Office Memorandum  •  UNITED STATES GOVERNMENT

TO:       Gordon Gray
FROM:     Wallace Carroll
SUBJECT:  Middle East Oil

DATE:     September 14, 1951

This constructive proposal for a solution of the Middle East oil problem was drafted by a friend of mine and sent to Averell Harriman. If you have time to read it, we might discuss how PSB would deal with it if we were in full operation.
1. A Joint International Company

In view of the economic, political and military importance of the Middle Eastern resources and areas to the free world, and the dangers of a continuing explosive situation there, the following proposal is suggested:

The present owners of oil resources and plant (U.S., U.K., Netherlands and French companies) should pool their resources and form a Middle East Oil Company. Half of the stock should be offered to the local nations in which these resources are located, divided in proportion to their production and resources. Part of the arrangement would be a Development Corporation which would have a similar joint board, and to which agreed shares of net oil income would be contributed, on a matching basis.

Membership in the Middle East Oil Company would be constituted on a 50/50 basis as between the Middle Eastern countries and the Western countries. (Voting rights or powers for the members could be made to vary according to the importance of the oil produced or the value of the services rendered by the facilities in each particular country.) The Company’s principal tasks would be to lay down the policies governing oil operations and facilities in the Middle East, to supervise the carrying out of the Board’s policies in each of its constituent members, and lay down policies for and arrange for joint efforts between Middle Eastern and Western partners in the management of the Development Funds.

In the event that one or more of the present Western private holders of oil properties and facilities in the Middle East is unable or unwilling to go along with the proposal outlined above, the government concerned would arrange to buy out the private holders at fair prices and either itself become the property holder or arrange for another private company to take over the properties on its behalf.

2. Objectives

A bold new approach along the lines outlined above is necessary for a rapid and simultaneous solution of the several important issues now pending as well as those likely to arise in the near future. Specifically,
the proposal is designed to aid partially or wholly in achieving the following objectives:

a) It would automatically relieve the tension and impasse arising out of the Iranian conflict, and allow for a face-saving out for the Iranian Government.

b) It would remove the present acute bitterness arising from the purely national designations of the present stockholding or operating companies and the nationalistic aspirations of the countries concerned. The British, specifically, would feel less bitter about a solution of this nature than they would through the substitution of American or other companies in place of the Anglo-Iranian for purposes of ownership or management.

c) It would automatically scotch broader Iranian designs on Kuwait oil in particular, claims to which have already been staked in one form or another.

d) It would remove from the Iranians their present assurance of having the sympathy and maybe active support of the neighboring oil countries.

e) It would anticipate serious problems that are reported to be imminent with respect to Iraqi oil.

f) Though Saudi Arabia may remain tranquil for a while, it is not concluded that if King Ibn Saud should die, his successor may become similarly repressive. The inclusion or adhesion of Saudi Arabia would have valuable psychological repercussions.

g) It would throw into one consolidated operation all the countries whose support is essential to oil operations, including those across whose territories are located essential facilities such as pipelines.
h) It would be an effective sop to the nationalistic aspirations of the Middle Eastern countries, which are not aimed exclusively at the British, but in all probability include any and all Western countries having important properties or operations in the area.

1) Through the device of creating Development Funds with substantial resources, the proposal is bound to appeal to the masses of the Middle Eastern countries, and would thereby tend to reduce the grip now exercised by the oligarchies or ruling cliques now running such countries.

j) The Development Fund device would resolve the problem of contributions by the indigenous producing countries to new investment necessary for the further production of oil.

k) The proposal would prevent the whole problem of Middle Eastern oil from coming under UN discussion and debate, and thereby fall any direct USSR interference through UN auspices.

l) The Board and the Development Fund mechanisms would constitute the nucleus for a Middle Eastern version of OPEC, with all the possibilities of pacification, understanding, and cooperative work which such a body offers for the economies and defenses of the Middle East.

m) The proposal would guarantee continued Western supremacy in the Middle Eastern oil. Such supremacy would be assured by the fact that Western countries, which would retain 50% control, could always count on the votes of one or more Middle Eastern countries for majority control. There would be no question of Western supremacy in the technical field, owing to the fact that for many years it is not possible to train enough nationals of the Middle Eastern countries to assume dominance in management and technical affairs.
n) Such a bold new proposal, rather than a piecemeal expedient or
temporary approach to the problem, is bound to stop and reverse the
present trend toward a continued and apparently hopeless deterioration of
the situation. Such deterioration will hurt the West, both economically and
strategically, far more than the Middle East. The present policy of con-
ducting economic warfare against recalcitrant Middle Eastern countries will
not produce needed or effective results; the ruling cliques are indifferent
or blind enough to allow the masses to take more punishment and suffering;
and the warfare itself is bound to create and leave a permanent deep-seated
resentment against the West.

3. Development Fund

A development fund that would actually help improve the living
conditions of all the people in these areas, and provide food, water and
some industrial opportunities for employment in an essential part of the
proposal, would also be needed for expanding the petroleum facilities.

A part of the royalties accruing from the 50% of the equities to be
earned by Middle Eastern countries would automatically go into a Development
Fund. The percentage to be set aside would be arrived at on the basis of
the difference between the present royalties constituting the revenues of the
Middle Eastern country and the royalties accruing from the 50%.

The Western partners would make a contribution to the Development
Fund out of their own royalties earned in the respective Middle Eastern
countries.

(The Western partners might, in addition, offer to put into the
Development Fund a part of the earnings accruing to the Western partners.
from operations outside of the Middle East in transactions connected with tanker service, distribution, and sales.)

The contributions of the Western partners under the paragraphs above would be at least equal, or match, the part to be put into the Development Fund by the Middle Eastern country out of its share of royalties or earnings.

The Development Funds, as described above, would be subject to management and operation jointly with the Western partners in accordance with policies and arrangements to be worked out by the Middle East Oil Company. The primary purposes of the Development Funds would be twofold. First and foremost would be the financing of development plans designed to improve and raise the standard of living of the Middle East peoples. The second, and lesser, purpose would be to provide the respective share of a Middle Eastern country to such new investments as are decided to be necessary by the Middle East Oil Company in wells, refining, and other facilities in the Middle East.