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THE OIL ISSUE IN THE CONTEXT OF THE ANGLO-RUSSIAN ECONOMIC RIVALRY IN PERSIA AT THE TURN OF THE XIX–XX CENTURIES

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Abstract. ***Introduction.*** The relevance and novelty of the paper is determined by the absence in the Russian historic literature of a special study of such an important aspect of the Anglo-Russian economic rivalry in Persia as the oil issue. ***Materials and Methods.*** The main body of sources consisted of published documents of the Russian and British Foreign Ministries, agreements on Persian concessions, speeches and memoirs of British politicians and diplomats. The following methods were used: case study, the narrative, descriptive and comparative ones. ***Analysis.*** At the height of the economic rivalry between Britain and Russia in Persia, the oil issue arose. The interest shown in it by each side sprang from different causes. Britain's interest was driven by the Persian oil deposits, while Russia showed interest in Persian oil market. By the end of the XIX century Russian oil products had acquired a dominant position in the Persian market. Also, Baku oil producers were interested in Persia as the country through which the closest land routes to other markets in Asia and the Far East ran. Unlike Russians, British businessmen were seeking concessions related to oilfields exploitation. Despite the difference of interests, an oil issue was the source of tension, which rose to its peak in the diplomatic fight around D'Arcy Concession of 1901. Both Russian and British governments provided official and unofficial support to oil producers and traders in Persia. For the British government the oil issue was more specific: the possibility of obtaining a source of secure supplies of fuel oil for the British fleet. ***Results.*** The policy of the British Government to back the Anglo-Persian Oil Company (APOC) proved to be justified as the oil factor became crucial in World War I. Largely due to Persian oil the British fleet had a certain advantage over the fleets of other powers during the war. As for the Anglo-Russian oil rivalry in Persia itself, the start of the exploitation of the oilfields by APOC affected the economic interests of Russia in the Middle East and Asia. Russian kerosene was forced out of the ports of the Persian Gulf. However, in Persia itself, Russian kerosene maintained a monopoly position until the end of the 1920s.

Keywords: oilfields, oil trade, Persia, Anglo-Russian rivalry, Persian concessions, D'Arcy, Anglo-Russian Oil Company

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Научная статья

НЕФТЯНОЙ ВОПРОС В КОНТЕКСТЕ АНГЛО-РУССКОГО ЭКОНОМИЧЕСКОГО СОПЕРНИЧЕСТВА В ПЕРСИИ НА РУБЕЖЕ XIX–XX ВЕКОВ

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Аннотация. ***Введение.*** Актуальность и новизна работы определяется отсутствием в отечественной литературе специального исследования такого важного аспекта англо-русского экономического соперничества в Персии на рубеже XIX–XX вв., как нефтяной вопрос. ***Материалы и методы.*** Основной массив источников составили опубликованные документы Российского и Британского МИД, договоры по персидским концессиям, выступления и мемуары британских политиков и дипломатов. Были задействованы следующие методы: нарративный, дескриптивный, компаративный, ситуационное исследование («кейс стади»). ***Анализ.*** В пик англо-русского экономического соперничества в Персии возник нефтяной вопрос. Интерес, проявленный к нему обеими сторонами, был вызван разными причинами. Великобританию интересовали нефтяные месторождения Персии, а Россию – персидский нефтяной рынок. К концу XIX в. российские нефтепродукты заняли доминирующее положение на персидском рынке. Для бакинских нефтепромышленников Персия была также страной, через которую пролегали кратчайшие сухопутные пути к рынкам Азии и Дальнего Востока. Россия добивалась от персидского правительства концессий на торговлю, а британские бизнесмены добивались концессий на разработку нефтяных месторождений. Несмотря на разницу интересов, нефтяной вопрос стал источником напряженности, которая достигла своего пика в дипломатической борьбе вокруг концессии Д'Арси в 1901 году. Как российское, так и британское правительства оказывали официальную и неофициальную поддержку производителям и торговцам нефтью в Персии. Для британского правительства проблема нефти была более специфичной: возможность источника поставок топлива для британского флота. ***Результаты.*** Политика британского правительства по поддержке Англо-Персидской Нефтяной Компании оказалась оправданной, поскольку нефтяной фактор сыграл решающую роль в Первой мировой войне. Во многом благодаря персидской нефти британский флот имел преимущество перед флотами других держав во время войны. Что касается англо-российского нефтяного соперничества в самой Персии, то начало эксплуатации нефтяных месторождений APOC затронуло экономические интересы России на Ближнем Востоке и в Азии. Российские нефтепродукты были вытеснены из портов Персидского залива. Однако в самой Персии российский керосин сохранял монопольное положение до конца 1920-х годов.

Ключевые слова: нефтяные месторождения, торговля нефтью, Персия, англо-русское соперничество, персидские концессии, Д'Арси, Англо-Персидская нефтяная компания

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Introduction. The relevance and novelty of the paper is determined by the fact that the oil issue – an important aspect of the Anglo-Russian economic rivalry in Persia at the turn of the centuries – has been studied inadequately in the national historical science. The broader context of the research topic – the competition of two Great Powers in the Middle East and Central Asia – has been under thorough consideration of both Soviet and Russian researchers. However, the factor of oil in Anglo-Russian struggle in Persia before World War I has not been a subject of special research. There are a few works relating to this topic. B.V. Ananych gave a deep insight into Russian diplomatic activities in relation to D'Arsy's concession of 1901 [1]. Kalmykova M.V. examined British policy in the context of Great Powers struggle for the oil sources of the Near and Middle East in the period from 1901 to the 1920s [3]. Kocheshkov A. studied the role of Iranian oil as a factor of international relations in the XXth century [4]. Medvedik I.S. analysed parliamentary debates in Britain about Anglo-Russian relations on the eve of World War I [5].

In foreign historiography a serious contribution to the field was made by American researcher F. Kazemzadeh, whose book is considered a standard work on the diplomatic history of Anglo-Russian rivalry in Iran from the middle of the XIXth century to the First World War [18]. Another major research has been completed by British historian Leonardo Davoudi, who thoroughly examined the history of British exploitation of Persian oilfields by D'Arsy's venture [12]. The Purchase of the British Government's Shares in the Anglo-Persian Oil Company in 1914 was studied by M. Jack [17]. "The Economic History of Iran 1800-1914," published by the Center for Middle Eastern Studies of Chicago university, provides a comprehensive analysis of Persian economy in the given period through a collection of documents [21]. The volume presents a selection of articles and extracts from documents, reports, and books dealing with various aspects of the Iranian economy, petroleum industry in particular, which gives the work additional value. Iranian researchers have made a valuable contribution into the topic. Younes Parsa Benab studied Anglo-Russian struggle in Iran/Persia from the late XIXth to the 1920s and its effect on the economic and political state of his country [26]. An oil factor in Iran between World Wars was examined by M. Malek [19].

The objectives of the paper are to analyze the importance of oil issue in the context of Anglo-Russian competition in Persia, the relevance of oil issue to strategic objectives of Russian and British policies in Persia as well as the role of Russian and British diplomacy in it and the methods they used.

Materials and methods. The main body of sources consisted of documents of the Russian Foreign Ministry, published in "Krasny arhiv" in 1926 and 1933 [2; 6]. Agreements on Persian concessions including the most important one – D'Arcy Oil Concession of 1901 – were also used [23]. One of key documents illustrating the level of British official involvement in oil issue is the Agreement of the British government with the Anglo-Persian Oil Company of 1914 [7]. Public speeches and memoirs of British politicians and diplomats who were participants or contemporaries of the course of events provided valuable information about political objectives and diplomatic means. The key figures' works were those by Lord Curzon, Viceroy of India; W. Churchill, first Lord of Admiralty; Lovat Fraser, editor of "The Times of India" during Lord Curzon's Viceroyalty; Arthur Hardinge, the British minister in Tehran [9; 10; 8; 15;16]. These primary sources have scarcely been used by Russian historians who dealt with the history of Persian oil in context of international relations. The following methods were used: narrative, descriptive, comparative, case study.

Analysis. Persia became a significant issue in Great Powers diplomacy when the competition between Britain and Russia in the Middle East and Central Asia reached its climax in the late XIXth – early XXth centuries. Lord Curzon, Viceroy of India at that time, characterised Persia as one of "the pieces on a chessboard upon which is being played out a game for the domination of the world" [10, p.3-4].

Britain's principal objective was to establish British domination of Persia in order to defend her interests in India and the Persian Gulf, particularly, to resist the Russian drive toward the Persian Gulf. In broader context, Persia was "not exclusively an Indian interest, but emphatically an Imperial interest of Great Britain," as Lord Curzon declared in British parliament in 1899, and Great Britain "should exert her full strength for the defense of that interest" [9, p. 222–223].

Russia's objectives in Persia were summarised in the "Note by Foreign Minister M.N. Muravyov", presented to Emperor Nicholas II and approved by him in 1900. According to the document, the goal of Russian policy in Persia was "to consolidate our indisputable supremacy in the country" [6, p. 13]. Three possible ways to achieve this goal were considered: 1) establishment of a port in the Persian Gulf; 2) an official statement that Russia would not allow to violate the Persian territorial integrity; 3) an agreement with Britain on the division of spheres of influence [6, p. 13-14]. The first option, a Russian port in the Persian Gulf, was rejected for reasons of logistics and unjustified material

costs. The statement about the Persian territorial integrity was considered inappropriate, since it would impose on Russia a need to defend Persia and, consequently, keep troops on the border at a state of high alert. In addition, the statement would deprive Russia of freedom of action in the north of Persia, “where we are currently the sole and complete masters” [6, p. 14].

According to the Russian Foreign Minister, the most reliable means of competing Britain in Persia was “the broad encouragement of Russian commercial and industrial enterprises in Persia; the construction of wheeled routes to the markets of Persia closest to us; the development of maritime communications on the Caspian Sea; the establishment of a port in Enzeli; improvement of postal and telegraphic relations” [6, p. 14]. Last but not least, granting loans to the Shahs would “undoubtedly serve as a strong tool in our hands for developing the economic situation and strengthening Russia's political charm in Persia” [6. p. 14].

Both Britain and Russia tried to avoid a direct military clash in Persia. As a result, the competition moved into diplomatic and commercial areas. Both Powers used two major tools of economic diplomacy: concessions and loans. Concessions imparted monopolistic rights to foreign investors and entrepreneurs over entire industries or specific projects in exchange for monetary compensation. They were widely used throughout the Middle East. This process rendered Persia more dependent on its imperial neighbours, as both empires pressured the Persian government to grant concessions to their respective subjects.

The earliest concessions were aimed at developing Persia’s inexistent transportation and communication infrastructure. The most encompassing of early concessions was the Reuter Concession of 1872 granted to the British subject Baron de Reuter. It gave the right to build railroads, including the one from the Caspian to the Persian Gulf, as well as to build and operate all tramways for the period of seventy years. The concessionaire also acquired the monopoly to exploit practically all Persian mines with some exceptions. The government forests and all uncultivated land went under his management. What is more, construction of canals and their operation as well as irrigation works were handed over to him. One of the major rights of the concessionaire was the right to establish a national bank. Last but not least, Reuter acquired a monopoly over all future business projects related to roads, telegraphs, mills, factories, workshops, and public works. Moreover, the document exempted from duties all materials the company would import for the construction of the railway. All the undertakings and works of the Company, all their lands and the produce of their industry were exempted from all taxes and duty [10, p. 480-481]. As for the payments from the concessionaire to the Shah and the Persian Government, the stipulated sum would not suffice even to maintain the Imperial Court [18, p.108].

Such an amazing document that “fell like a bombshell upon Europe”, in Curzon’s words, was “the most complete and extraordinary surrender of the entire industrial resources of a kingdom into foreign hands that [had] ever been dreamed of in history” [10, p. 480].

At face value, the Reuter Concession seemed like a triumph for British interests in Persia, although it was purely a private initiative of “a greedy business manipulator of dubious reputation” [18, p.108]. There was neither pressure exercised by Britain nor the slightest interference from the British legation in Tehran.

The Shah was forced to cancel the concession because of the protest of the Russian government and strong negative reaction on it in Persia. The British Government did not support the Concession as “the possible political complications arising from it more than counterbalanced the advantages which it conferred”, Curzon explained [10, p. 481].

From its cancellation, however, there emerged the Imperial Bank of Persia. In 1889 the Shah signed the concession in favour of Baron de Reuter for a bank which retained the exclusive right to issue banknotes [10, p. 475]. the Imperial Bank of Persia became of great strategic importance to British interests in Persia. It was frequently used to influence the Persian government, as it was one of its only sources of public debt.

In order to challenge this newly acquired British influence the Russians established a rival bank under the name of Banque des Prêts, later renamed the Banque d’Escompte et des Prêts de Perse in 1891.

Concessions thus were employed as imperial instruments in the Anglo-Russian rivalry over Persia.

At the turn of the century, at the height of the economic rivalry between Britain and Russia in Persia, the oil issue arose. The interest shown in it by each of the rivals sprang from different causes. Britain's interest was aroused, in the first place, by the Persian oil deposits, while Russia showed a strong attraction to the Persian oil market.

Russian oil industry, based on the oilfields of Baku, was developing rapidly. Due to its proximity to the main markets of Europe and Asia and its consequent low costs of transportation, Russian oil was able to compete very successfully with American. At the turn of the century Russia replaced the United States, for a few years, as the world’s leading producer. However, in 1913 Russia became the second world’s oil producer, with 8,976,337 tons whereas the USA rose to the top, with 35,492,319 tons [24, p. 203-204]. Apart from Russian and American oil producers another giant in oil industry was Royal Dutch-Shell based on the oil fields of Sumatra. The company was formed with Dutch and British capital. One more, and at first very minor, competitor was Burmah Oil Company. For these rival groups the Middle East had a twofold attraction: as a market and as a potential producing area.

Russian oil products made their entry to Persia in the early 1870s. They acquired a dominant position in the Persian market due to the low cost and proximity of the Baku oilfields. From Baku oil was delivered either by water to the ports of the Caspian Sea, or by land through Krasnovodsk, Ashgabat to northern Persia, and then to other parts of the country.

Until 1896, it was mainly crude oil, since kerosine destined for export paid excise duties equal to those on kerosine consumed within Russia itself. Crude oil was processed at Russian oil refineries in Persia. They supplied the Persian market with poorly purified, but rather cheap kerosene which successfully competed with kerosene from Baku. In order to make it easier for Baku oil producers to fight this competition, the Russian government reintroduced export duties for processed oil in 1896. This led to a sharp rise in the export of Russian kerosene to Persia, which soon, like oil, acquired a dominant position there. By the early 1900s Russian kerosene was being delivered to the farthest and most inaccessible areas of the country. “Our kerosene is out of competition because there is no other kerosene in Persia,” A. Miller, the Russian consul in Seistan, reported to St. Petersburg in 1901, “the need for it in Seistan and in neighboring countries is growing rapidly” [1, p. 278].

The most successful Russian oil trader in Persia was Nobel Brothers company. It started operations there in 1908, by renting storage tanks in Rasht. Soon after, they built two large storage tanks in Enzeli and Rasht, with a 16-kilometer kerosine pipeline. Other Russian oil traders had large storage tanks in Persian Astara, as well as a workshop in which they made boxes and drums for oil out of metal imported from Russia.

Nowhere was Russian oil more favorably placed, with respect to transport costs, than in northern and central Iran. The region was close to Baku and was protected by the rugged terrain and lack of adequate transportation system against any rival oil coming through the Persian Gulf. Russian oil steadily pushed further south in the Persian market. It was only in the Persian Gulf area that Russian oil met serious competition from American oil brought directly by sea.

Assessing the significance of Persian oil market for Russian oil traders, we should take into account that the main commodity was kerosene, and kerosene consumption in Persia at the turn of the centuries was not very large. Judging by the official figures, in 1900 Russia exported to Persia 2 136 090 pouds of oil products[1]. This figure seems modest with the comparison to the overall export of Russian oil products that year which amounted to 95,079,017 pouds [1, p. 279].

Baku oil producers were primarily interested in India, other countries in Asia and the Far East, where there were chances for a significant expansion of kerosene market in the future. This desire increased the interest in Persia as the country through which the closest land routes to these markets ran [1, p. 279].

Therefore, the Russian businessmen were seeking Persian concessions related to trade whereas the British entrepreneurs focused on developing the Persian oilfields. Yet, despite the difference of interests, oil issue generated tension.

The British started search for Persian oil in the 1890s. In 1892, a report was published by a French archaeologist Jacques de Morgan, who accidentally found petroleum springs in Persia [13]. According to the report, the oilfields in the south of Persia were bigger than the oil deposits in Baku which were considered the largest in the world at that time. Moreover, Morgan claimed that the quality of the oil in Persia was much better than that in Baku. He expected that its refining and transporting costs would be much lower [12, p. 11].

The Morgan’s report sparkled interest of both British government and business community. The person who realized the ambitious and risky oil project was William Knox D’Arcy, a British investor with social connections among the British elite. The prospect of petroleum in Persia attracted him and he was willing to take a chance [11]. D'Arcy’s intermediary in negotiations with Persian authorities on an oil concession was General Ketabgi Khan, Persia's Commissioner General at the Paris Exposition of 1900. Ketabgi was equipped with a letter of introduction to the British minister in Tehran written by his predecessor Henry Drummond Wolff. D’Arcy also supplied Ketabgi with a substantial budget to obtain the required concession: £50,000 in cash and £50,000 in shares of a future company. Ketabgi left for Persia with “all kinds of opulent gifts for all the people that could directly or indirectly be favourable” [12, p.13]. The methods used by D'Arcy’s agent were the same as those of all concession hunters in Tehran: bribery and political pressure. According to the British minister to Persia, Arthur Hardinge, Kitabgi “secured in a very thorough manner the support of all the Shah's principal Ministers and courtiers, not even forgetting the personal servant who brings His Majesty his pipe and morning coffee” [25, p. 135].

Unlike the case of Reuter’s concession, which was entirely a private initiative, D'Arcy’s efforts obtained solid support of British diplomacy. The abovementioned introductory letter from former British minister in Tehran to then British minister A. Hardinge played its role. Hardinge put a lot of effort into the negotiations about the deal. In his memoirs he pointed out that the first important duty which confronted him a few months after his arrival at Tehran was that of securing for a British Company an important concession of Persian oilfields [16, p. 278]. The key thing was to win the goodwill of the Persian Government, particularly, some of its most influential Ministers, including the Grand Vizier Amin os-Soltan. Hardinge managed to persuade the Grand Vizier to support the concession. However, the Grand Vizier was afraid of strong negative reaction on the part of

[1] One poud is approximately equal to 16.38 kg.

the Russian minister in Tehran Argyropulo, which would inevitably ensue. Hardinge suggested keeping the negotiations in “great secrecy” fearing that “if the Russian Legation got news of the project, it would attempt to crush it, and would almost certainly succeed in doing so” [16, p. 279].

In his memoirs, Hardinge wrote about a little trick which he and the Grand Vizier invented in order to avoid complications with the Russian minister in Tehran. Hardinge drew up a letter to Argyropoulo on behalf of the Grand Vizier in which he described the contents of the future concession. In other words, the Persian side demonstrated the openness and the readiness to hide nothing from their “Russian friends”. The point was that the letter was written in the Persian script and was sent to the Russian legation at a time when its Oriental secretary was absent. The Grand Vizier knew about it. He also knew that nobody else in the Russian legation was able to read Persian texts in the original. So, the Russian minister made no objections to the deal for a few days, during which period the contract with D’Arsy was signed [16, p. 279-280].

On May 29, 1901, Shah Muzaffar al Din signed the agreement. According to the contract, D’Arsy acquired “a special and exclusive privilege to search for, obtain, exploit, develop, render suitable for trade, carry away and sell natural gas, petroleum, asphalt and ozokerite, throughout the whole extent of the Persian Empire for a term of sixty years as from the date of these presents” [23, p.249]. Article 2 of the contract granted the concessionaire a monopoly to lay pipelines. Article 5 stipulated that the geography of the pipelines be determined by the concessionaire. Crucially important was Article 6, which defined the geographical boundaries of the future concession as “the entire territory of southern Persia with the exception of the northern provinces of Azerbaijan, Gilan, Mazanderan, Khorosan and Astrobad” [23, p. 250]. On its part, the Persian government committed itself to the obligation not to issue permits to anyone on construction of oil pipelines in the direction to the rivers in the south and the southern coast of Persia [23, p. 250].

As for the payments, the concessionaire was “to pay the Imperial Persian Government the sum of £20,000 sterling in cash, and an additional sum of £20,000 sterling in shares of the first company founded” [23, p. 251]. He was “also to pay annually a sum equal to 16 per cent of the annual net profits” [23, p. 251]. These figures do not seem too big considering that in turn, D'Arcy acquired the concession with an effective period of 60 years, covering three-quarters of the country.

The D’Arcy Concession was a business transaction of historic proportions. British historian Leonardo Davoudi and American professor Firuz Kazemzadeh describe it as one of the more significant documents of the twentieth century [12, p.11; 18, p. 357-358]. Daniel Yergin argues that the Concession marked a turning point in the history of Persia, “It was the legal foundation of the Persian oil industry, due to which Persia eventually emerged into a prominence on the world stage. In broader context, the deal initiated the era of oil in the Middle East” [25, p. 134].

It is necessary to emphasise the involvement of British diplomacy in the deal. In the era of free entrepreneurship, businessmen usually acted on their own. On the other hand, the British government’s unofficial assistance to D’Arcy’s Company was not unusual. His concession operated in a territory of imperial interest, as Persia was one of the main fronts where the British and Russian empires competed for influence. Assisting the D’Arcy concession would have thus advanced British interests in Persia.

As admiral Fisher wrote in 1903, after he first met D’Arcy, “politically, it [would] capsize Russia, as this oil concession . . . [would] practically make the country English” [14, p. 275].

The D’Arcy concession led to a new increase in diplomatic and political tensions between Britain and Russia. As the Grand Vizier and the British minister had expected, the Russian minister Argyropulo was “far from pleased”, as Hardinge put it, when he found out that the concession had been signed. Argyropulo required, however, some compensation at the hands of Persian Government. He pressed the Grand Vizier for removal of a British employee named Maclean from the Persian Ministry of Finance. Despite strong objections of British minister, Maclean was dismissed [16, p. 279-280]. This episode illustrates the policy of cautious balancing between the two competing Great Powers which the Persian Government adopted in relations with them.

St. Petersburg was concerned not so much by the fabulously favorable conditions as by Article 6 of the Agreement, which created an insurmountable obstacle to Russian plans to trade Baku oil through the Persian Gulf. At that time the Russian government was seeking a concession on construction of a kerosene pipeline across Persia towards the Persian Gulf. St. Petersburg linked the issue of the pipeline with the prospects of a new loan that the Persian state desperately required. In September 1901, The Russian government laid down their conditions for a new 10 million rouble loan. Those were the following: to conclude a trade agreement, to do away with British influence in the Persian mint, to grant a concession on building a road from the Russian border to Tehran. The most important condition related to Russian oil trade and was connected with an ambitious project of Russian oil trade expansion. The Russian government demanded a concession on building a pipeline from Baku to the Persian Gulf. The Grand Vizier was, once again, faced with a diplomatic Gordian knot: he needed the loan to pay for the government’s liabilities and the shah’s expenses, but he could not fulfil Russia’s conditions without violating British interests [1, p. 284].

St. Petersburg decided to divide the loan negotiations in stages. On 30 October, 1901, a temporary loan of a million roubles was issued. In exchange

the Persian side was obliged to dismiss the British subject who was in charge of the Persian mint.

Another condition was a pledge that customs Persian Petroleum revenues would be deposited in the Russian-owned bank in Persia [18, p. 284]. Negotiations continued in 1902 and intensified as the Russians granted a further temporary loan of a million roubles [18, p. 286]. The Russian side was unyielding in their conditions and "absolutely refused to afford Persia any financial assistance unless the pipeline asked for to the Persian Gulf was conceded" [12, p. 32]. Russian diplomats argued that the D'Arcy Concession was irrelevant to their proposal as the Russian project related to oil extracted outside Persia.

In the meantime, the Britain's diplomacy began to react. The British diplomats both in Tehran and St. Petersburg strongly objected to the Russian pipeline project. Hardinge suspected behind the project a secret political design to establish a disguised military occupation on the coast of the Persian Gulf [12, p. 32; 25, p.137].

By late January 1902, however, the pressure had become unbearable and the Grand Vizier ceded to Russia's demands. He agreed to grant a pipeline concession, provided the Russians took responsibility for all the legal consequences of violation of Article 6 of D'Arcy Concession [1, p. 286; 18, p.382].

As the Russians were finalizing the pipeline concession they received a piece of information, in late February. According to the literature, D'Arcy himself had offered a loan of up to £300,000 to the Persian government. D'Arcy's last-minute intervention solved the issue. In order to retain the loan in their hands the Russian government withdrew demands for the pipeline concession [12, p.32; 18, p.383]. As Hardinge commented the victory in his letter to Edward Grey, "M. de Witte, fearing that the Persian Government might borrow from English sources, and thus escape from his grasp, withdrew the demand for the pipe-line to the Persian Gulf" [18, p. 383-384].

It is hard to decide who was the winner in the diplomatic battles around D'Arcy Concession. A Soviet historian Ananich B.V. held an opinion that the Russian Government suffered defeat. From his point of view, the failure of the negotiations on Russian concession "was one of the first serious defeats of Witte's economic policy in Persia on the eve of the Russian-Japanese war; and only a few years were needed to enable the Russian government fully to appreciate the significance of this defeat" [1, p. 289].

Firuz Kazemzadeh, professor of History at Yale University, describes these battles as a win/win situation. The historian maintains that the loan of 1900 was the greatest achievement of the Russian Government because the loan "gave it a tight control over Persian finances and, to a large extent, of the government" [18, p. 384]. On the other hand, the D'Arcy concession afforded the British an opportunity to fight back. F. Kazemzadeh argues, "Arthur Hardinge prevented Witte from gaining a foothold on the Persian Gulf" [18, p. 384].

F. Kazemzadeh's assessment of the diplomatic battles of 1901-1902 seems well- founded and convincing, particularly his assessment of the results for Russian Government. In terms of politics, the Russia's winner's prize – the loan – valued no less than the British concession. The British diplomats themselves had to accept the political implications of the loan. In his memoirs, Arthur Hardinge admitted, "By the Russian loan agreement of 1900, the Persian Government had covenanted to accept no new foreign loan without the previous sanction of Russia". It meant that "Russia had acquired an exclusive right of granting him supplies" [16, p. 280]. Hardinge was sure that the loan was a powerful tool for Russian Government to control Persia because in that country "the real key to the political situation was the financial one" [16, p. 284]. The diplomat had also to admit that financial dependence resulting from the Russian loans affected Britain's political influence in the country as it "compelled the Persian Government to cultivate Russian friendship and, to some extent, induced it, as an inevitable consequence, to prefer that friendship to our own". [16, p. 284].

The British government continued to provide indirect financial and political support to D'Arcy's company's operations in Persia. The search for oil continued for several years, and Arsi's financial resources were depleted. In three years after the start, D'Arcy's venture was facing collapse. It was the British Admiralty that saved the venture.

In 1905 the Admiralty put pressure on Burmah Oil, a British firm with operations in India. The Company signed an agreement with D'Arcy out of which a new business enterprise sprang up – the Concession Syndicate. D'Arcy became a director of the new company. Burmah Oil acted as an investor so D'Arcy's venture had been saved. As the historian of Burmah Oil put it, D'Arcy's needs "coincided exactly with those of the Foreign Office, anxious about the route to India, and of the Admiralty, seeking reliable fuel oil supplies" [25, p. 141-142].

After seven years of fruitless search, a major oilfield was finally discovered on May 26, 1908, two days short of the seventh anniversary of the D'Arcy Concession. Interestingly enough, the discovery was made at the moment when the company was going to scale down work and leave Persia [12, p. 95].

In 1909, through complicated financial and political arrangements, the original D'Arcy concession became the Anglo-Persian Oil Company. D'Arcy was given a seat on the board of directors, which he retained until his death in 1917 [20].

The Admiralty participated informally in the creation of a new company. On the advice of First Lord of the Admiralty, Lord Strathcona and Mount Royal became chairman of the APOC. The APOC had an initial capital of £2,000,000 [21, p. 319- 320].

Having acquired a major oilfield, the APOC went on to provide the means to get the oil to sea-

board and thence to the world markets. A plot of land was acquired at a small place called Abadan on the Persian side of the Shatt al-Arab, 40 miles from the mouth of the river. Then a pipeline from Abadan to the river was constructed. By 1913, the construction of the refinery was completed and the pipeline started to work to its full capacity. The first shipment of Persian Oil was made in August 1912, when some 2,200 tons of crude oil were shipped from Abadan in one of that company's tankers [21, p. 320].

The start of the APOC's operations in southern Persia affected Russia's economic interests in terms of prospective markets in the Middle East and Asia. However, in Persia itself, Russian kerosene maintained a monopoly for a long time. In 1910-1911, Russian kerosene, according to the chief Persian Consul in St. Petersburg,

L. A. Sobotsinsky, accounted for 96.2% of the total kerosene consumption in the country and was cheaper than British and American. Russian kerosene and other products competed very successfully until the end of the 1920s [21, p. 327]. But the oil markets nearby to Persia were now completely lost to the Baku oil producers.

Apart from Anglo-Russian economic competition for the dominance in Persia and oil trade in particular, there were other reasons for the British government for supporting D'Arcy's oil venture. Those were matters of grand strategy and high politics. In May 1903, the Secretary of Foreign Office, Lord Lansdowne, made a strong statement in the House of Lords. The British government would "regard the establishment of a naval base or of a fortified port in the Persian Gulf by any other power as a very grave menace to British interests, and we should certainly resist it with all the means at our disposal" [15, p. 83]. This declaration, as Lovat Fraser, the then editor of "The Times of India" wrote, was "our Monroe Doctrine in the Middle East" [15, p. 83]. Lord Lansdowne's words were in tune with the ideas of Lord Curzon, Viceroy of India in 1898-1905. Curzon stated, "I should regard the concession of a port upon the Persian Gulf to Russia by any Power as a deliberate insult to Great Britain … and as an international provocation to war; and I should impeach the British Minister, who was guilty of acquiescing in such a surrender, as a traitor to his country" [15, p. 85]. Although this emphatic statement had no official validity, it represented the spirit of the British policy not towards Russia in particular, but towards any Power which sought to encroach upon British paramountcy in the Gulf.

In the context of strategic objectives, the Royal Navy played a crucial role. Leonardo Davoudi explains, "the navy was not only the key to the defense of Britain herself, but also the crucial safeguard for the enormously complex chain of economic interests which Britain had built up over centuries and without which she was just an offshore island of Europe rather than a great world power" [12, p. 142].

In the early XXth century the Royal Navy's was in the process of converting from coal to oil. The major problem was that Britain had no supply of oil, either domestically or within British Empire, while Britain's internal supply of coal was plentiful. Therefore, in order to switch to oil, Britain had to ensure it had its own reliable, safe and abundant supply. Oil, as the navy's prospective fuel, had thus become a central component in Britain's imperial infrastructure [12, p. 142; 21, p. 321].

In 1912 W. Churchill, First Lord of the Admiralty, initiated the Royal Commission on Oil Supply with the task to examine the issue of the Navy's conversion from coal to oil. Admiral Fisher, whom Laurence Lockhart called "the oil maniac", was appointed its chairman. One of the Commission's objectives was to identify oil sources. Over the course of the three-year period, Fisher filed three reports on oil integration to W. Churchill. It was Churchill who lobbied for the Royal Navy's conversion from coal to oil. Based on findings of the Royal Commission W. Churchill laid down core principles of Britain's strategy. One of them was drawing oil supplies from within either the Empire areas or of British influence. Churchill and his supporters were determined to avoid dominance of foreign oil companies. The Royal navy, W. Churchill argued, could not afford to rely on any company under foreign or potentially hostile control.

Whitehall carefully calculated alternatives such as APOC or Birmah Oil. APOC's oilfields satisfied criteria of being strategically and politically convenient and easy to protect. Besides, Burmese oil better suited for refining into kerosene than oil fuel. As a result, APOC was chosen as the largest recipient of government orders [22, p. 31-32].

Due to Churchill's efforts the British government and The Anglo-Persian Oil Company signed an agreement which was approved by an Act of Parliament in 1914. The government became a major shareholder of the APOC by purchasing 51 percent of the shares. In addition, the Admiralty and the company signed a contract on oil supply to the Royal Navy [7, p. 249-251]. In other words, the deal assured the Admiralty a substantial portion of its annual oil requirements, on reasonable terms, from a government-controlled company.

W. Churchill highly estimated the deal with the following words, "It has not only secured to the Navy of a very substantial proportion of its oil supply, but has led to the acquisition by the Government of a controlling share in oil properties and interests" [8,

p. 134]. He emphasized financial advantages of the deal, which became visible much later. "Initial investment of two million of public money are at present valued at scores of million sterling and also to very considerable economies, which are still continuing, in the purchase price of Admiralty oil," wrote Churchill in 1925 [8, p. 134].

Historians agree with W. Churchill about the importance of the deal. Leonardo Davoudi has characterised a level of coordination between the company and the government in this deal as "unprecedented" [12, p. 144]. Marian Jack has called it "unique" and describes as "an aberration of British

government policy" [17, p. 168]. She explains: "At a time when state aid to industry had hardly begun in Britain, the British government's purchase of a 51% shareholding in the Anglo-Persian Oil Company was a momentous decision" [17, p. 139].

Results. Strictly speaking, British government's official alliance with the oil company does not seem unusual in the context of their relations over the course of many years. It was due to the active assistance of the British government that a speculative investment in Persia evolved into one of Britain's largest oil companies within a relatively short period of time. The British government took crucial measures to rescue it from financial and operational collapse. The government acted as "a financial intermediary, diplomatic representative, security detail, lead negotiator, human resource agent, commercial protector, end client and principal shareholder" [12, p. 141]. In other words, profit and politics were inextricably linked in Persia.

The Government's policy of backing the APOC proved to be justified as the international situation was changing in the direction of new political alliances. The oil factor became crucial in World War I. Largely due to Persian oil the British fleet had a certain advantage over the fleets of other Powers during the war.

As for the Anglo-Russian oil rivalry in Persia itself, the start of the exploitation of the oilfields by APOC affected Russia's economic interests in the Middle East and Asia. Russian kerosene was forced out of the ports of the Persian Gulf. However, in Persia itself, Russian kerosene maintained a monopoly position until the end of the 1920s.

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