

## Newsletter 14: Was World War One a War To Control Oil?

*Hello Dear Reader,*

*Once again I select an excerpt from my work to share with you. This free geopolitical newsletter has become for me a great enrichment of my contact with many of you readers as they provoke numerous comments and feedback I ordinarily would miss. I thank you for that and for your continued support. This time I draw on in depth research I did almost a decade earlier to prepare a manuscript expanding on what I detail in my best-selling book, [A Century of War: Anglo-American Oil Politics](#). If you find this little-known chapter in our contemporary history important and interesting, I would encourage you to purchase the book via Amazon.*

*Enjoy your journey back a century, sadly, what has been a century of war.*

*Best,  
F. William Engdahl*

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A few Amazon Reader Reviews of [Century of War](#):

**"A must read for every citizen on this planet..."** -- Amazon Customer

**"A must read..."** -- Ahmed M. Alrayes

**"One of the best books i ever read."** -- Abdulmuhsen S Al Meshaan

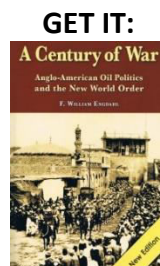
**"...this clearly written book is a must read "** -- José Ewerton

**"My many thanks to Mr. Engdhal for his monumental work."** -- Rugambwa Smart

**"Read this book"** -- K. W. Tighe

**"Fascinating information"** – Goodview

**"Excellent book."** – Gospi



## Oil and the origins of the 'War to make the world safe for Democracy'

By F. William Engdahl

22 June, 2007

### Abstract:

*At first almost unnoticed after 1850, then with significant intensity after the onset of the Great Depression of 1873 in Britain, the sun began to set on the British Empire. By the end of the 19<sup>th</sup> Century, though the City of London remained undisputed financier of the world, British industrial excellence was in terminal decline. The decline paralleled an equally dramatic rise of a new industrial Great Power on the European stage, the German Reich. Germany soon passed England in output of steel, in quality of machine tools, chemicals and electrical goods. Beginning the 1880's a group of leading German industrialists and bankers around Deutsche Bank's Georg von Siemens, recognized the urgent need for some form of colonial sources of raw materials as well as industrial export outlet. With Africa and Asia long since claimed by the other Great Powers, above all Great Britain, German policy set out to develop a special economic sphere in the imperial provinces of the debt-ridden Ottoman Empire. The policy was termed "penetration pacifique" an economic dependency which would be sealed with German military advisors and equipment. Initially, the policy was not greeted with joy in Paris, St. Petersburg or London, but it was tolerated. Deutsche Bank even sought, unsuccessfully, to enlist City of London financial backing for the keystone of the Ottoman expansion policy—the Berlin-to-Baghdad railway project, a project of enormous scale and complexity that would link the interior of Anatolia and Mesopotamia (today Iraq) to Germany. What Berlin and Deutsche Bank did not say was that they had secured subsurface mineral rights, including for oil along the path of the railway, and that their geologists had discovered petroleum in Mosul, Kirkuk and Basra.*

*The conversion of the British Navy under Churchill to oil from coal meant a high risk strategy as England had abundant coal but no then-known oil. It secured a major concession from the Shah of Persia in the early 1900's. The Baghdad rail link was increasingly seen in London as a threat to precisely this oil security. The British response to the growing German disruption of the European balance of power after the 1890's was to carefully craft a series of public and secret alliances with France and with Russia—former rivals—to encircle Germany. As well, she deployed a series of less public intrigues to disrupt the Balkans and encourage a revolt against the Ottoman Sultan via the Young Turks that severely weakened the prospects for the German Drang nach Osten. The dynamic of the rise of German assertiveness, including in addition to the Baghdad rail, the decision in 1900 to build a modern navy over two decades that could rival England's, set the stage for the outbreak of a war in August 1914 whose real significance was a colossal and tragic struggle for who would succeed the ebbing power of the British Empire. The resolution of that epic struggle was to take a second world war and another quarter century before the victor was undeniably established. The role of oil in the events leading to war in 1914 is too little appreciated. When the historical process behind the war is examined from this light a quite different picture emerges. The British Empire in the decades following 1873 and the American Century hegemony in the decades following approximately 1973 have more in common than is generally appreciated.*

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## **Oil and the buildup to the Great War**

In trying to sort out the myriad of factors at play in Eurasia on the eve of the First World War it is important to look at the processes leading to August 1914, and the relative calculus of power at the time. This means examining economic processes, including financial, raw material, population growth— in the context of relations among nations, and political and-- as defined by the original and influential English geopolitician, Sir Halford Mackinder-- geopolitical forces--a political economy or geopolitical approach.

It was common in the days of the Great War to speak of the Great Powers. The Great Powers were so named because they both were great in size and wielded great power in the affairs of nations. The question was what constituted “great.” Until 1892, the United States was not even considered enough a contender at the table to warrant posting a full Ambassador level diplomatic mission. She was hardly a serious factor in European or Eurasian affairs. The Great Powers included Great Britain, France, the Austro-Hungarian Empire and Czarist Russia. After its defeat of France in 1871, Germany too joined the ranks of the Great Powers, albeit as a latecomer. Ottoman Turkey, known then as the “sick man of Europe” was a prize which all Great Powers were sharpening their knives over, as they anticipated how to carve it up to their particular advantage.

In 1914, and the decades following the end of the Napoleonic Wars in Europe, it was almost axiom that there was no power on earth greater than the British Empire. The foundations of that Empire, however, were far less solid than generally appreciated.

### ***The pillars of Empire***

Approaching the end of the 1890's, Britain was in all respects the pre-eminent political, military and economic power in the world. Since the 1814-15 Congress of Vienna, which carved up post-Napoleonic Europe, the British Empire had exacted rights to dominate the seas, in return for the self-serving "concessions" granted to Habsburg Austria and the rest of Continental European powers, which concessions served to keep central Continental Europe divided, and too weak to rival British global expansion.

British control of the seas, and, with it, control of world shipping trade, was one of the pillars of a new British Empire. The manufacturers of Continental Europe, as well as much of the rest of the world, were forced to respond to terms of trade set in London, by the Lloyds shipping insurance and banking syndicates. While Her Royal Navy, the world's largest, policed the major sea-lanes and provided cost-free "insurance" for British merchant shipping vessels, competitor fleets were forced to insure their ships against piracy, catastrophe and acts of war, through London's large Lloyd's insurance syndicate.

Credit and bills of exchange from the banks of the City of London were necessary for most of the world's shipping trade finance. The private Bank of England, itself the creature of the pre-eminent houses of finance in the City of London as the financial district is called--houses such as Barings, Hambros, and above all, Rothschilds--manipulated the world's largest monetary gold supply, in calculated actions which could cause a flood of English exports to

be dumped mercilessly onto any competitor market at will. Britain's unquestioned domination of international banking was the second pillar of English Imperial power following 1815.<sup>1</sup>

### ***London-- a City built on gold***

British gold reserves were very much the basis for the role of the Pound Sterling as the source spring of world credit after 1815. "As good as Sterling" was the truism of that day, which was shorthand for the confidence in world markets that Sterling itself was "as good as gold."<sup>2</sup> After a law of June 22 1816, gold was declared the sole measure of value in the British Empire. British foreign policy over the next 75 years or more, would be increasingly preoccupied with securing for British private banks and for the vaults of the Bank of England, the newly mined reserves of world gold, whether in Australia, California or in South Africa.<sup>3</sup>

The London gold market had expanded with the famous discovery of gold at Sutter's Mill in California in 1848, and the Australian discoveries three years later, to become the world's dominant gold trading center. Gold merchant houses such as Stewart Pixley and Samuel Montagu joined the ranks of brokers. Rothschild's added the role of becoming the Royal Mint gold refinery besides their banking business, along with Johnson Matthey. The Bank of England would certify "good delivery" status for these select gold fixing banks of the City, an essential element of growing international payments settlements in gold.<sup>4</sup>

After 1886 weekly shipments of gold from especially South Africa, which comprised some two-thirds of the total in the years prior to the war, were offloaded at the docks of London, making the London gold market the unchallenged world leader.<sup>5</sup>

By 1871 England was joined in its gold standard by other industrializing countries, who found enough gold from their foreign export trade to link their national currencies as well to the gold standard. In 1871 Germany, on the wave of her victory over France, with its reparations in French gold, proclaimed the birth of the German Reich with Chancellor Bismark as the decisive political power. Gold was made the backing for the Reichsmark. The German Reich acquired 43 metric tons after 1871 in reparations from France, helping Germany to quadruple its gold stock immediately after 1871, giving the liquidity for the unprecedented expansion of German industry. By 1878 France, Belgium and Switzerland had followed Germany and England on to the new gold standard for international trade. Czarist Russia, a major gold producer also used gold in its official reserves.<sup>6</sup>

In 1886 vast finds of gold were discovered in Transvaal. British prospectors streamed over the border from the Cape Colony, earlier annexed by Britain. Cape Colony Prime Minister was a British miner, Cecil Rhodes, who held a vision of an African continent controlled by England from the Cape to Cairo. As nationalist Boers became ever more assertive of their independence from the British in the 1890's it was clear in London that they must take South Africa by force. The financial future of the City of London and the future of the Empire rested on that conquest.

By 1899 when the Anglo-Boer War broke out, a war for control of the gold of Transvaal, the region had become the world's largest single producer of gold.<sup>7</sup> Rhodes' mines were the largest operators. French and German investors also had large stakes, but British miners

controlled between 60 and 80% of the mine output.<sup>8</sup> The bloody victory of England in that war, ensured the continued domination of the City of London as the “world’s banker.” The serious loss of industrial hegemony by Britain after 1873 was largely obscured by her role in grabbing the vast gold reserves discovered in 1886 in Transvaal.

### ***British Empire’s onset of economic decline***

Behind her apparent status as the world's pre-eminent power, Britain was slowly deteriorating internally. After 1850 a sharp rise in British capital flowing overseas took place. After the US Civil War and with the emerging of German and Continental European as well as Latin American industrialization in the early 1870’s, this flow of capital out of the City of London became massive. Britain’s wealthy found returns on their money far greater abroad than at home. It was one consequence of the 1846 Corn Law Repeal, the introduction of free trade in agriculture to force cheaper wages and to feed that labor with cheaper foodstuffs imported from Odessa, the United States, India and other foreign suppliers.<sup>9</sup> Buy Cheap, Sell Dear had become the dominant economic pattern.<sup>10</sup>

After 1846, wage levels inside Britain began falling with the price of bread. The English Poor Laws granted compensation for workers earning below human subsistence wage, with income supplement payments pegged to the price of a loaf of wheat bread. As bread prices plunged, so did living standards in England.

As a consequence, while the merchant banks and insurers of the City of London thrived, domestic British industrial investment and modernization, which had allowed England to lead the industrial revolution after the introduction of Watt’s improved steam-powered engine in the 1760’s, stagnated and declined after 1870.

One consequence was the shift in economic weight from the industrial north of England— Manchester, Birmingham, Leeds, Newcastle, Liverpool-- south to London and the financial and trade services tied to the growing role of the City in international finance. From trade in “visibles” like coal, machines and steel products, Britain shifted to a nation earning from what were termed “invisibles,” or financial return on overseas investment and services.

Britain increased its dependence on imported goods following the introduction of free trade. From 1883 to 1913 the Sterling value of her imports rose by 84%. The real effect of the shift to import dependence was obscured by the phenomenal success of earnings from invisibles. In 1860 Britain led the world in coal production, the raw material feeding her industry and fuelling her navy, with almost 60% of the total. By 1912 that fell to 24%. Similarly, in 1870 England enjoyed an impressive 49% share of total world iron forging output. By 1912 it was 12%. Copper consumption, an essential component of the emerging electrification transformation, went from 32% of world consumption in 1889 to 13% by 1913.<sup>11</sup>

The final quarter century of the 1800’s was the beginning of the end of the hegemonic position of Britain as the world’s dominant economic power.

In 1873 a severe economic depression, dubbed in English history the Great Depression, spread, persisting until 1896, almost a quarter Century, a decisive period in the development of the forces leading to the Great War in 1914. The 1873 depression led to the further

decline of British industrial competitiveness. Price levels went into steady fall or deflation, profit margins and wages with it. Huge sums of capital remained idle or went abroad in search of gain.

While the crisis in England was severe, the effects outside Britain were short-lived. By the mid-1890's the German Reich was in the midst of an economic boom unlike any before. The rival German and other Continental economies were rapidly industrializing and exporting to markets once dominated by British exports.<sup>12</sup>

By the 1880's Britain's leading circles and advocates of Empire realized that they needed to not only send their entrepreneurs like Cecil Rhodes to mine the gold to feed the banks of the City of London. Increasingly, they realized a revolution in the technology of naval power was required if the Royal Navy was to continue its unchallenged hegemony of the seas. That required a radical shift in British foreign policy. The revolution in technology was the shift from coal to oil power.

After the 1890's, though little publicized, the search for secure energy in the form of petroleum would become of paramount importance to Her Majesty's Navy and Her Majesty's government. A global war for control of oil was shaping up, one few were even aware of outside select policy circles.

### ***A revolution in Naval Power***

In 1882, petroleum had little commercial interest. The development of the internal combustion engine had not yet revolutionized world industry. One man understood the military-strategic implications of petroleum for future control of the world seas, however.

In a public address in September 1882, Britain's Admiral Lord Fisher, then Captain Jack Fisher, argued to anyone in the British establishment who would listen, that Britain must convert its naval fleet from bulky coal-fired propulsion to the new oil fuel. Fisher and a few other far-sighted individuals began to argue for adoption of the new fuel. He insisted that oil-power would allow Britain to maintain decisive strategic advantage in future control of the seas.

Fisher argued the qualitative superiority of petroleum over coal as a fuel. A battleship powered by diesel motor burning petroleum issued no tell-tale smoke, while a coal ship's emission was visible up to 10 kilometers away. It required 4 to 9 hours for a coal-fired ship's motor to reach full power, an oil motor required a mere 30 minutes and could reach peak power within 5 minutes. To provide oil fuel for a battle ship required the work of 12 men for 12 hours. The same equivalent of energy for a coal ship required the work of 500 men and 5 days. For equal horsepower propulsion, the oil-fired ship required 1/3 the engine weight, and almost one-quarter the daily tonnage of fuel, a critical factor for a fleet whether commercial or military. The radius of action of an oil-powered fleet was up to four times as great as that of the comparable coal ship.<sup>13</sup>

In 1885 a German engineer, Gottlieb Daimler, had developed the world's first workable petroleum motor to drive a road vehicle. The economic potentials of the petroleum era were beginning to be more broadly realized by some beyond Admiral Fisher and his circle.

By 1904 Fisher had been named Britain's First Sea Lord, the supreme naval commander, and immediately set to implement his plan to convert the British navy from coal to oil. One month into his post, in November 1904, a committee was established on his initiative to "consider and make recommendations as to how the British Navy shall secure its oil supplies." At that time it was believed the British Isles, rich in coal, held not a drop of oil.

The thought of abandoning the security of domestic British coal fuel in favor of reliance on foreign oil was a strategy embedded in risk. The Fisher Committee had been dissolved in 1906 without resolution of the oil issue on the election of a Liberal government pledged to work for arms control. By 1912, as the Germans began a major Dreadnought-class naval construction program, Prime Minister Asquith convinced Admiral Fisher to come out of retirement to head a new Royal Commission on Oil and the Oil Engine in July 1912.

Two months later on Fisher's recommendation, the first British battleship using only oil fuel, the Queen Elizabeth, was begun. Fisher pushed the risky oil program through with one argument: "In war speed is everything." Winston Churchill had by then replaced Fisher as First Lord of the Admiralty and was a strong advocate of Fisher's oil conversion. Churchill stated in regard to the Commission finding, "We must become the owners or at any rate the controllers at the source of at least a proportion of the oil which we require." <sup>14</sup>

From that point, oil conversion of the British fleet dictated national security priority to secure large oil reserves outside Britain. In 1913 less than 2% of world oil production was produced within the British Empire. <sup>15</sup>

By the first decade of the 20<sup>th</sup> Century securing long-term foreign petroleum security had become an essential factor for British grand strategy and its geopolitics. By 1909, a British company, Anglo-Persian Oil Company held rights to oil exploration in a 60-year concession from the Persian Shah at Maidan-i-Naphtun near the border to Macedonia. That decision to secure its oil led England into a fatal quagmire of war which in the end finished the British Empire as the world hegemon by Versailles in 1918, though it would take a second World War and several decades before that reality was clear to all.

### ***Germany emerges in a second industrial revolution***

Beginning the 1870's the German Reich, proclaimed after the Prussian victory over France in 1871, saw the emergence of a colossal new economic player on the map of Continental Europe.

By the 1890's, British industry had been surpassed in both rates and quality of technological development by an astonishing emergence of industrial and agricultural development within Germany. With the United States concentrated largely on its internal expansion after its Civil War, the industrial emergence of Germany was seen increasingly as the largest "threat" to Britain's global hegemony during the last decade of the century.

After England's prolonged depression in the 1870's, Germany turned increasingly to a form of national economic strategy, and away from British "free trade" adherence, in building a national industry and agriculture production rapidly.

From 1850 to 1913, German total domestic output increased five-fold. Per capita output increased in the same period by 250%. The population began to experience a steady increase in its living standard, as real industrial wages doubled between 1871 and 1913.

In the decades before 1914, in terms of fuelling world industry and transportation, coal was king. In 1890, Germany produced 88 million tons of coal while Britain, produced more than double as much at 182 million tons. By 1910, the German output of coal had climbed to 219 million tons, while Britain had only a slight lead at 264 million tons. Steel was at the center of Germany's growth, with the rapidly-merging electrical power and chemicals industries close behind. Using the innovation of the Gilchrist Thomas steel-making process, which capitalized on the high-phosphorus ores of Lorraine, German steel output increased 1,000% in the twenty years from 1880 to 1900, leaving British steel output far behind. At the same time the cost of making Germany's steel dropped to one-tenth the cost of the 1860's. By 1913 Germany was smelting almost two times the amount of pig iron as British foundries. <sup>16</sup>

### ***The German rail revolution***

The rail infrastructure to transport this rapidly expanding flow of industrial goods, was the initial locomotive for Germany's first *Wirtschaftswunder*. State rail infrastructure spending doubled the kilometers of track from 1870 to 1913. The German electrical industry grew to dominate half of all international trade in electrical goods by 1913. German chemical industry became the world's leader in aniline dye production, pharmaceuticals and chemical fertilizers.

Paralleling the expansion of its industry and agriculture, between 1870 and 1914 Germany's population increased almost 75% from 40,000,000 to more than 67,000,000 people. Large industry grew in a symbiosis together with large banks such as Deutsche Bank, under what became known as the Grossbanken model of interlocking ownership between major banks and key industrial companies. <sup>17</sup>

One aspect of that economic expansion after 1870, more than any other, aside from the program of Admiral von Tirpitz to build a German *Dreadnaught*-class blue water navy to challenge British sea supremacy, that brought Germany into the geopolitical clash which later became World War I, was the decision of German banking and political circles to build a rail link that would connect Berlin to the Ottoman Empire as far as Baghdad in then-Mesopotamia. <sup>18</sup>

### ***A Railway changes the geopolitical map of Europe***

*"When the history of the latter part of the nineteenth Century will come to be written, one event will be singled out above all others for its intrinsic importance and for its far-reaching results; namely, the conventions of 1899 and of 1902 between His Imperial Majesty the Sultan of Turkey and the German Company of the Anatolian Railways."*<sup>19</sup>



Towards the end of the 19<sup>th</sup> Century, German industry and the German government began to look in earnest for overseas sources of raw materials as well as potential markets for German goods. The problem was that the choice pieces of underdeveloped real estate had been previously carved up between rival imperial powers, especially France and Britain. In 1894 German Chancellor, Count Leo von Caprivi, told the Reichstag, "Asia Minor is important to us as a market for German industry, a place for the investment of German capital and a source of supply, capable of considerable expansion, of such essential goods (as grains and cotton) as we now buy from countries of which it may well sooner or later be in our interests to make ourselves independent."<sup>20</sup> Caprivi was supported in turning to Asia Minor by large sections of the German industry, especially the steel barons, and by the great banks such as Deutsche Bank, as well as the foreign policy establishment and the military under General Helmuth von Moltke, Chief of the General Staff.

### ***Berlin's Drang nach Osten***

The answer for Berlin's need to secure new markets and raw material to feed its booming industries clearly lay in the east—specifically in the debt-ridden, ailing Ottoman Empire of Sultan Abdul Hamid II. The situation in Ottoman Turkey had become so extreme that the Sultan had been forced by his French and British creditors to put the finances of the realm under the control of a banker-run agency in 1881. By the Decree of Muharrem (December 1881) the Ottoman public debt was reduced from £191,000,000 to £106,000,000, certain revenues were assigned to debt service, and a European-controlled organization, the Ottoman Public Debt Administration (OPDA), was set up to collect the payments. The OPDA subsequently acted as agent for the collection of other revenues and as an intermediary with European companies seeking investment opportunities. Its affairs were controlled by the two largest creditors—France and Britain, the French being the larger.

The Germans set about to change that dependency of Ottoman Turkey on the British and French. For his part, Sultan Abdul Hamid II was all too pleased to open his door to growing German influence as a welcome counterweight and a source of new capital to solve the economic problems of the empire.

In 1888, the Oriental Railway from Austria, across the Balkans via Belgrade, Sofia, to Constantinople, was opened. This linked with the railways of Austria-Hungary and other European countries and put the Ottoman capital in direct communication with Vienna, Paris, and Berlin. It was to be significant for later events.

By 1898, the Ottoman Ministry of Public Works had applications from several European groups to build railways in the Anatolian part of the empire. These included an Austro-Russian syndicate, a French proposal, a proposal from a group of British bankers, and the proposal of the German Deutsche Bank. The Sublime Porte had no desire to have significant Russian presence on its territory, because of Russian desires for access for its navy through the Dardanelles. The British government backing for its bankers faded away with outbreak of the Boer War in 1899. The French proposal was considered significant enough that Deutsche Bank entered into negotiations with the French Banks about a joint venture.<sup>21</sup>

The Sultan, Abdul Hamid II, on November 27, 1899, awarded Deutsche Bank, headed by Georg von Siemens, a concession for a railway from Konia to Baghdad and to the Persian

Gulf. In 1888 and again in 1893, the Sultan had assured the Anatolian Railway Company that it should have priority in the construction of any railway to Baghdad. On the strength of that assurance, the Anatolian Company had conducted expensive surveys of the proposed line. As part of the railway concession, the shrewd negotiators of the Deutsche Bank, led by Karl Helfferich, negotiated subsurface mineral rights twenty kilometers to either side of the proposed Baghdad Railway line.<sup>22</sup> Deutsche Bank and the German government backing them made certain that included the sole rights to any petroleum which might be found. The Germans had scored a strategic coup over the British, or so it seemed. Mesopotamian oil secured through completion of the Berlin-Baghdad Railway was to be Germany's secure source to enter the emerging era of oil-driven transport.

The German success was no minor event. The geographical position of the Ottoman Empire, dominating the Balkans, the Dardanelles straits, and territory to Shatt-al-Arab at the Persian Gulf, from Aleppo to Sinai bordering the strategic Suez Canal link to the British Empire India trade, down to Aden at the Strait of Bab el Mandeb. The German-Ottoman agreement assuring construction of the final section of the Berlin-Baghdad Railway meant the shattering of England's hope of bringing Mesopotamia, with its strategic location and its oil, under her exclusive influence and it meant as well a major defeat for France.

### ***Britain reacts***

Systematically, Britain took measures to secure her exposed flank in Mesopotamia. By 1899, Britain had secured a 99-year exclusive agreement between Britain and Kuwait, nominally part of the debt-ridden and militarily weak Ottoman Empire from the unscrupulous Shaikh Mubarak-al-Sabah. By 1907 they had converted it to a 'lease in perpetuity.'

In 1905, through the machinations of British spy, Sidney Reilly, Lord Strathcona, secured exclusive rights to Persian oil resources and what in 1909 became the Anglo-Persian Oil Company, after discovery of oil there in 1908. The company negotiated an agreement with Winston Churchill, First Lord of the Admiralty, shortly before World War I, for major financial backing by the British Government in return for secure oil for the Royal Navy. In 1912 the government, at Churchill's urging, bought controlling interest secretly in Anglo-Persian Oil Company. She had negotiated with the Sheikh of Muhammerah to also build an oil refinery, depot and port on Abadan Island adjacent to the Shaat-al-Arab as part of the emerging British policy to keep the Germany out of the strategic Mesopotamian oil-rich region.<sup>23</sup>

A German-built rail link to Baghdad and on to the Persian Gulf, capable of carrying military troops and munitions, was a strategic threat to the British oil resources of Persia. Persian oil was the first crucial source of secure British petroleum for the Navy. Already, the decision by the German Reichstag to approve the massive naval construction program of Admiral von Tirpitz in the German Naval Law of 1900, to build 19 new battleships and 23 battle cruisers over the coming 20 years, presented the first challenge to Britain's rule of the seas. At the Hague Convention of 1907 Germany refused to continue an earlier ban on "aerial warfare." Under Count Zeppelin, the Germans had been the first to develop huge airships.<sup>24</sup>

Turkey, backed and trained by Germany, had the potential, should it get the financial and military means, to launch a military attack on what had become vital British interests in Suez, the Persian route to India, the Dardanelles. By 1903 the German Reich was prepared to give

the Sultan that means in the form of the Baghdad Railway and German investment in Ottoman Anatolia.

By 1913 that German engagement had taken on an added dimension with a German-Turkish Military Agreement under which German General Liman von Sanders, member of the German Supreme War Council, with personal approval of the Kaiser, was sent to Constantinople to reorganize the Turkish army on the lines of the legendary German General Staff. In a letter to Chancellor von Bethmann-Hollweg, dated April 26, 1913, Freiherr von Wangenheim, the German Ambassador to Constantinople declared, "The Power which controls the Army will always be the strongest one in Turkey. No Government hostile to Germany will be able to hold on to power if the Army is controlled by us..."<sup>25</sup>.

German intelligence operatives, led by Baron Max von Oppenheim, a German Foreign Ministry diplomat and an archaeologist, had made extensive surveys of Mesopotamia already beginning 1899 to explore the proposed route of the Baghdad Railway, confirming the estimated of Ottoman officials that the region held oil. The British referred to Oppenheim as "The Spy." He was also an ardent German imperialist. In 1914 shortly before outbreak of war, Oppenheim reportedly told Kaiser Wilhelm, "When the Turks invade Egypt, and India is set ablaze with the flames of revolt, only then will England crumble. For England is at her most vulnerable in her colonies." He was author of a German strategy of encouraging a Turkey-led Jihad or Holy War and against the colonial powers of Britain, France and Russia as a strategy of war.<sup>26</sup>

### ***Isolating the German Reich***

By the end of the 1880's fundamental shifts in security and trade alliances had begun. Britain, France and Russia were all growing alarmed at the emerging power and potential threat of the German Reich. In October 1903 Britain and France came together to agree spheres of influence which resulted in signing of an Entente Cordiale in April 1904, ending their imperial rivalries over Egypt, Morocco, Sudan and allowing both to concentrate on the threat posed by Germany in alliance with Austro-Hungary.<sup>27</sup>

By 1907, following its defeat in the Russo-Japan War of 1905 in a conflict that Britain overtly helped along by providing battleships to the Japanese to destroy the Russian Pacific Fleet, Russia settled its disputes with Britain over Afghanistan, The Great Game as Kipling termed the fight between Britain and Russia for control of the Afghan passage to India. Russia also settled their dispute with Britain over Persia and in June 1908 at the Baltic port of Reval, King Edward VII met his cousin Czar Nicholas II to agree on an Anglo-Russian alliance. The system of carefully built diplomatic alliances laid by Bismark which saw France in 1887 as the only country hostile to Germany, had, by 1908 turned to one in which by then the only friendly ally of Germany was the Austro-Hungarian Empire, a remarkable reversal of alliances and the prelude to the Great War.

In the months up to outbreak of war in 1914, there were efforts at cooling down a mounting confrontation between the two great power blocks—the Triple Entente of England, France, Russia and the alliance of Germany with Austro-Hungary. In 1911 Germany and Russia signed the Potsdam Agreement over rights to northern Persia in return for Russian agreement not to block the Baghdad Railway progress. Clear, however, was that Germany was fully committed to completing the Baghdad project.

Following the Balkan wars from 1910-1912, it was obvious to all that the next part of the Ottoman Empire to be carved up was Anatolian Turkey itself. The balance between the Great Powers was endangered with the result of the Balkan Wars, and the stunning defeat of the Ottoman army by small opponents. In a very short period, Turkey lost most of her territory in Europe except for Istanbul and a small hinterland, and retreated back to defence line in Çatalca.

Britain and British intelligence was active in the Balkans stirring revolt and opposition to Constantinople's rule. The Entente Powers—France, England and Russia-- knew that despite all her efforts, Germany did not have strong cards in the Balkans. And the Balkans constituted a strategic link between Berlin and Baghdad as a glance at a good typographical map reveals.

The success of the so-called Young Turk revolution of 1908-9 in forcing the Sultan to reinstate a constitutional monarchy with a parliament unleashed a series of destabilizing revolts in the Balkan provinces of the empire. British intelligence was actively engaged in pushing events along. The Young Turk revolutions of 1908 and 1909, which ended the reign of Abdul Hamid in the Ottoman Empire, offered France and Great Britain an unprecedented opportunity to assume moral and political leadership in the Near East. Many members of the Committee of Union and Progress, the revolutionary party, had been educated in western European universities--chiefly in Paris--and had come to be staunch admirers of French and English institutions.<sup>28</sup> In 1908, as Constantinople was under the chaotic rule of the secular Young Turk Committee of Union and Progress (CUP), Anglo-Turkish relations were quite warm. The British Ambassador, Sir Gerald Lowther, at least in the initial days after the takeover in 1908, extended unlimited British support for the revolution. He told the Foreign Secretary, Sir Edward Grey, "Things have gone as well as they could."<sup>29</sup> The role of the Young Turks, most of whom were members of various European freemason lodges, is a rich and important story beyond the scope of this brief essay. Initially at least the Young Turk regime viewed the agreements between the Sultan and the Germans on the Baghdad Railway and oil rights to be a symbol of the corruption and destruction of Turkish national resources.

British diplomatic and intelligence operatives also played a role in Albanian independence in the Balkans. A key if little-known figure of British machinations at the time was Aubrey Herbert, Member of Parliament and British intelligence officer who was close to Gertrude Bell and T. E. Lawrence ("Lawrence of Arabia"). Herbert had been active since 1907 in fomenting Albanian independence from Constantinople, and was offered the Crown of Albania for his efforts, an offer which his friend, Asquith, dissuaded him from taking.

### ***British active measures***

As well in Serbia British military and intelligence networks were most active prior to outbreak of war. Major R.G.D. Laffan was in charge of a British military training mission in Serbia just before the war. Following the war, Laffan wrote of the British role in throwing a huge block on the route of the German-Baghdad project:

"If 'Berlin-Baghdad' were achieved, a huge block of territory producing every kind of economic wealth, and unassailable by sea-power would be united under German authority,"

warned R.G.D. Laffan. Laffan was at that time a senior British military adviser attached to the Serbian Army.

"Russia would be cut off by this barrier from her western friends, Great Britain and France," Laffan added. "German and Turkish armies would be within easy striking distance of our Egyptian interests, and from the Persian Gulf, our Indian Empire would be threatened. The port of Alexandretta and the control of the Dardanelles would soon give Germany enormous naval power in the Mediterranean."

Laffan suggested a British strategy to sabotage the Berlin-Baghdad link. "A glance at the map of the world will show how the chain of States stretched from Berlin to Baghdad. The German Empire, the Austro-Hungarian Empire, Bulgaria, Turkey. One little strip of territory alone blocked the way and prevented the two ends of the chain from being linked together. That little strip was Serbia. Serbia stood small but defiant between Germany and the great ports of Constantinople and Salonika, holding the Gate of the East...*Serbia was really the first line of defense of our eastern possessions. If she were crushed or enticed into the 'Berlin-Baghdad' system, then our vast but slightly defended empire would soon have felt the shock of Germany's eastward thrust.*" (emphasis added-w.e.)<sup>30</sup>

In 1915, after returning from a mission to Bulgaria, British MP, Noel Buxton wrote in the introduction to his book similar views of the strategic role of the Balkans for British strategy of blocking Germany and Austro-Hungary:

"No one now denies the supreme importance of the Balkans as a factor in the European War. It may be that there were deep-seated hostilities between the Great Powers which would have, in any case, produced a European War, and that if the Balkans had not offered the occasion, the occasion would have been found elsewhere. The fact remains that the Balkans did provide the occasion..."<sup>31</sup>

Buxton added, "The Serbian army would be set free to take the offensive, and possibly provoke an uprising of the Serbian, Croat, and Slovene populations of the Austrian Empire. Any diminution of the Austrian force would compel the Germans to withdraw a larger number of troops from the other theatres of war."<sup>32</sup>

The only Great Power whose interest lay in preventing the further deterioration of Ottoman control of its territories on the eve of war was Germany. The success of its grand economic and political project to win Ottoman Turkey as an informal sphere of influence, as well as securing the rights of the Baghdad Rail link to Mesopotamia and eventually to the Persian Gulf depended on preserving a stable political regime in Constantinople as partner.<sup>33</sup>

In April 1913, His British Majesty's Foreign Office handed the Turkish Ambassador to London an official British statement of intent regarding Mesopotamian oil: "His Majesty's Government...rely on the Ottoman Government to make without delay arrangements in regard to the oil wells of Mesopotamia which will ensure British control and meet with their approval in matters of detail."<sup>34</sup>

Ironically, just on the eve of the assassination of the Austro-Hungarian Archduke and heir to the Habsburg throne in Sarajevo by Gavrilo Princip, a member of a Serbian Black Hand secret

society with reported French Masonic ties, agreements were finally reached between the Germans, the British and the Turkish parties over oil rights in Mesopotamia.

In 1909, the National Bank of Turkey was founded following a trip, on request of England's King Edward, by the influential London banker, Sir Ernest Cassel. Cassel was joined by the mysterious and wealthy Ottoman subject, of Armenian origin, Calouste Gulbenkian. The bank had no representation of Ottoman origins. Its board included Hugo Baring of the London bank, Earl Cromer, Barons Ashburton, Northbrook and Revelstone. At the time Lord Cromer was Governor of the Bank of England. This elite British entity in Constantinople then created an entity called the Turkish Petroleum Company, in which Gulbenkian was given 40% share. The purpose was to win from the Sultan an oil concession in Mesopotamia. Simultaneously, a second British-controlled enterprise, Anglo-Persian Oil Company was actively trying to extend its Persian oil claims into the disputed borders with Mesopotamia. The third player, the only one with exploration rights from Sultan Abdul Hamid II was the Baghdad Railway Company of Deutsche Bank. The crafty British were about to change that.

The combined British efforts forced the German group into a compromise. In 1912 and again in early 1914 on the eve of the war, with the backing of British and German governments, the (British) Turkish Petroleum Company was reorganized. Share capital was doubled. Half went to Anglo-Persian Oil Company, now secretly owned by the British Government. Another 25% was held by the Anglo-Dutch Royal Dutch Shell group. A final 25% was held by the Deutsche Bank group, the only ones with rights to exploit the oil resources to either side of the Baghdad rail line. Finally, Shell and Anglo-Persian each agrees to give Gulbenkian 2.5% of their shares for a total of 5%. On June 28, 1914, in one of the great ironies of history, the Turkish Petroleum Company won the oil concession from the Sultan's government. It did not matter. War had broken out and British forces would secure the entire oilfields of Mesopotamia after Versailles in a new League Protectorate called Iraq.<sup>35</sup>

In June 1914, just days before outbreak of war, the British Government, acting on First Lord of the Admiralty Winston Churchill's urging, bought the majority share of the stock of Anglo-Persian Oil Company and with it she took automatically APOC's major share in Deutsche Bank's Turkish Petroleum Company.<sup>36</sup> London left nothing to chance.

Why would England risk a world war in order to stop the development of Germany's industrial economy in 1914?

The ultimate reason England declared war in August, 1914 lay fundamentally, "in the old tradition of British policy, through which England grew to great power status, and through which she sought to remain a great power," stated Deutsche Bank's Karl Helfferich, the man in the midst of negotiations on the Baghdad Railway, in 1918. "England's policy was always constructed against the politically and economically strongest Continental power," he stressed.

"Ever since Germany became the politically and economically strongest Continental power, did England feel threatened from Germany more than from any other land in its global economic position and its naval supremacy. Since that point, the English-German differences were unbridgeable, and susceptible to no agreement in any one single question." Helfferich sadly noted the accuracy of the declaration of Bismarck from 1897, "The only condition

which could lead to improvement of German-English relations would be if we bridled our economic development, and this is not possible."<sup>37</sup>

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## Endnotes:

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<sup>1</sup> Glyn Davies, *A History of Money from Ancient Times to the Present Day*, rev.ed., (Cardiff: University of Wales Press, 1996), 348-352.

<sup>2</sup> Sir John Clapham, *Bank of England*, Vol.II, (Cambridge: Cambridge University Press, 1944), p.217.

<sup>3</sup> Timothy Green, *Central Bank Gold Reserves: An historical perspective since 1845*, World Gold Council, Research Study no. 23, November 1999, London.

<sup>4</sup> T. Green, *Central Bank Gold...*, 3,6.

<sup>5</sup> Russell Ally, *Gold & Empire: The Bank of England and South Africa's Gold Producers, 1886-1926*, (Johannesburg, Witwatersrand University Press, 1994), 31.

<sup>6</sup> T. Green, *Central Bank Gold...*, 6-9.

<sup>7</sup> As South African economic historian Russell Ally put the relationship between the Boer War and the Bank of England's gold reserves, 'To be sure, Britain did not take physical control of the Transvaal just because the Bank of England was concerned about the state of its gold reserves...However, this should not detract from the fact that there was a growing appreciation of the importance of the Witwatersrand's gold for the Bank of England's safeguarding its leadership of the international gold standard and that this coincided with the mining magnates' (e.g. Rhodes and others—f.w.e.) hostility towards Kruger's government.' Cited in Russell Ally, *Gold & Empire: The Bank of England and South Africa's Gold Producers, 1886-1926*, (Johannesburg, Witwatersrand University Press, 1994), 25. Ally also notes the crucial role of Lord Milner, then High Commissioner of the Cape Colony and later Governor of Transvaal. Milner and his circle, using the resources from the will of Cecil Rhodes, later founded The Round Table and a periodical of the same name, in order to advance an enormously influential agenda for the regeneration of the British Empire, a fascinating subject beyond the scope of this brief essay.

<sup>8</sup> P.J. Cain and A.G. Hopkins, *British Imperialism: Innovation and Expansion 1688-1914*, (London, Longman, 1993), 373.

<sup>9</sup> Susan Fairlie, 'The Corn Laws and British Wheat Production, 1829-76,' *Economic History Review*, Second Series, Vol. 22, No. 1, April 1969, 88-116.

<sup>10</sup> Cain and Hopkins, *British Imperialism*, 181ff.

<sup>11</sup> Cited in Sonderabdruck aus der Frankfurter Zeitung, *Gegen die englische Finanzvormacht*, (7 November, 1915), Frankfurt am Main, Druck & Verlag der Frankfurter Societsdruckerei GmbH.

<sup>12</sup> Hans Rosenberg, 'Political and Social Consequences of the Great Depression of 1873-1896 in Central Europe,' *Economic History Review*, Vol. 13, nos.1&2, 1943.

<sup>13</sup> Eric J. Dahl, 'Naval innovation: from coal to oil,' *Joint Force Quarterly*, Winter, 2000. The details on oil versus coal powered ships is found in Anton Mohr, *The Oil War*, (New York, Harcourt, Brace & Co., 1926), 113-115. Anton Zischka, *Oelkrieg: Wandlung der Weltmacht Oel*, Leipzig, Wilhelm Goldmann Verlag, 1939) 293 for additional comparative data of oil over coal.

<sup>14</sup> Winston Churchill, quoted in Peter Slulgett, *Britain in Iraq: 1914-1932*, (London, Ithaca Press, 1976, 103-4.

<sup>15</sup> Anton Mohr, *The Oil War*, (New York, Harcourt, Brace & Co., 1926), 118-120.

<sup>16</sup> There are numerous sources which detail the rapid industrial transformation of the German Reich after 1870. Especially useful in this regard are Karl Erich Born, *Wirtschafts-und Sozialgeschichte des Deutschen Kaiserreichs (1867/71-1914)*, (Stuttgart, Steiner Verlag, 1985; and Knut Borchardt, *The German Economy, 1870 to the present.*, (London, Weidenfeld & Nicholson, 1967).

<sup>17</sup> Karl Helfferich, *Deutschlands Volkswohlstand 1888-1913*, (Berlin, Verlag von Georg Stilke, 1913).

<sup>18</sup> K.E. Born, *Wirtschafts...*

<sup>19</sup> Charles Sarolea, *The Bagdad Railway and German Expansion as a Factor in European Politics* (Edinburgh, 1907), p. 3, quoted in Edward Mead Earle, *Turkey, The Great Powers, and The Bagdad Railway A Study in Imperialism*, (New York The Macmillan Company, 1924), v.

<sup>20</sup> Count Leo von Caprivi, quoted in Franz Fischer, *War of Illusions: German Policies from 1911 to 1914*, (New York, W. W. Norton Company Inc., 1975), 49.

<sup>21</sup> E.M. Earle, *The Great Powers...*, 58-60. Earle included a 1922 correspondence of his with the representative of the British rail group, Mr E. Rechnitzer, in which the latter stated, 'My offer being much more favorable than that of the Germans, it seemed likely in August, 1899, that it would be accepted. Unfortunately the Transvaal War broke out in the autumn of that year, and the German Emperor, a few days after the declaration of war,

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specially came to London to ask our Government to give him a free hand in Turkey. It appears that there was an interview between the Emperor and Mr. Joseph Chamberlain, who was more interested in Cecil Rhodes' scheme in Africa than in my scheme in Turkey.'

<sup>22</sup> Anton Mohr, *The Oil War*, 80-81.

<sup>23</sup> UK National Archive, *BP Archive*, Archon Code: 1566. <http://www.archiveshub.ac.uk/news/0300bp.html>, accessed on 16 June, 2007. BBC, *The Company File: From Anglo-Persian Oil to BP Amoco*, August 11, 1998., <http://news.bbc.co.uk/2/hi/business/149259.stm>. Details available on the relation between the British government and Anglo-Persian are detailed in Anton Mohr, *The Oil War*, 124-129. For background on Churchill's role in securing oil sources and converting the Navy see Sara Reguer, *Persian Oil and the First Lord: A Chapter in the Career of Winston Churchill*, *Military Affairs*, Vol. 46, No. 3 (Oct., 1982), 134-138.

<sup>24</sup> Sara Reguer, *Persian Oil...*, 134.

<sup>25</sup> Freiherr von Wangenheim, cited in Hans Herzfeld, *Die Liman-Krise und die Politik der Großmächte in der Jahreswende 1913/14*, *Berliner Monatshefte* 11, 1933., 841 ff.

<sup>26</sup> Baron Max von Oppenheim as cited in *The First World War: Haji Wilhelm*, [http://www.channel4.com/history/microsites/F/firstworldwar/cont\\_jihad\\_1.html](http://www.channel4.com/history/microsites/F/firstworldwar/cont_jihad_1.html)., accessed on 18 June, 2007.

<sup>27</sup> Martin Gilbert, *A History of the Twentieth Century, Volume One: 1900-1933*, (London, Harper Collins, 1997), 81-82. See also Peter Hopkirk, *On Secret Service East of Constantinople*, (London, Juhn Murray, 1994), 85-87, for more on Oppenheim's role in supporting the Jihad.

<sup>28</sup> Edward Mead Earle, *Turkey, the Great Powers...*, 217-18.

<sup>29</sup> Gerald Lowther to Grey, 4 August 1908, Pte. Lowther Papers (FO800/193B), cited in Hasan Ünal, *Britain and Ottoman Domestic Politics: From the Young Turk Revolution to the Counter-Revolution, 1908-9*, *Middle Eastern Studies*, Vol. 37, No.2, April 2001, 1-2.

<sup>30</sup> R.G.D. Laffan, *The Serbs: The Guardians of the Gate*, (1917, reprinted by Dorset Press, New York, 1989), 163-4.

<sup>31</sup> Noel and Charles R. Buxton, *The War and the Balkans* (London, George Allen and Unwin, 1915), 1

<sup>32</sup> *Ibid.*, 20-21.

<sup>33</sup> Nikolaus Brauns, *Deutsch-türkische Beziehungen im Kaiserreich, 4.5.4 Deutsche Kompromisse mit der Entente...*, [www.agahdari.com](http://www.agahdari.com), 30 October 2006, 38

<sup>34</sup> Cited in Peter Sluglett, *Britain in Iraq...*, 104-5.

<sup>35</sup> Nubar Gulbenkian, *Wir—die Gulbenkians: Porträt in Oel*, (München, R. Piper & Co., 1966), 93-95.

<sup>36</sup> Peter Sluglett, *Britain in...*, 105.

<sup>37</sup> Karl Helfferich, *Der Weltkrieg: Vorgeschichte des Weltkrieges*, (1919, Ullstein & Co., Berlin), 165-6.