Great Power Conflict over Iraqi Oil: The World War I Era

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Sir Maurice Hankey: "Control of these resources becomes a first-class war aim"

During World War I (1914-18), strategists for all the major powers increasingly perceived oil as a key military asset, due to the adoption of oil-powered naval ships, new horseless army vehicles such as trucks and tanks, and even military airplanes. Use of oil during the war increased so rapidly that a severe shortage developed in 1917-18.

The strategists also understood that oil would assume a rapidly-growing importance in the civilian economy, making it a vital element in national and imperial economic strength and a source of untold wealth to those who controlled it. Already in the United States, John D. Rockefeller, founder of Standard Oil Company, was the world's richest person.

The British government, ruling over the largest colonial empire, already controlled newly-discovered oil in Persia (now Iran) through the Anglo-Persian Oil Company. Since Britain lacked oil in the home islands, British strategists wanted still more reserves to assure the future needs of their empire. An area of the Ottoman Empire called Mesopotamia (now Iraq), shared the same geology as neighboring Persia, so it appeared especially promising.

Just before war broke out in 1914, British and German companies had negotiated joint participation in the newly-founded Turkish Petroleum Company that held prospecting rights in Mesopotamia. The war ended the Anglo-German oil partnership and it exposed the territories of the German-allied Ottoman Empire to direct British attack.

As war continued, oil seemed ever more important and shortages ever more menacing to the imperial planners. Sir Maurice Hankey, powerful Secretary of the British War Cabinet, wrote to Foreign Secretary Arthur Balfour during the war's final stage, to argue that oil had become absolutely vital to Britain and that oil resources in Mesopotamia would be crucial in the future. "Control of these oil supplies becomes a first-class war aim" Hankey said enthusiastically, as British troops closed in on Baghdad. (1)

Unfortunately for the British, they had ceded much of the oil-producing area in northern Iraq to their French ally in the secret Sykes-Picot Accord of early 1916, carving up the soon-to-be defeated Ottoman Empire. British diplomacy and military plans changed course to recoup what had already been given away. In August 1918, Balfour told assembled Prime Ministers of the British Dominions that Britain must be the "guiding spirit" in Mesopotamia, so as to provide a key resource that the British Empire lacked. "I do not care under what system we keep the oil," he said. "But I am quite clear it is all-important for us that this oil should be available." To this end, British forces raced to capture the key northern city of Mosul several days after the armistice was signed. Britain thus outmaneuvered the French, establishing a military fait accompli in the oil zone of Northern Mesopotamia.

The French were furious. France, too, lacked oil fields in its home terriorites, and its politicians and imperial strategists saw Mesopotamia as a key resource for France's future industrial and military might. In the months after the armistice, nothing caused greater friction between the two allies than the oil question. During the Versailles Peace Conference, British Prime Minister David Lloyd George and his French counterpart Georges Clemenceau nearly came to blows over Mesopotamian (Iraqi) oil, according to eyewitness accounts. US President Wooddrow Wilson apparently intervened and only barely restrained them. Finally, in the secret San Remo Agreement of 1920, the two rivals agreed to give Britain political control over all Mespoltamia, in return for France taking over the German quarter share in the Turkish Petroleum Company. All this before a drop of oil had been discovered in the disputed territory!

The French government was not satisfied with its secondary role in world oil, fearing the might of the big British and US companies. In an effort to strengthen and "liberate" France, the government in Paris set up the Compagnie Francaise des Pétroles in 1924 to take up the French share in Mesopotamia – now a British colony(2) renamed Iraq . Further French legislation in 1928 referred to the company as an instrument to curtail "the Anglo Saxon oil trusts" and to develop Mesopotamian oil as a strategic resource of the French empire.

The uneasy settlement between the British and the French did not end the great power dispute over Iraq's oil, however. The United States government and US oil companies were furious at the Anglo-French agreement, which left nothing for them! Before the end of 1920, following the companies' strategic prompting, the US press began to denounce the Anglo-French accord as "old-fashioned imperialism." In Washington, some talked of sanctions and other measures against these ungrateful recent allies. Relations between Washington and London cooled swiftly and a young State Department legal advisor named Allen Dulles(3) drew up a memorandum insisting that the Turkish Petroleum Company (TPC) concession agreement with the dismembered Ottoman Empire was now legally invalid and would no longer be recognized by the United States.

Soon London bowed to this transatlantic pressure and signaled that it was ready for a deal that would give the US a "fair" share. In response, Washington told its major oil companies that they should act as a consortium in future negotiations. Walter Teagle, Chairman of Jersey Standard (later Exxon), the biggest US company, took the lead role as negotiator for the consortium. Thus began lengthy secret talks in London. No oil had yet been found, but prospects had brightened.

In October 1927, the British exploration team under D'Arcy hit a gusher, proving oil reserves in large quantities near Kirkuk in northern Iraq. In July 1928, the quarreling parties finally reached a famous accord, known as the "Red Line Agreement," which brought the US consortium into the picture with just under a quarter of the shares and an agreement to jointly develop fields in many other Middle East countries falling within the red line marked on the map by the negotiators.

Throughout this phase, as in all later phases of Iraq's oil history, major international powers combined national military force, government pressure and private corporate might to win and hold concessions for Iraq's oil. The defeated and dismembered Ottoman Empire and its defeated ally Germany lost all oil rights they might otherwise have claimed. At the same time, the three victors of the war – Britain, France and the United States – shared out Iraqi oil among themselves on a basis of relative power. The dominant colonial power, Britain, came out with nearly a half share, while the two lesser powers on the regional stage – the US and France – each won close to a quarter share.

D'Arcy, who discovered Iraq's oil, died a poor man, while Calouste Gulbenkian, the crafty businessman who had put together the company, managed to extract a five percent personal share, making him one of the world's richest men.(4) The people of Iraq were not consulted, nor did they derive any benefit from these arrangements.

1. As cited by Daniel Yergin, The Prize (New York, 1991), p. 188

2. More precisely, a League of Nations Mandate

3. Brother of Secretary of State John Foster Dulles and himself Director of the CIA (1953-61)

4. The precise shares in the company were as follows: British Petroleum 23.75%, Royal Dutch Shell 23.75%, Compagnie Franí§aise des Petroles 23.75%, US consortium 23.75%, Calouste Gulbenkian 5%.