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Britain: 90 years as a Petro State

By Greg Muttitt and James Marriott

In the run-up to the invasion of Iraq, the same phrase was uttered to the British government by both of the UK's two major oil corporations. BP and Shell both said that there should be a "level playing field" in the awarding of oil contracts after the removal of Saddam.

Their fear was that a US-led invasion might lead to an utterly US-dominated carve-up of the Iraqi oil prize. That prize amounts to at least 10% of the world's known oil reserves – second only to Saudi Arabia – and the enormous profits arising from some of the cheapest production costs in the world.

Now, nearly 15 months after the fall of Saddam, oil companies remain keen publicly to play down their interests in Iraq. In private though, the story is different. In an oil industry survey, published in May, of oil companies' favourite investment destinations around the world, Iraq came third.

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The relationship between the Bush administration and oil corporations is well charted. What is less well known is that just the same nexus of power can be seen in Britain.

But Tony Blair's decision to join the US-led war on Iraq last year was not the first time a British government has acted with oil interests in mind. Next month marks 90 years since the British state firmly wedded itself to the oil industry.

On 10th August 1914, as the opening shots were fired in the First World War, the British Government purchased a 51% stake in Anglo-Persian Oil Company, the corporation that was later to become BP.

The move had been championed by Winston Churchill, then First Lord of the Admiralty, who had argued for three years that the Royal Navy should convert from being fuelled by coal to oil. This was a risky move away from coal, which existed plentifully within Britain's own shores, into dependence on foreign resources for the nation's key strategic commodity. But Churchill was driven by the technological edge – particularly speed – that oil fuelling gave over the German fleet, and the conversion of Britain's ships began.

Henceforth, Britain's national security would rely on fuel oil and her foreign policy would be mesmerized by securing supplies of it. As the Great War neared its end in 1918, Sir Maurice Hankey, Secretary of the War Cabinet, wrote in a letter to Foreign Secretary Arthur Balfour:

> *"Oil in the next war will occupy the place of coal in the present war, or at least a parallel place to coal. The only big potential supply that we can get under British control is the Persian and Mesopotamian supply… Control over these oil supplies becomes a first class British war aim"*

Indeed as early as 1914, Britain was fighting for control over oil reserves, as it undertook the invasion of Mesopotamia – present day Iraq. A campaign to attack the soft under-belly of the Ottoman Empire and to secure the prospective reserves around Kirkuk, over which Anglo-Persian (BP) and Shell had gained a concession in June 1914.

Right from the first, the Middle East was the crucible of Britain's oil aims. It remains so today, for five countries – Saudi Arabia, Iran, Iraq, United Arab Emirates and Kuwait – sit on nearly two thirds of the world's oil reserves.

Oil dependence has dragged Britain through the military occupation of Iraq (1918-32), the Suez crisis (1956), the military intervention in Kuwait (1961), the coup and civil war in Oman (1965 - 1975), military assistance to Iraq in the Iran-Iraq War (1980 - 88), the First Gulf War (1991), and the stationing of troops and ships in the region almost continuously since 1914. Much of this military action has focussed on Iraq. Indeed, of the 90 years that have passed since that first Mesopotamian concession to BP and Shell, Britain has been at war with, or in occupation of, Iraq for 36 of them.

However, the balance of power has not always tipped in Britain's favour. In 1951, Muhammad Mussadeq swept to power on a wave populism in Iran, drawing on widespread opposition to Britain's imperial presence, and nationalised the majority of BP's reserves. Britain and the USA responded strongly, and the CIA and MI6 sponsored a coup in 1953 which ousted Mussadeq, but these events marked the beginning of a period of decline in Western oil companies' dominance in the region.

Over the following 25 years, Middle Eastern governments argued for a fair share of the revenues from their oil, which until that time had gone mostly to the corporations and their home governments. The 1970s saw a series of oil crises, as the price rocketed, and finally between 1974 and 1976, Kuwait and Saudi Arabia followed Iran and Iraq in nationalising their oil industries.

The cancellation of concessions in the Middle East led the UK's oil corporations to retreat to politically safer regions, and in the 1970s and 80s they refocused their investment in Alaska and the North Sea. In support of this shift, the British state granted extraordinarily favourable terms to multinationals producing oil in the North Sea, and today Britain's oil tax regime is the most favourable in the world.

As the growth of these regions began to level out in the 1990s, the oil corporations began to look elsewhere, primarily applying the deep-water technology they had developed in the North Sea. As they looked to 'frontier' regions such as West Africa, the Pacific Ocean and especially the Former Soviet Union, their path was again smoothed by the British government.

In the late 1990s, the Department for International Development gave a grant of £600,000 to advise Russia on reform of its oil taxation. The consultants appointed to do the work were economists from Aberdeen University who have played a key role in lobbying for lower oil taxes in Britain. Now, with funding from DfID, they advised Russia to adopt a level of tax almost as low as Britain's.

When in 1997 New Labour replaced the Overseas Development Agency with DfID – separated for the first time from the Foreign Office – in order to focus on poverty alleviation rather than the discredited 'tied aid'. It seems this reform did not apply to oil interests.

Meanwhile, Tony Blair has hosted the signing of major oil deals between BP and Russia in 1997 and 2003, and between BP and Azerbaijan in 1998. The use of 10 Downing Street for such deals has sent a clear message about the UK's priorities.

In March this year, on the same day as Tony Blair's rapprochement meeting with Colonel Gadaffi, Shell signed a long-term strategic partnership deal with the Libyan national oil company. Such deals take months of negotiation, so it is clear that Shell staff will have been working closely with British officials in the run-up to the announcement, knowing that the deal would soon be made diplomatically possible.

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Between 1976 and 1987, the British government sold off its controlling stake in BP. But this did not signify any decrease in oil's significance to the British state; indeed the strategic role of oil has broadened, to become the key commodity in the global and national economies. And it also provides a tool to help preserve Britain's post-imperial position in the world order, both as a means to achieve geopolitical position through trade and investment, and as a symbol of the Britain's strong alliance with the USA, the world's biggest oil consumer.

Britain's strategic priorities continue to overlap with those of BP and Shell. While the latter seeks assets, the state seeks secure supplies, and frequently they work in concert. Today, the two corporations account for over 12% of the total capital invested in the UK economy, and the links between the corporations and the institutions of the state could not be closer.

The Strategic Defence Review white paper published by the Ministry of Defence in July 1998, highlights the importance of oil:

> *"We depend on foreign countries for supplies of raw materials, above all oil… We have particularly important national interests and close friendships in the Gulf."*

And in January 2003, in a speech to British Ambassadors, Foreign Secretary Jack Straw listed seven medium- to long-term strategic priorities, among which was "to bolster the security of British and global energy supplies".

Although military and foreign policy are the heavyweight elements of Britain's oil strategy, the links with oil interests permeate the British political establishment far more broadly.

As we have seen, the Department for International Development has smoothed the path of oil investment overseas. It has also been one of the strongest advocates of backing oil projects within the World Bank and other development banks. Their financial support, along with that of the Export Credit Guarantees Department, helps private corporations transfer investment risk to the public purse.

The Treasury has acquiesced in claiming only minimal tax from the huge profits of North Sea oil exploitation. While the Departments of Trade & Industry and Education & Skills have encouraged Britain's universities to provide oil corporations with an estimated £67 million a year of research and technology development.

Indeed, Shell and BP are thoroughly enmeshed in the fabric of Britain's establishment.

For example, David Simon, former CEO of BP, was made Minister for Competitiveness in Europe for two years, immediately following the election of New Labour in 1997. Bryan Sanderson, head of BP Chemicals from 1992-2000, was one of the "Three Wise Men" who advised the Labour Party on economic policy in the run-up to the 1997 General Election. When he left BP, he was appointed to run the Learning and Skills Council.

In 2000, Tony Blair appointed Mark Moody Stuart, then head of Shell, to run the G8 Renewable Energy Taskforce. And in 2002, Chris Fay, former Chair of Shell UK, became head of the Emissions Trading Scheme to trade greenhouse gas emissions between companies.

In recent years, BP and Shell directors have been appointed to numerous other quangos, including the Competition Commission and Takeover Panel, the Commonwealth Development Corporation, the Public Services Productivity Panel, the Council for Science and Technology and the Accounting Standards Board.

Meanwhile, BP and Shell consistently appoint their non-executive directors from Britain's military, diplomatic, scientific and economic / financial elites. Shell's chairman, Lord (Ron) Oxburgh, for example, was Chief Scientific Adviser at the Ministry of Defence from 1988 to 1993, and then Rector of Imperial College from 1993-2001. In a recent interview, he said that the reason he accepted the post of chairman was that it is only a short walk from the Houses of Parliament, where he is Chair of the House of Lords Select Committee on Science and Technology.

The same can be seen at the top of the British cultural establishment: BP is the lead sponsor of the National Portrait Gallery, the British Museum, the Tate Britain and The Royal Opera House. Consider this list of sponsorship in comparison to the government's stated opposition to cigarette advertising - the National Portrait Gallery used to be sponsored by John Player.

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For a while, the new oil frontiers pursued through the 1990s provided the oil companies with the growth they needed to offset the decline of the North Sea and Alaska. But at the turn of the century some of those growth prospects began to dwindle, and eyes turned once again to the world's largest pool of oil, beneath the Middle East.

Some moves had already been made. Iran offered companies production deals on some of its offshore fields, through a form of contract known as buybacks. Kuwait has been debating for several years the bringing of foreign capital into its northern oilfields – an initiative known as Project Kuwait. And Saudi Arabia has allowed some foreign company participation in its gas sector.

But none of these deals give the corporations actual control over oil and gas production, only the ability to work under contract to the governments. The need of the corporations to add new oilfields in which they control production, was illustrated this year when Shell was revealed to have misled its investors about its reserve levels, the replacement of which is a key measure of oil companies' financial health.

Iraq offered the first step in adding to the corporations' portfolios, as a potential precursor to similar moves across the Middle East. But so far, the approach is failing.

On 29th May 2004, militants attacked the oil compound in Khobar in Saudi Arabia, killing 19 foreigners, one of them British. The global oil price rose rapidly as traders feared the possibility of increasing instability in the country, and perhaps even the collapse of the House of Saud.

Much of the rationale for the invasion of Iraq is that the removal of Saddam Hussein would increase stability in the world's key oil producing region. However the last 15 months have illustrated the exact opposite effect.

Indeed, the old approach of applying military muscle is looking less and less effective. Al Qaeda has now identified oil installations as a key target, and the greater the military, political and economic interventions by the West, the greater seems to be the support for Al Qaeda and other anti-Western movements.

Britain's strategy of embracing oil dependence is now in crisis: there are no other sufficiently large reserves outside the Middle East to turn to.

The problem with the UK government's policy bias towards oil security goes beyond the diminishing returns and moral dilemmas of a predatory foreign policy. The Government's Chief Scientist, Sir David King, warned recently that climate change poses a threat even greater than terrorism. Given that the consumption of oil and gas is the UK's largest source of greenhouse gases, our dependence on these energy sources presents a twofold threat to national security: through its contribution both to war and terrorism and to climate change.

And the solution to both ills may lie, as coal did in 1914, within (or just off) Britain's own shores. Britain has by far the greatest wind resource in Europe, and the potential to generate substantial energy from wind turbines, combined with other renewable forms of energy such as solar, wave and biomass.

To make the necessary transition away from oil, and towards renewables and energy conservation, those new technologies will need the government's wholehearted embrace as strategic priorities, just as oil has had for the last 90 years. In order "to bolster the security of British and global energy supplies", the government must refocus foreign policy, defence strategy, tax regimes, university research, and cultural institutions away from oil.

In the interests of national security, Winston Churchill led Britain in 1914 decisively into oil dependency. Has the time now come for a British government, in the interests of national security, to lead us decisively out of oil dependency?