY THE MIDDLE EAST OIL (OFFICIAL) COMMITTEE

The Need

Within the next 20 years the United Kingdom's annual fuel requirements seem likely to increase by over 100 million tons (coal equivalent). Coal production cannot be increased to meet this. The present atomic energy programme will be supplying 40 million tons a year by the end of the period and this may be increased to 60 million tons a year. The remainder must come from oil. This means that within the next 20 years our present annual consumption of 26 million tons of oil must be roughly trebled. This increase will be required if our consumption of oil rises by just under 6 per cent. a year. The increase so far this year over 1954 is 14 per cent.

2. Our sales of oil abroad are likely to increase at a rate not far behind the rise in our own requirements. At present our oil companies play a considerable part in the international trade in oil, with corresponding advantage to our balance of payments. Very much more oil is sold in this way than is supplied to the United Kingdom, and the increase to be expected in this business will therefore require an enormous increase in production, mainly from the Middle East. Even to-day, sales abroad by British companies earn enough foreign exchange to cover the total cost of all our oil transactions, including imports.

3. Although some of the extra oil required will come from the Caribbean area, the greater part must come from the Middle East, where the major proved reserves of the world are situated and where our companies have their greatest interests. There is no alternative source, as the only other large producing area, the United States and Canada, has become a net importer. Therefore supplies of Middle East oil are essential to the economy of this country. If they were cut off or seriously interrupted irrevocable harm would be done to our economic position, and a British investment now valued at some £600 millions would be lost. Western Europe as a whole is similarly dependent on the Middle East for its oil supplies, 75 per cent. of which came from that area last year.

4. The massive growth to be expected in production will bring even more wealth than at present to the Middle East. This will make more urgent than ever the need to increase our exports to that area in order to "mop up" the sterling which it will receive. Various means of stepping up our exports to this valuable market are being actively pursued by the Board of Trade. This problem will be the subject of a separate report by the Overseas Negotiations Committee, whose recommendations will have to be taken into account in considering action on this report.

The Danger

5. The Middle East oil producing countries receive payment for their oil by taxing profits on crude oil production, under the various "50/50" agreements. They regard this payment as no more than their due. Indeed they still question the right of the oil companies to retain large profits on oil produced from their soil, and the right of Western Governments to derive large revenues from taxing the refined products. Pressure can therefore be expected from time to time to increase their share of the profits, *i.e.*, the price at which they allow us to have the oil, and since they have a virtual monopoly they are well placed to extract more from us. New agreements, however, have recently been made between the oil companies and most of the Middle East States, and there would be a fair prospect of these enduring were it not for the unwillingness of the Saudi Arabian Government to come to terms with the American oil company (Aramco) holding their concession. It is important to maintain the principle of equal profit-sharing. If it were breached, there is no knowing where the rapacity of the Middle East States would end, and there would be an increased cost to our balance of payments, including an increase in the net cost of our oil imports.

6. Experience in Persia shows that mere increase in payments is not enough to ensure stability of supply. We need to promote internal political stability and in particular to influence individuals so that public opinion does not become so hostile to our oil companies that their commercial operation becomes impossible. The companies have themselves done much in this direction by their welfare services, education schemes, and "good employer" policies. They could do more, in particular by encouraging local industry and commerce, and by other indirect methods. They are in a better position to do so now that they can obtain relief from United Kingdom income tax in respect of their tax payments to the Middle East Governments. But the scope for oil company action is limited because they are suspect as interested parties. This is a field for Government action. Her Majesty's Ambassador at Beirut has reported as follows:—

" we are not doing nearly enough to protect our long-term interests in these countries. We should plough back a much greater proportion of our profits on oil, in our own interests, and build up for ourselves a position of greater strength, not only in the British protected territories and in countries where we have treaty commitments, not only in the sterling-area oil-producing lands, but, as opportunities offer, in every single country in the region, in the region as a whole. One rotten apple can spoil a barrel. We should concentrate particularly on Iraq, on the Sheikdoms in the Gulf and on the 'transit' countries." (Syria and Lebanon.)

7. The danger is that our enemies may play on the indigenous forces of nationalism and cupidity in order to disrupt the commercial operation of our oil companies. What are our enemies doing?

- (a) *The Russians* have recently increased their effort in the Middle East. Apart from the supply of arms to Egypt, they maintain bigger missions than we do in many Arab States, they have taken part in the Damascus trade fair for purely political purposes, and they have organised visits of many hundreds of young Arabs to Russia and to the Iron Curtain countries. They broadcast in Arabic, Persian and Kurdish. They use their own Muslim population to emphasise their link with the Middle East. Finally, they organise and pay for a nucleus of support in each country in the shape of the Communist Party.
- (b) *The Egyptians* are exercising their influence against us. They claim the cultural leadership of the Arab world and their main weapons are press, radio and education. They subsidise the salaries of Egyptian teachers throughout the area (as the Greeks have done in Cyprus). The result is that, even where our influence is strongest, e.g., in Iraq and Kuwait, the majority of the teachers are Egyptian. They are also talking of sending a "trade mission" to the Persian Gulf.
- (c) *The Saudi Arabians* use a large proportion of the oil revenues for buying individuals abroad. By this method they are often able to neutralise our influence, even in Jordan. There are also signs of a drive for economic penetration of the Persian Gulf States.

What can Her Majesty's Government do?

8. A major improvement in the area must depend on the solution of political problems. The effectiveness of any action taken must also depend on the degree of co-ordination with the Americans (who now own two-thirds of Middle East oil concessions), and on the extent to which the producing countries themselves can be induced to follow social and economic policies designed to promote stability. But there is no doubt that an increase in Government expenditure, modest as compared with the value of the investment and of the fuel supplies which are at stake, would improve the atmosphere.

9. Her Majesty's Government's expenditure in the Middle East excluding Aden, at present amounts to £15,350,000 a year, of which some £10·7 millions a year goes to the subsidy for the Jordan Government and the Arab Legion. This expenditure of £10·7 millions, which is a direct consequence of our Palestine policy (and which provides us with a division in the Middle East at very low cost), is not

directly relevant to the protection of our oil interests. The same is true of our contribution of £2,500,000 to U.N.W.R.A. for relief of Palestine refugees.

10. The remainder is spent as follows:—

	£
(a) Her Majesty's Missions (Diplomatic and Commercial)...	1,210,000
(b) British Council	330,000
(c) Technical Assistance (including Development Division and various subventions)	120,000
(d) Information work	150,000
(e) Various (largely Security Forces in Persian Gulf) ...	310,000
Total	2,120,000

Her Majesty's Government receives some £8 millions in direct taxation on the profits of our oil companies' operations in the Middle East and a further £8 millions in British Petroleum dividends.

11. Further action by Her Majesty's Government might include the following:—

- (a) *The British Council* is perhaps the most effective instrument for spreading our influence. It is not able to meet the active demand for the facilities which it offers, still less to go out and make converts. It has only this year been possible to open British Council offices in Tehran and Kuwait and these are under-staffed. An extra £250,000 would more than double the impact upon the educated and half-educated population of the area and go far to counter Russian and Egyptian influence in the cultural field.
- (b) A similar increase in our *information* effort should help to increase our influence, though its results are more limited by the general political atmosphere than are those of the British Council. There is the new opportunity offered by television. The Iraq Government have bought a station, perhaps prematurely. But it would be highly desirable to help them to operate it. We could also provide the means for the B.B.C. to increase its transmissions to the Middle East and its help to local stations in the form of material for their own use. The number of visits to this country by important people might usefully be stepped up; and the range of visitors increased beyond the scope of those normally handled by the information departments. Finally, our supply of films to the area could usefully be increased.
- (c) *Technical Assistance* in the mass form in which the Americans have used it, is largely discredited in the Middle East. But a discreet increase in the activities of the Middle East Development Division, and establishment of a fund to enable Her Majesty's Government to provide or subsidise experts in fields where local governments are unwilling to pay adequately for them, would not only increase our influence but help the economic development of the area. Not more than £25,000 a year is required for this.
- (d) *In education*, the provision of teachers and if necessary the subsidising of their salaries would enable the Middle East Governments to recruit the British teachers whom they are already willing to employ, although in technical subjects the demand will still exceed the supply. The establishment of British schools, particularly that projected in the Lebanon, for the training of the future leaders of the Northern Arab States, could not fail to have an important influence within 10 or 15 years. The initial cost of the Lebanon school to Her Majesty's Government would be £100,000 and there might be a further contribution of £10,000 a year towards running expenses.
- (e) The possibility of supplying *arms* on credit should be further examined in the light of the latest Soviet moves;
- (f) In order to maintain the standard of staff in Her Majesty's Missions in the area, steps should be taken to make service there more attractive. At

present members of Her Majesty's Foreign Service serving in the Middle East enjoy no advantages over their colleagues in other pleasanter areas, although it is intended that there should be some advantage for Arabists from the point of view of early promotion. There are other ways in which their conditions of service could be improved.

Conclusion

12. Middle East oil is vital to our economy. This is not a matter of priorities as between one area of the world and another in the cold war, but an essential need. We are vulnerable in this area, which is at present slipping away from us because of the indigenous forces of nationalism, and because our enemies are making a greater effort than we are.

Recommendation

13. Ministers are therefore recommended to endorse the principle that our position in the Middle East, and in particular in the oil bearing states of Iraq and the Persian Gulf, is vital to the economy of the United Kingdom; and that Her Majesty's Government should be prepared to spend in the area, in furtherance of their objectives, on a scale more closely related to our essential interests there.

It is therefore recommended that Ministers should authorise the establishment of a Working Party under Foreign Office chairmanship consisting of representatives of the Foreign Office, Treasury, Board of Trade and Ministry of Fuel and Power, with the following terms of reference.

“ With a view to safeguarding the free flow of oil supplies from the Middle East, to consider urgently—

- (a) what further action Her Majesty's Government should take; including action which involves increased expenditure:
- (b) what action the oil companies concerned should be urged to take:

and to make early recommendations if necessary in the form of interim reports.”

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