Newsletter 49:

Oil and the Origins of the Postwar Petrodollar System

Dear Reader,

In this selection for my gratis newsletter I offer a section from my most translated book, **A Century of War: Anglo-American Oil Politics.** Here I describe the founding of the post-1945 American Century and the central role control of world energy via control of world oil flows played then, and up to the present. The creation of the CIA, and its early links with British intelligence, date back to this time. I deal with postwar events such as the Anglo-American coup against Mossadegh in Iran and Enrico Mattei in Italy to maintain that oil control. A statement attributed during the 1970s oil crises to US Secretary of State Henry Kissinger reportedly declared, “If you control the oil you control entire nations or groups of nations…”

I hope you find it useful and interesting and if you have not, please consider buying the book and making a support contribution via my website PayPal to allow us to maintain free content.

With best regards,

William Engdahl

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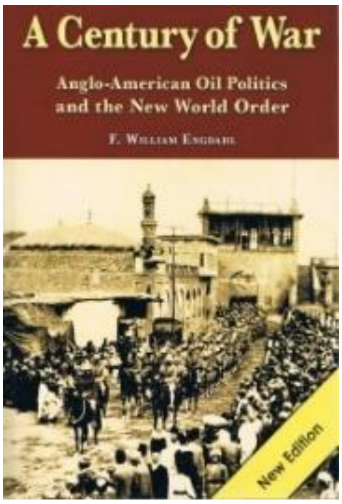

CHAPTER SEVEN:

OIL AND THE NEW WORLD ORDER OF BRETTON WOODS

A New Empire rises from the ashes of war

Following six years of a war spanning the entire globe that had left more than 55 million dead in its wake, the world in 1945 had changed in many significant ways. However, for vast regions of the world, most especially in Eastern Europe and the less-developed regions in the southern hemisphere, 1945 merely marked a transition to a new form of chronic war--most often, economic.

In 1919, following the Versailles Peace Conference, the British Empire was at its largest extent, its dominion covering one quarter the entire surface of the world, the Empire 'upon which the sun never set.' A mere thirty years later, by 1949, the British Empire was disintegrating in every region, as demands for colonial independence were made against the oppressive mother country. The British Empire was in the throes of the largest upheaval of perhaps any Kingdom in history.

Following the mutiny of the Indian Royal Navy in February 1946, the postwar British Government of Labour Prime Minister Clement Atlee appointed Viscount Mountbatten of Burma to be the last Viceroy of India, with the task of arranging the fastest possible withdrawal of English forces and government administration. Mountbatten's partition of the vast Indian subcontinent into a bizarre quilt of East and West Pakistan with predominantly Muslim population, separated by India, was completed by August 15, 1947, five months after Mountbatten's arrival in India.

Within a few short years, Britain had ceded formal colonial control over large parts of her empire in Africa, the Pacific, the Mediterranean. It was not out of beneficence, and a sudden burning passion for the principle of self-determination of subject peoples, but rather driving necessity, which dictated a reshaped form of postwar dominion in the late 1940's and early 1950's.

As a consequence of the War, the trading mechanisms of the Empire which had formed the foundation of British financial power were shattered. Vast overseas investments had long-since been sold to pay war costs. The English National Debt had soared to unheard-of heights. Domestically, England's plant and equipment were rotted and worn out, even electricity supply no longer reliable, housing stock dilapidated, the population exhausted. By the end of the war, British export trade had withered to a mere 31 percent of its 1938 pre-war level.

Britain was utterly dependent on the postwar support of the United States. For its part, the United States, or rather, the internationalist elements of the East Coast Establishment as it was becoming known, realized that if it were to dominate the post-war world, it needed the vast worldwide expertise and cooperation of London. The long-discussed new concept of Empire, first introduced in the early years before World War I by Lord Lothian, Lord Milner, Cecil Rhodes and the Round Table circle, as we mentioned earlier, was rapidly becoming reality. Britain after 1945 would exert global influence indirectly, through developing and deepening a ‘special relationship’ with the United States.

The seeds of this ‘special relationship’ had been carefully planted following Versailles, with the simultaneous establishment of the Royal Institute of International Affairs and the New York Council on Foreign Relations, as conduits of strategic policy debate.

During the War a new element was added. While England and the United States agreed to a full integration of military command, the still-fledgling U.S. intelligence operations, under the Office of Strategic Services (OSS), worked principally out of a London command center in joint cooperation with the British Special Operations Executive (SOE). The emergence of the postwar American Central Intelligence Agency, and the entire array of U.S. covert government institutions evolved directly out of these wartime British ties. The consequences for later American policy were to be as enormous as they were tragic.

A signal turning point in redirecting American energies and policy in the immediate postwar period was the intervention by the British into the domestic American debate. In a supremely calculated move, Winston Churchill came to Fulton Missouri, President Truman's home state, to deliver his famous ‘Iron Curtain’ speech on March 5, 1946. What is generally not discussed are the policy gains for the postwar British position secured by Churchill's calculated rhetoric. Granted, Stalin was indeed violating letter and spirit of various wartime agreements made with Churchill and Roosevelt. But Churchill's aim at Fulton was to manipulate the naive and inexperienced American president into a renewed Anglo-American ‘special relationship.’

Shortly after Churchill's extraordinary visit, during which he deliberately lost $75 in playing a game of poker with Truman, the former Prime Minister had turned events to the distinct favor of England. The prototype of the CIA was established on the wartime network of the London-trained OSS. American defense policy was based on joint US-British sharing of intelligence and military defense secrets. Truman began to purge his administration of any anti-British elements, most notably Agriculture Secretary and anglo-phobe, Henry Wallace. US and British intelligence agencies resumed close collaboration in many key areas.

The Dollar Standard, 'Big Oil' and New York Banks

Anglo-American petroleum interests emerged from the Second World War in a position enormously more powerful. In the final agreement for a postwar New World Order in monetary and economic affairs, hammered out between British and American negotiators in 1944 at Bretton Woods, New Hampshire, Anglo-American hegemony over world petroleum played a central role in the thinking of Lord Keynes and his American counterpart, Harry Dexter White, Assistant U.S. Treasury Secretary.

The Bretton Woods System was to be built around the ‘three pillars’ of an International Monetary Fund, whose member country contributions would constitute an emergency reserve available in times of balance of payment distress; a World Bank, which would loan to member governments for large public projects, and a General Agreement on Tariffs and Trade, designed to create a managed agenda of ‘free trade.’

But there were certain clauses skillfully designed by Lord Keynes and his American counterparts, to ensure a postwar Anglo-American hegemony over world monetary and trade affairs. First, de facto voting control was given to the United States and Britain within the IMF and World Bank. Second, Bretton Woods created what was called a Gold Exchange System. Under this system, each member country's national currency was pegged to the U.S. dollar. The U.S. dollar was in turn set at an official rate of $35 per fine ounce of gold, the rate set by President Roosevelt in 1934, during the depths of the Great Depression, and before a world war.

Because the New York Federal Reserve Bank had accumulated the bulk of the world's official gold reserves during the war, and because the Dollar emerged from the ravages of the war as the world's strongest currency, backed by what was unquestionably the world's strongest economy, few were in a position to argue with what amounted to a postwar U.S. Dollar Standard.

Among those least inclined to complain about the terms of the Bretton Woods monetary order, were the large American petroleum companies, the Rockefeller companies of the Standard Oil group, together with the Pittsburgh Mellon family's Gulf Oil. They had secured a major stake in concessions for oil in the Middle East, above all in Saudi Arabia. Partly through the clever diplomacy of President Roosevelt, and the bungling of Britain's Winston Churchill, Saudi Arabia slipped from the British grip during the war. Saudi King Abdul Aziz gained an unprecedented Lend-Lease agreement in 1943 from Roosevelt, a gesture to ensure Saudi goodwill to American oil interests after the war.

Roosevelt acted on advice of Harold Ickes, then Petroleum Coordinator for National Defense, and the State Department which in December 1942 had noted, 'It is our strong belief that the development of Saudi Arabian petroleum resources should be viewed in the light of the broad national interest.' This was the first time American national security had been officially linked with the fate of the desert kingdom more than 10,000 miles from its shores on the Persian Gulf. It was not to be the last time. State Department planners realized that the implications were that U.S. foreign policy, at least in key areas, might become more imperial, along British lines of controlling strategic interests in lands far from its shores, as the pillar of its postwar power. [1]

But few other Americans realized the implications in the first years after the end of the Second World War. They were far too preoccupied with returning to normal life after depression and war.

Marshall Plan forms postwar oil hegemony

Little attention has been paid to the role of oil in the postwar European Recovery Program, the Marshall Plan, named after its architect, Secretary of State George C. Marshall. From its inception in 1947, the largest single expenditure by ERP recipient countries in Western Europe, was to use Marshall Plan dollars to purchase oil, oil supplied by primarily American oil companies. According to official records of the State Department, more than 10 percent of all U.S. Marshall aid went to buy American oil.[2]

By the end of the war, U.S. the oil industry had become every bit as international as its British counterpart. Its main resources were in Venezuela, the Middle East and other far away places. After the war, Big Oil, as the five U.S. companies were called--Standard Oil of New Jersey (Exxon), Socony-Vacuum Oil (Mobil), Standard Oil of California (Chevron), Texaco and Gulf Oil--moved to take decisive control of Europe's postwar petroleum markets.

The ravages of war had severely hurt European dependence on coal as the primary energy source. Germany had lost her eastern coal reserves and coal output in the war-torn west was only 40 percent of prewar levels. British coal output was 20 percent below the level of 1938. The oil of eastern Europe fell behind what Churchill called the Iron Curtain, inaccessible to the west. In 1947, half of all western Europe's oil was being supplied by the five American companies.

The American oil majors did not hesitate to take advantage of this remarkable opportunity.

Despite some Congressional inquiry and mid-level bureaucratic protest at the obvious misuse of Marshall Plan funds, the American oil majors forced Europe to pay a dear price, a very dear price. They more than doubled the price they charged European customers between 1945 and 1948, going from $1.05/barrel to $2.22/barrel. Though the oil was supplied from the inexpensive Middle East reserves of the U.S. companies, the freight rates were calculated in a deliberately complex formula, tied to freight rates from the Caribbean to Europe, a far higher cost.

Even within European markets, there were staggering cost differences the companies charged. Greece was forced to pay $8.30/ton for fuel oil, the same fuel oil for which Britain paid only $3.95/ton. Further, the U.S. companies, with support of the Washington government, refused to allow Marshall Plan dollars to be used to build indigenous European refining capacity, further tightening the lock-grip of American Big Oil on postwar Europe. [3]

As the two major British oil companies, Anglo-Persian and Shell recovered their capacities, the American five were forced to expand to seven companies, parceling out the oil markets of postwar Europe and the rest of the world. By the 1950's, the position of the Anglo-American oil companies appeared unassailable. They controlled incredibly cheap Middle Eastern supplies, and captive markets in Europe, Asia, Latin America and North America.

The price of petroleum seemed a constant of daily life during the 1950's. The companies reaped enormous profit for their dollar sales of oil to the new world market. The automobile and its surrounding industries had become the single largest component of the American economy. U.S. tax dollars poured billions into construction of a national modern highway infrastructure under the Eisenhower National Defense Highway Act, using the pretext that fast motorways were required to flee cities in event of Soviet nuclear war. The railroad infrastructure was greeted with neglect and allowed to decay to the advantage of far less energy-efficient motor transport. This was the time when a Secretary of defense, Wilson, former chairman of a major Detroit automobile corporation, could say without flinching, ‘What's good for General Motors is good for America.’ He should have added, good as well for Exxon, Texaco and the oil majors. Oil had become the most important commodity to fuel that economy.

The power of New York Banks tied to U.S. Oil

A little-noted consequence of this extraordinary global market grab by the major American oil companies following the Second World War, was the parallel rise to international dominance of the New York banking groups tied to oil. Increasingly since the period of the Dawes reparations loans and related lending of the 1920's, New York banks had oriented their business to the international arena, away from domestic finance. As U.S. petroleum companies became an ever larger element in international oil supply during World War II, New York banks benefited from the capital inflows of world oil trade. The powerful New York banks exerted influence to modify the original Bretton Woods scheme devised by Keynes and Dexter White to preserve this advantage.

During the early 1950's, a wave of little-noted New York bank mergers contributed to increase the already enormous political and financial influence of the New York banks over domestic U.S. policy. In 1955, Rockefeller's Chase National Bank merged with the Bank of Manhattan and the Bronx County Trust to create the Chase Manhattan Bank. The National City Bank of New York, also, like Chase, closely tied to the international operations of the Standard Oil group, acquired the First National Bank of New York to form the First National City Bank, later Citibank Corp. Bankers' Trust took over the Public Bank & Trust, Title Guarantee & Trust and several other regional banks to form another powerful group, while the Chemical Bank & Trust merged with the Corn Exchange Bank and the New York Trust Co. to form New York's third largest bank group, Chemical Bank New York Trust, also tied to

Standard Oil. J.P. Morgan & Co. merged in the same time with Guaranty Trust Co. to form Morgan Guaranty Trust Co., the fifth largest bank.

The net effect of this postwar cartelisation of American banking and financial power into the tiny handful of banks in New York strongly oriented to the fortunes of international petroleum markets and policy, had enormous consequence for the following three decades of American financial history, overshadowing all other policy influences in U.S. and international policy, with the possible exception of the Vietnam war deficit financing.

New York banks had traditionally oriented abroad, but now it concentrated disproportionate power over world finance unlike ever before. It resembled the power of the old London imperial banking groups such as Midland Bank, Barclays and such. By 1961 the deposits concentrated into the five largest New York banks were fully 75 percent of all bank deposits of the entire metropolitan region, America's largest economic region. [4]

The membership of the increasingly-influentiual New York Council on Foreign Relations during the 1950's, also reflected this concentration of financial and economic power. CFR chairman was the Wall Street lawyer John J. McCloy, also chairman of Chase Bank and a former lawyer for the Rockefeller Standard Oil interests.

While most Americans during the early postwar years in the 1950's only dimly realized the ominous implications of the concentration of economic and financial power into a small number of hands in New York banking, corporations and related law firms, the point was not lost on their English cousins in the City of London. American society was increasingly being reshaped along lines of British ‘informal empire,’ with finance, raw materials control and control of international terms of trade, rather than the traditional American foundation of technological and industrial progress, as its underpinning.

Mohammed Mossadegh takes on Anglo-American oil

While Britain during the 1950's appeared to be losing her most extensive attributes of Empire, she held tenaciously to a re-ordered set of colonial priorities. Rather than stake all on maintaining the extensive formal empire reaching to India, she regrouped around the far more profitable empire of world oil and strategic raw material control, with the assistance of the United States. Thus, Egypt, and the Suez Canal, through which the bulk of Middle East oil flowed into Europe, became strategic priority, as did maintenance of British interests in the oil-producing Middle East Gulf, especially Iran, where the British Government, through its Anglo-Iranian Oil Company, continued to hold a lock-grip on the country's political and economic fortunes, despite the pressures of world war.

Since the earlier-described efforts of the British at the time of William Knox d'Arcy in 1901-2 to gain monopoly of Persian oil rights, Britain had fought like a tiger to control what became of Iran's oil minerals. During the Second World War, Britain played an especially perfidious role, persuading Stalin's Russia to join forces in invading Iran on the flimsy pretext that presence of a handful of German engineers in the neutral territory of Iran constituted a casus belli. A month after British and Russian forces occupied Iran in August 1941, the Shah abdicated in favor of his son, Mohammed Reza Pahlevi, who was disposed under the circumstances to accomodate the Anglo-Russian occupation.

The British occupation forces, later complemented by a smaller American contingent, sat idly by while their wartime ‘ally’ Russia requisitioned most food supplies from the Northern zone of Iran occupied by the Soviet army. Tens of thousands of Iranians died of hunger while 100,000 Russian and 70,000 British and Indian troops were given priority in supplies. Typhoid and typhus became epidemic. Diversion of supplies along the Iranian railroad to carry Anglo-American Lend-Lease goods to Russia during the winter of 1944-5 killed thousands more for want of heating oil in the bitter winter. British policy during the entire period was systematic humiliation of nationalist Iranian elements and the government, while encouraging the most superstitious and feudal reaction inside the country.

In a desperate bid to seek help from a third party, the Iranian government asked American aid, and in 1942 an American military official, General M. Norman Schwartzkopf (father of the commander of U.S. forces in the 1990-91 Operation Desert Storm), went to Iran where he trained a national police force, for a six year period until 1948. Schwartzkopf and his Iranian army contacts were to later prove crucial in the toppling of Iran's nationalist Premier Mossadegh in August, 1953.

Despite the solemn declaration of the wartime Teheran Conference, signed by Stalin, Churchill and Roosevelt regarding the restoration of postwar Iranian sovereignty, Russia demanded an extensive exclusive oil concession in the northern part of Iran bordering Azerbaijan, while England demanded further concession for the government-linked Royal Dutch Shell. In the midst of this blatant foreign blackmail from what amounted to occupation forces on Iranian territory, in December 1944 Iranian nationalist leader Dr. Mohammed Mossadegh introduced a bill in the Iranian Parliament which would prohibit oil negotiations with foreign countries.

Mossadegh cited a November 2, 1944 *Times* of London editorial which proposed a postwar partition of Iran among the three powers, England, Russia and the United States. The resolution passed, but it explicitly left for a later debate the resolution of the Anglo-Iranian Oil Company concession in southern Iran, the old d'Arcy concession from 1901.

By 1948, following a bitter fight including taking the case before the new United Nations, Iran had finally succeeded in forcing a withdrawal of foreign troops from her soil. But the country and its economy were still under the effective lock-grip of the British Government through the Anglo-Iranian Oil Company. Iran's southern region contained the richest oil province then known in the entire world, and it was controlled under the exclusive concession given decades earlier to the British. Since 1919 British administrative officials had de facto run the administration of the country to secure this vital monopoly. Niceities of Iranian sovereignty were pushed to the side.

But following the end of the Second World War, with the anti-colonial movement emerging from India across Africa into Asia, Iran no longer would tolerate such an abrogation of its national sovereignty. In late 1947, the Government of Iran proposed to the Anglo-Iranian Oil Co. to increase the ridiculously low revenue share Anglo-Iranian allowed the Government of Iran for the world's most profitable oil exploitation.

Iran cited the case of Venezuela where the American Standard Oil companies had agreed to pay 50-50 percent to the government of Venezuela. Iran noted that had she had such terms, instead of getting a paltry $36 million per year for draining its precious natural resource, it would have accrued $100 millions, at that time a significant sum. As it was, Iran calculated that Anglo-Iranian and the British were de facto paying total royalties of a mere 8 percent of their net profit. Britain held exclusive concession over a vast area comprising 100,000 square miles on which it was refusing to engage in significant new exploration. Iran had calculated that in 1948 on its production of 23 million tons of Iranian oil, the Anglo-Iranian Oil Co.

made a profit of $320,000,000, while paying Iran a royalty of $36,000,000. The government of Iran suggested in light of the data presented, that the original concession be renegotiated with the principle of justice and fairness in mind. (5).

This suggestion was not greeted with joy in London. BBC radio began broadcasting faked news accounts designed to embarrass the Iranian Government by charging that Foreign Minister Esfandiari had agreed to humiliating concessions to British Foreign Minister Ernest Bevin for amending Iran's Constitution. That was only the initial response.

The talks over changing the Anglo-Iranian agreement dragged on through 1949 without significant concession from the British side. Their strategy was to stall and delay, while working always to weaken the Iranian government. But in Iranian parliamentary elections towards the end of 1949, Dr. Mossadegh and his small National Front party campaigned on the issue of the oil negotiation. The National front won six seats in the new parliament and by December, Mossadegh was named head of a Parliamentary Commission on the oil issue. Iran had asked 50-50 percent profit-sharing as well as Iranian participation in the management of Anglo-Iranian Oil Co. British refusal to meet Iran even half way continued, as one government after another fell over the contentious issue in Iran until April, 1951 when Mohammed Mossadegh was made Prime Minister. Contrary to subsequent propaganda from various circles in Washington and London, Mossadegh was not a proxy for the Tudeh communists or Russia or any wild extremist, but a passionate patriot of Iran and a staunch enemy of Soviet Russia, whatever his other faults may have been.

Already on March 15 the Iranian Parliament, the Majlis, had voted to accept Dr. Mossadegh's commission recommendation and nationalize, with fair compensation, the Anglo-Iranian Oil

Company. The final nationalization plan was approved by the Majlis the day before Mossadegh was asked to form his government, on April 28, 1951.

In British eyes, Iran had committed the unforgivable sin. It had effectively acted to assert national interest over British interests. Britain promptly threatened retaliation and within days British naval forces arrived near Abadan. Here the hypocrisy of the British came to light. Previously, the British Foreign Office had refused to intervene into negotiations between Anglo-Iranian Oil Co. and Iran, claiming it would not interfere in the affairs of a 'private company,' despite the fact that 53 percent of Anglo-Iranian was held by His British Majesty's Government. Now, with Anglo-Iranian nationalized by Iran, 'the British government not only intervened in the negotiation between Iran and the company but also backed up its demands by dispatching units of the Royal Navy to Iranian waters, and threatened the occupation of Abadan by paratroopers for the ostensible reason of protecting British interests.' Abadan was the site of the world's largest oil refinery, part of Anglo-Iranian Oil Co. [6]

In all the 28 months of Mossadegh's premiership, the British labored under one overwhelming obstacle. Iran was fully within its legal rights to nationalize a company on its territory so long as she offered just compensation, which is what Mossadegh's government had offered. As well, Iran would guarantee to Britain the same level of oil supply she had enjoyed before nationalization, as well as offering to continue to employ British nationals in Anglo-Iranian.

By September, 1951 Britain had declared full economic sanctions against Iran, including embargo against Iranian oil shipments as well as a freeze on all Iranian assets in British banks abroad. British warships were stationed just outside Iranian coastal waters as well as land and air forces to Basrah in British-controlled Iraq, close to the Abadan refinery complex. The British embargo was joined by all the major Anglo-American oil companies. Economic strangulation was to be the London and Washington response to assertions of national sovereignty from developing states which interfered with vital assets. British secret intelligence corrupted informants within the Iranian central bank, Bank Melli, and other parts of the government to gain a minute-by-minute reading of the exact effect of their economic sanctions on the country.

Prospective buyers of nationalized Iranian oil were warned by the Anglo-American oil companies they would face legal action on grounds that a compensation agreement had not yet been signed between Anglo-Iranian Oil Co. and Iran. This tortuous legal argument covered a self-fulfilling strategy. The company and the British refused to sign any compensation agreement. Meanwhile, as month rolled into month, the bite of the embargo on Iran's fragile economy took hold, and the economic troubles besetting Mossadegh's regime multiplied. The major source of the country's export earnings, oil revenues plummeted from $400 million in 1950 down to less than $2 million between July 1951 and the fall of Mossadegh in August 1953.

Mossadegh personally came to the United States that September to address the UN Security Council, which timidly voted to defer the matter, whereupon Mossadegh went to Washington in a vain effort to enlist American help for his country's position. The major political blunder made by Mossadegh was his lack of appreciation of the iron-clad cartel relationship of Anglo-American interests around the vital issue of strategic petroleum control. U.S. ‘mediator’ W. Averill Harriman had gone to Iran, accompanied by a delegation packed with people tied to Big Oil interests, including State Department economist Walter Levy. Harriman recommended Iran accept the British ‘offer.’ When Mossadegh went to Washington the only suggestion he heard from the State Department was to appoint Royal Dutch Shell as Iran's management company.

When the British insisted the case be brought before the World Court for arbitration, Mossadegh, himself educated in law in Belgium and Switzerland, argued his country's case successfully and the Court denied Britain jurisdiction, referring the matter back to Iran's internal jurisdiction, on July 22, 1952.

Commenting on the situation, journalist Ned Russell of the New York <I>Herald Tribune<P> in October, 1952 noted accurately, there were few, if any, leaders of small nations with Mossadegh's courage, who, watching their country suffer under a massive financial and economic blockade imposed by Britain, and now the United States, would tell Truman and Churchill, 'no.' Russell noted that Churchill's ploy was to ‘pit the United States and Britain together against Dr. Mossadegh.’

By 1953 Anglo-American intelligence had its response ready. In May of that year, the new US President, Dwight Eisenhower, turned down Mossadegh's request for economic aid, on advice of his Secretary of State John Foster Dulles and the CIA chief, Allen Dulles. On August 10, CIA Director Allen Dulles met with US Ambassador to Teheran, Loy Henderson, and the Shah's sister in Switzerland. The same time Gen. Norman Schwartzkopf, Sr. arrived in Teheran in August, 1953, after a five years absence, to see ‘old friends.’ He was close to the Shah and to key army generals he had earlier trained, who were being promised power in the event of a successful coup against Mossadegh.

With the aid of royalist elements in the Iranian armed forces, British and American intelligence staged a coup and forced Mossadegh's arrest, his influence severely undermined by two years of unrelenting Anglo-American economic warfare against the country, combined with subversion of key support for the government. Britain's Secret Intelligence Services had convinced the CIA's Allen Dulles and his brother, Secretary of State John Foster, who then convinced Eisenhower, that the overthrow of Mossadegh was indispensable.

The CIA, under code name Operation AJAX, cooperated fully with British SIS in the overthrow of Mohammed Mossadegh in August 1953. The young Reza Shah Pahlevi was backed by the Anglo-Americans as opposition to Mossadegh. The Shah returned, and economic sanctions were lifted. Anglo-American oil interests had prevailed and had shown what they were prepared to do in the postwar era to anyone who tried to challenge their mandate. Ironically, those same Anglo-American interests would turn on the Shah himself some 25 years later. [7]

The U.S.-Soviet Cold War period in the immediate postwar years provided a marvelous opportunity to British and American intelligence services. Any significant opposition which stood in the way of major policy initiatives, could conveniently be painted with a red brush as a communist or ‘communist-leaning.’ Nowhere was this easier to apply than against little-known leaders of developing or newly-independent former colonial nations. This was the tactic used by London and by Washington all too often during the postwar decades. As a consequence, Mohammed Mossadegh was to become known in western accounts as an irresponsible wild radical who was working with communists against vital western strategic security.

Italy attempts independence in oil and development

One European company expressed interest in purchasing oil from Mossadegh's nationalized oil supply. This was in Italy. More specifically, it was the founder of a new Italian state enterprise, who later would cause severe headaches for the Anglo-American oil cartel, Enrico Mattei.

Enrico Mattei had *Entschlossenheit* or decisiveness in the classical Prussian meaning of the term. He was the leader of the largest non-communist resistance organization in Italy during the Second World War. When Alcide de Gasperi formed his Christian Democratic government in 1945, he named Mattei to become the head of the north Italian region for a moribund entity created two decades earlier called Azienda Generale Italiana Petroli, or AGIP.

Despite the fact that Italy had switched sides in 1943, two years of Allied fighting and bombing up the peninsula following more than two decades of Mussolini fascism, had left the country in ruins. In 1945 Italy's Gross National Product was only at the level of 1911, and had fallen in real terms by 40 percent from the level of 1938. A large increase in population despite war losses, came as a result of repatriation from lost colonies. Starvation threatened, and the standard of living was alarmingly low.

In this situation, Enrico Mattei set out to create indigenous energy resources to begin the reconstruction of Italy's postwar economy. Despite a mandate to prepare AGIP for privatization as rapidly as possible, Mattei set about to find oil and gas. This he did with an aggressive exploration effort under the Po Plain in the north of Italy, with a series of increasingly significant discoveries, first in 1946 near Caviaga, then a major find south of Cremona at Cortemaggiore in 1949, where not only natural gas but also the first oil in Italy was found. Mattei was given carte blanche to build his enterprise after these finds, having become overall head of AGIP.

Efforts by the jealous American oil majors to co-opt this new rival in the Italian energy market were resisted. Mattei was a staunch Italian nationalist determined to build the economy of the nation as a self-sufficient country. The drain on the precious dollar reserves of Italy to pay oil imports from the American and British oil majors, was the largest problem in the postwar balance of payments deficit of Italy. Mattei tackled this problem with a boldness which cut across awesome obstacles. A 2,500-mile long network of gas pipelines was constructed, to bring the natural gas from Cortemaggiore into the industrial cities of Milan and Turin. The revenues from the new gas finds were used to finance the expansion of the industrial infrastructure of AGIP across Italy's industrial north.

It was Mattei, referring to the ruthless cartelization of world oil markets, who coined the term, ‘Sette Sorelle’ or Seven Sisters, to refer to the seven Anglo-American companies who ruled the world of oil in the 1950's. Mattei was determined that Italy not be subjugated to the power of these Seven, whom he accurately accused of pursuing a worldwide policy of limiting production to maintain highest prices for their holdings, and selling their crude to oil poor Europe at prices rigged to maintain their production price in the expensive Continental United States. Mattei set out to secure maximum production and supply at the lowest price possible. Needless to say, he soon came into bitter conflict with those seven powerful companies and their friends in government.

In February 1953 Mattei successfully lobbied for passage of a new law which created a central semi-autonomous state energy holding, Ente Natzionale Idrocarburi or ENI as it came to be known. ENI, with Mattei as its founding president, subsumed AGIP for oil and gas and refining, and the pipeline subsidiary SNAM and was soon to develop tankers and a network of gasoline stations across Italy, surpassing those of Esso and Shell in quality and customer service, the first to incorporate modern restaurants and other conveniences. Using the same development formula he had applied in AGIP, Mattei used the proceeds from ENI to invest in construction of oil refineries, a giant chemicals plant, a synthetic rubber plant using ENI natural gas as feedstock, a heavy engineering subsidiary which constructed all ENI refineries and related infrastructure, as well as acquisition of an oil tanker fleet to haul ENI crude oil from abroad, independent of the Anglo-American shipping monopoly.

By 1958 total proceeds from ENI's Italian natural gas sales alone topped the considerable sum of $75,000,000 yearly. This was money saved which otherwise would go to spend precious Italian dollar reserves for import foreign oil and coal. Perhaps no single individual accomplished more in the decade-and-half after the war to develop industry in Italy. [8]

As early as 1954, the U.S. Embassy in Rome had become visibly alarmed at the activities of Enrico Mattei. ‘For the first time in the economic history of Italy,’ stated an American Embassy memorandum to Washington, ‘a government-owned entity has found itself in the unique position of being financially solvent, capably led, and responsible to no one other than its leader.’ [9]

Mattei's bold development initiative

If Mattei's efforts to secure energy independence within Italy had irritated the Seven Sisters and Anglo-American interests behind them, Mattei's growing efforts to secure independent supplies of crude oil from abroad turned that annoyance into a rabid hatred of the Italian industrialist. This, most notably, when the Anglo-Americans learned what kind of negotiations the Mattei was willing to sign with especially developing countries.

When the Shah of Iran returned after the fall of Mossadegh with the active backing of British and American intelligence, he did not move to completely undo the work of his defeated Prime Minister. The National Iranian Oil Company was to remain a state entity with control over all subsurface oil and gas reserves. But by April 1954, less than a year after the coup, the Anglo-American companies, joined by their ‘little sister,’ France's state-owned CFP, entered into negotiations with the Government of Iran and NIOC to secure a 25 year participation agreement for exploitation of oil on 100,000 square miles of Iranian territory.

Anglo-Iranian Oil, which that same year changed its name to British Petroleum, was given the lion's share of its old d'Arcy concession, or 40 percent. Royal Dutch Shell got the second largest, 14 percent, giving the British companies the majority or 54 percent of Iran's output from the area. The American majors divided 40 percent of the oil including among them a handful of selected ‘independents’ which were part of the old Standard Rockefeller group. France's CFP got 6 percent. Mattei approached the Seven Sisters to discuss a small ENI participation in the Iran concession, and was given what he later called a ‘humiliating’ rejection by the Anglo-Americans.

Not to be thwarted, in 1955, a year before Britain's own humiliation at Suez, Mattei entered into successful negotiations with Egypt's new nationalist leader Gamal Abdel Nasser. ENI secured a share of the concession to develop the oil of Egypt's Sinai peninsula, which by 1961 had grown into a considerable volume of some 2.5 million tons/year of crude oil, the vast bulk of which was then refined in ENI refineries to fill the rapidly expanding demand in Italy for petroleum, all without having to be paid for in scarce US dollars.

But Mattei's real challenge to the Anglo-American major oil companies came in Iran in 1957. Mattei began negotiations in the spring of 1957 with the Shah for an unprecedented arrangement. Under its terms, the National Iranian Oil Company was to be partner with ENI in a deal whereby Iran got 75 percent of total profits, ENI 25 percent in a new joint venture, Societe Irano-Italienne des Petroles (SIRIP), which had a 25-year exclusive right to explore and develop on some 8,800 square miles of promising petroleum prospects in the non-allocated regions of Iran. A senior British official stated at the time, ‘The Italians are determined somehow or another to muscle in on Middle East oil.’

The view of Washington and London was much the same as that of the Seven Sisters. Mattei's revolutionary initiatives, if allowed to go unchecked, would upset the entire global world oil order. The standard agreement from the major US and UK companies with developing countries was 50-50 percent on the crude oil, with ample margin for manipulation of downstream profits built in. If Mattei were ‘let into the club’ of the Sisters, they feared that Belgian and German and other companies would also demand a rightful share of oil possibilities. Thus, the US and British governments officially protested to the Shah's government against the pending deal with Mattei.

But to no immediate avail. In August, 1957 Mattei and the Iranians had secured their revolutionary agreement. Speaking about the potentials of his new contract, Mattei declared his view that ‘the Middle East should now be industrial Europe's Middle West,’ signalling his intention of using the oil agreement as a first step towards the European building of significant industrial and technological infrastructure in the Middle East.

By March 1961 the first ENI oil tanker, ‘Cortemaggiore,’ landed at the Italian port Bari, with the first fruits of the new Iranian partnership, 18,000 tons of crude oil from the Persian Gulf. Mattei had pioneered some of the first successful underwater oil explorations in his SIRIP joint venture.

Inside Italy itself, Mattei continued pressure on the Seven Sister companies through a policy of progressive price reductions at the gasoline pump for consumers, as well as persuading the Italian government to reduce the severely high excise tax on gasoline. As a direct result of this policy, in which the Anglo-American companies were forced reluctantly to acquiesce, gasoline prices in Italy dropped 25 percent between 1959 and 1961, a factor which is credited with significantly aiding Italy's first real postwar economic revival.

And outside Italy, Mattei continued an active foreign policy of seeking out those regions which had been deliberately neglected by the Anglo-Americans as ‘too small’ to warrant attention. ENI and Mattei personally went to newly-independent countries of Africa and Asia, and discussed prospects unlike any then being offered these forgotten former colonies.

Mattei would build local oil refineries in the given country, which would then be owned by the country. This broke with the ironclad Seven Sister control of the vastly more lucrative refining end of the business. The supplier country would no longer be merely a primitive raw material source, but would begin to develop the basis of modern indigenous industry from the proceeds of its mineral wealth. In return, ENI would get a guaranteed return on its capital invested in the country, it would secure the exclusive engineering and construction contracts for the refining facilities, as well as being the exclusive worldwide marketer for the oil.

But it was in October, 1960 that Enrico Mattei blew the fuses inside the White House and 10 Downing Street, as well as in the headquarters of the Seven Sisters. Italy's leading anti-communist resistance leader, life-long Christian Democrat, Enrico Mattei, was in Moscow. Once again, Moscow and the vast Russian petroleum resources became the focus of European negotiations as in the 1920's at Rapallo. And, once again, the Anglo-Americans stood dead opposed to the success of the negotiations.

Since 1958, ENI had contracted to buy a small volume of crude oil from the Soviet Union, less than 1 million tons annually. But word leaked out in the West that a far more ambitious undertaking was being discussed in Moscow between Mattei and Soviet Foreign Trade Minister Patolitschev. On October 11, 1958 Mattei signed an agreement whereby, in exchange for guaranteed delivery of 2.4 million tons of Soviet oil annually, over a five year period, ENI would ensure a significantly expanded Soviet oil export capability into the West. The oil would not be paid in cash, but rather in kind, in the form of deliveries of large-diameter oil pipe. This would enable construction of a huge pipeline network bringing Soviet oil from the Volga-Urals into Czechoslovakia, Poland and Hungary. When complete, that pipeline network would bring some 15 million tons annually of Soviet crude oil into Eastern Europe, where it was to be exchanged for industrial goods and food products to the USSR. At that time the USSR had a desperate need for large diameter oil pipe, and lacked capacity to produce such in the necessary volume and quality.

ENI secured the support of the Italian Government and the state-owned Finsider Group was commissioned to build a new steelworks in Taranto with a capacity to deliver 2 million tons of large diameter pipe annually. The Taranto plant was rushed into completion, and began to produce pipe for the Soviet market by September 1962.

Italy was able to buy crude oil from the Soviet Union at a price of $1.00/barrel f.o.b. Black Sea, compared with a cost in Kuwait of $1.59/barrel plus an added $ .69/barrel for shipping costs, and for the United States in the early 1960's for oil of comparable quality of $2.75/barrel. With the added boost of new jobs in the Italian steel and chemicals sector, few in

Italy were alarmed at charges in certain American and British press that Mattei was a ‘crypto-communist’ or at the very least had become a ‘fellow traveler’ with Moscow. [10]

One month after the Finsider pipe works began rolling steel for Soviet pipelines, on October 27, 1962, under circumstances which to the present day stir speculation and charges of deliberate sabotage, the private airplane carrying Enrico Mattei crashed after taking off from Sicily en route to Milan, killing all three on board.

Mattei was fifty six, at the peak of his powers. The Rome CIA Station Chief at that time, Thomas Karamessines, left Rome suddenly afterwards without explanation. He was later instrumental in the Chilean coup against Salvador Allende. It is perhaps mere coincidence, but CIA chief John McCone, at the time of Mattei's suspicious death, held more than $1 million in shares in Standard Oil of California (Chevron). A detailed report dated 28 October 1962 from Karamessines on the Mattei assassination has never been made public by the U.S. Government, which cites ‘matters concerning national security’ as reason for its refusal.

Before his death Mattei had managed to secure construction of Italy's first nuclear power test reactor, and had created a new subsidiary of ENI, called ENEL, a state electricity utility to work in the development of the country's electric grid with ambitious plans for nuclear energy well in view. As well, in addition to his agreements with Iran, Egypt and the Soviet Union for oil supply, he had signed similar developmental agreements with Morocco, Sudan, Tanzania, Ghana, India and Argentina.

In noting Mattei's death, the London *Economist,* the weekly of the British financial establishment founded to open the way for Corn Laws repeal in the 1840's, and owned by the trust of Royal Dutch Shell's Lord Cowdray, had the following editorial comment. ‘Just how great or how sinister a man Enrico Mattei was will long remain the subject of passionate debate: put him somewhere between (Royal Dutch Shell's) Deterding and Kreuger (Ivar Kreuger, Swedish financier who died in 1931 also under suspicious circumstances). But it is difficult to think of any other man in world oil or in Italy, the areas where Mattei cast the longest shadow, whose abrupt subtraction from the scene might make as much difference to either.' The *New York Times* called him, 'the most important individual in Italy,' who more than any other individual had been responsible for Italy's postwar 'Italian economic miracle.' [11]

At the time of his death, Mattei had been preparing for a trip to meet with the President of the United States, John F. Kennedy, who was then pressing the US oil companies to reach some form of detente with Mattei. The agenda of that Kennedy-Mattei talk was not to be realized. One can only speculate at the possibilities. Instead, in little more than a year, Kennedy himself was assassinated, the trail of blood also leading to the door of U.S. intelligence, through a complex web of organized crime cutouts.

Footnotes:

(1) United States National Archive. 890F.24/20. ‘Memorandumof Alling to A.A. Berle and Secretary of State Dean Acheson.’ 14 December 1942.

(2) ‘ECA and MSA Relations with International Oil Companies Concerning Petroleum Prices.’ U.S. Senate Select Committee on Small Business. 82nd Congress, 2nd session. 1952.

(3) Painter, David S. ‘Oil and the Marshall Plan.’ Business History Review. No. 58. (autumn 1984). Harvard University.

(4) De Cecco, Marcello. ‘International Financial Merkets and US Domestic Policy Since 1945.’ London: International Affairs, Jan. 1976. vol. 52, # 1.

(5) Fatemi, Nasrollah S. ‘Oil Diplomacy: Powderkeg in Iran.’ New York: Whittier Books, Inc. 1954.

(6) Ibid. p.342.

(7) Zabih, Sepehr. ‘The Mossadegh Era.’ Chicago: LakeView Press. 1982.

(8) Joesten, Joachim. ‘Oelmaechte im Wettstreit.’ Verlag August Lutzeyer, Baden-Baden. 1963. (9) United States National Archives. Department of State. Memorandum on ‘Enrico Mattei and the ENI.’ Dec. 16, 1954. NA RG 59. 865.2553/12-1654.

(10) Joesten, Joachim. Op cit. pp. 108-112.

(11) *The Economist*. ‘ENI Minus Mattei.’ Nov. 5 1962, p. 499.