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Oil and the Arab–Israeli Conflict, 1948–63

Uri Bialer

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The idea of writing this book occurred to me while working on my previous book *Between East and West: Israel's Foreign Policy Orientation, 1948–1956* (Cambridge, 1990). Documentary evidence which I consulted for writing the latter exposed some effects on its foreign policy of Israel's acute dependence on external sources of oil supply. The records also illuminated the crucial impact of its conflict with the Arab world on this little-known strategic position. The following study is thus a result of approximately ten years of intermittent plunging into the abyss of this subject.

The book is based almost entirely on newly declassified archival sources. I wish to thank the librarians of the following archives for their assistance: the Israel State Archive, the Israel Defense Forces Archive, the Central Zionist Archives, the Ben Gurion Archives, the Public Record Office in London and the National Archives in Washington.

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Introduction

This book focuses on Israel's attempts to ensure a regular oil supply in the first decade of its existence. Oil was as vital to Israel as were external sources of finance, immigration and arms – the three other needs which had to be met and on which Israel was sorely dependent in its formative stages. But while there is an extensive literature, partial though it may be in scope, on the country's attempts to secure these last three needs and on the implications of those attempts, the subject of the present research has not been given similar treatment. Anyone interested in the question had to settle for the few pages devoted to it in Benjamin Shwadran's book, *Middle East Oil: Blessing and Threat*, published nearly 20 years ago. The prime reason for this historiographical lacuna was the secretive attitude adopted for decades by Israel's leaders towards the issue of oil supplies, which was no less stringent than that applied to matters of conventional national security. This virtually precluded any contemporary journalistic treatment of the issue. These restrictions have been relaxed in recent years, and primary material of supreme importance has been made available in both Israeli and foreign archives. This development has opened up a central area of hitherto unknown activity, and thus exposed an important dimension in regional and international economic diplomacy.

In many cases, the existing literature on oil supply understandably underscores the perspective of the suppliers, leaving the viewpoint of the consumer only partially addressed. The Israeli case requires that both sides be understood, for two major reasons. The first is the well-known absence of any substitute or alternative source of energy, due to which the country was totally dependent on petroleum.

Secondly, despite the financial difficulties inherent in ensuring this commodity, the main problems which Israel faced derived from the political context in which the question was addressed by external players, who held the keys to decision-making. The axis around which all this revolved was the Arab–Israeli conflict, which categorically influenced the stand of governments (Great Britain, the United States, the USSR, Iran) and national and international oil companies (Shell, Anglo-Iranian, Socony, Esso and NIOC).

The present analysis of the reciprocal relations between Israel and these players, the first of its kind, provides innovative perspectives on all the parties. It reveals that these relations deviated considerably from the strictly financial parameters which characterized Israel's international transactions in other commodities. It was the combination of finance and politics that ultimately dictated Israel's choices.

This book presents and clarifies the unique method which the State of Israel adopted in attempting to secure its oil supply. Israel's strategy was influenced both by the clear desire to break free of its dependence on external intermediaries (the American and British oil companies which had a monopoly in the country), and by the external constraints which diminished its ability to do so rapidly and unilaterally. Consequently it accepted the need to act within the same dependency frameworks which had existed to a large extent during the period of the British Mandate in Palestine. As Chapter 6 demonstrates, control of Israel's vital supply of oil was left to an astonishing extent in the hands of foreign companies. For obvious reasons, this unpalatable reality was underplayed in the Israeli domestic political climate of the time, and has remained largely unknown to this day.

That dependence, however, was not absolute; an operative formula was found, which allowed Israel to enjoy the effective protection of foreign companies while making slow but not insignificant progress in the development of an independent oil-importing organization. Chapter 7 describes the ways in which Israel gradually gained experience and secured ties, *inter alia*, with the USSR and Iran. These enabled Israel to cope successfully with the unilateral (and, from Israel's perspective at the time, undesirable) act of severance by the companies, which was effectively completed in 1958. The alternative solution, namely development of an intensive petroleum link with Iran (analysed in Chapter 10), attained the objective of connecting Israel to Middle Eastern sources of oil supply. It was particularly problematic, however, because it implied absolute dependence on a sole source, which could not be relied on absolutely. At the same time, the construction of the Eilat–Haifa pipeline enabled Israel to resume its position as an international conduit for the supply of Middle Eastern oil to other areas. The chequered history of these ties, up to the beginning of the 1960s, is another focus of this study.

Because the frameworks of Israel's oil supply were fixed at this period and underwent no substantial change until the fall of the Shah of Iran, the importance of this analysis transcends the strict chronology of the study. Israel's crucial dependence on oil also provides a novel explanation of important aspects of her political ties with Great Britain, the USSR and Iran. Chapter 5 highlights the fact that this dependence was a significant factor in maintaining economic ties between Israel and Britain, despite the latter's reluctance. For this reason, the fate of the Haifa refineries – the major British oil installation in Palestine and subsequently in Israel – was, as described in Chapters 2–4, a focus of continuous and intensive international negotiations for over two years. Britain, France, the United States, Israel, Iraq, Egypt and the oil companies were all involved in these discussions. Moreover, the supply of Russian oil, which at certain stages accounted for half of Israel's consumption, did not have significant political implications, as demonstrated in Chapter 9. Finally, Chapter 12 shows that the oil link provided the main impetus for Israel's attempt to establish military relations with Iran.

Above and beyond these particular factors, this study aims to make an empirical contribution to the conceptual development of international political economy, which has become a central field of study in international relations, especially since the dissolution of the Soviet Union and the end of the Cold War. It is also an addition to the relatively underdeveloped historiography of oil diplomacy in the second half of the twentieth century. While historical studies on the specific topic are virtually non-existent, there is abundant unpublished documentary evidence. British Government papers deposited at the Public Record Office in London provide insight into the policies and attitudes of the United Kingdom, France, Iraq, Egypt and Iran, and also of the Shell and British Petroleum oil companies. The State Department records in the National Archives in Washington illuminate the positions of the United States Government and of Socony Vacuum and Esso. The documents in the Israel State Archive, the Israel Defense Forces Archive, the Central Zionist Archives and the Ben-Gurion Archive facilitate the reconstruction of the Israeli perspective. At the same time, they shed significant new light on Russian and Iranian policies concerning oil supply to Israel, as detailed in the reports of the State's emissaries in Moscow and Tehran. Still, much documentary evidence relating to the activities of the Mossad in promoting Israel's oil interests in Iran, to the logistic planning of the Israeli Defense Forces, to the activities of the Economic Section of the Israeli Foreign Ministry, and especially (and curiously enough) to the role of the Israeli Finance Ministry in formulating the country's oil policy, remains classified. Likewise, access has not yet been granted to most of the cabled correspondence between Jerusalem and Israeli diplomatic missions abroad, and to the records of the Cabinet for the post-1951 period. For several reasons, the present study makes relatively little use of oral testimony. Most Israeli Ministers had neither expertise nor experience in oil diplomacy and economics in the period discussed by the present study. Moreover, the number of Government officials involved in formulating policy in this sphere in the 1950s was extremely small and only one of them mentioned the subject in his memoirs. Only three of these officials are still living (and were interviewed).

The extant data suffice, however, to delineate the general lines of Israel's struggle to secure an oil supply in the first decade of its existence, and the foreign policy implications of this quest. The definitive study, however, will have to await major policy changes concerning the right of the Israeli people to learn of their government's foreign relations secrets – changes which, unfortunately, are unlikely to occur for a very long time to come.

Part I The Eclipse of Haifa

1 Fuel – Supply and Demand in Mandatory Palestine

Since the Second World War the provision of energy has depended primarily on a supply of oil. In Mandatory Palestine, and subsequently in the fledgling State of Israel, attempts to acquire oil came up against two basic and related problems: first, an almost total dependency on foreign markets; and second, its relatively high price. While the bulk of our study refers to the first years of statehood, background information concerning the pre-state period provides some insights for a better understanding of the early stages of Israel's effort to ensure provision of oil. The first chapter, therefore, deals with characteristics of the consumption and supply of energy in Palestine from the late Ottoman period until the establishment of the State of Israel. It discusses the changing dimensions of demand in this area as well as the sources and conditions of supply, mainly under British rule in Palestine.

Extant information concerning consumption of oil in Palestine dates back to 1886. In that year 468 tons of kerosene were used in the country, mainly for lighting purposes, both private and public (notably by the Jerusalem municipality).[1] Consumption of that fuel rose considerably during the following 30 years, mainly due to the expanding use of combustion engines for water-pumping purposes in the newly introduced citrus plantations. There were less than 50 such engines in 1901 but several hundred ten years later. They gradually replaced animal and water power in other economic spheres, notably flour mills, with a similar effect on consumption.

Specific and detailed evidence concerning the import of kerosene in the pre-First World War era is scarce. Initially it was imported from the USA. From the late 1880s, it came from the refineries of Baku and was despatched to the port of Jaffa in Palestine in small tin containers on small vessels, mainly Greek. Plans to improve transportation and lower costs by using relatively large tankers which would be able to pipe their cargo directly into containers on shore came to naught prior to 1914.[2] Under the British Mandate Palestine underwent demographic and urban growth, with new industries and technologies being established. As a result imports of kerosene, benzine and above all fuel oil grew rapidly and became the major source of energy.

Table 1.1 Petroleum Consumption in Palestine, 1886–1947 (in tons)

Year	*Benzine*	*Kerosene*	*Fuel oil*	**Total**
1886	—	468	—	468
1910	—	8 175	—	8 175
1913	—	10 830	—	10 830
1920	118	10 000	—	10 118
1937	39 800	48 700	87 922	176 422
1940	58 000	49 000	97 000	205 000
1945	116 000	84 000	325 000	525 000
1947	145 000	94 000	320 000	559 000

Sources: E. Racine, 'Chapters in the History of Petroleum in Palestine 1886–1938', *Beolam Ha Delek*, 3, August 1962, p. 30, Hebrew; H. Rothschild, 'Power and Fuel Economics in Palestine', *Palnews*, V, 1939, p. 103; *Bulletin of the Economic Research Institute of the Jewish Agency for Palestine* (hereafter *BERIJA*) X, 2, 1947, pp. 59–61; and 'Forecast of Palestine's 1948 Requirements of Certain Mineral Oil Products', prepared by the Joint Fuel and Transport Committee of the Jewish Agency and the General Council (Vaad Leumi) 10 December 1947, Israel State Archive, Jerusalem (hereafter ISA) C/119/23.

Table 1.2 Energy Sources in Palestine, 1930–44

	Calorific value (billion of Kcal)*			*Percent of total*		
	1930	*1938*	*1944*	*1930*	*1938*	*1944*
Coal	567	686	284	43	27	5
Firewood	180	210	210	13	8	4
Fuel oil	165	665	3 110	12	26	54
Kerosene	302	468	800	23	18	14
Benzine	114	322	1 390	9	12	19
Methylated spirits	1	3	3	**	**	**
Butane	—	2	2	**	**	**
Hydroelectric power	—	232	224		9	4
Total consumption	1 329	2 588	6 023	100	100	100

Notes: *Kilogram-calories. **Less than $\frac{1}{2}$ of 1 per cent.
Source: R. Nathan, O. Gass and D. Creamer, *Palestine*: *Problem and Promise* (Washington, 1946) p. 173.

These tables illustrate vividly the radical shift in the fuel consumption level over this period. The direct cause for the considerable increase in the consumption of benzine was the extension of the road network and the growing number of vehicles. The upward trend in kerosene use was mainly due, according to the Jewish Agency's assessment, to the improved standard of living of the Arab population.[3] To a lesser extent it resulted from non-domestic use, such as the higher level of agricultural mechanization and the more intense use of tractors. The main factors contributing to the higher consumption of fuel oil were the expansion of the steam-power plant of the Palestine Electric Corporation, the conversion of train engines and cement production from coal to fuel and the greater demand by industry. Table 1.2 illustrates the transformation of energy sources in Palestine. Thus, shortly before the end of the Second World War, oil products represented almost 90 per cent of the overall energy consumption in Palestine as compared with nearly 60 per cent in 1938 and no more than 44 per cent in 1930. The largest increase in oil consumption occurred in fuel oil – mainly used in the generation of electric power – which reached a scope of approximately 144 million kWh in 1944 as compared with 27 million kWh in 1938. Thus Mandatory Palestine and later the State of Israel became dependent primarily on the supply of this 'heavy' oil.

Several remarks are in order here concerning the use and availability of coal and hydroelectric power during the Mandatory period. As there was no coal in Palestine it had to be imported, mainly from Britain but also from Germany and other countries. The railways were the largest consumer, accounting for almost 40 per cent of the imports before the Second World War. Next highest was the Portland Cement Co. Nesher Ltd of Haifa, with small industry and the domestic market consuming the remainder. Although the decrease in coal use was well under way by 1938, it was eliminated in practice only during the Second World War when coal imports from Great Britain were cut off. As a result, by the end of 1942 all locomotives of Palestine Railways had been converted to oil, and a year later experiments were launched to convert the vertical kilns of the Nesher (Cement) Works from coal to oil burning.

Available data indicate that indigenous sources – which included hydroelectric power, methylated spirits and firewood – provided only 8 per cent of the country's total energy consumption in 1945. Palestine's only hydroelectric plant, which came on line in 1932 and was located at Tel Or (Naharayim) at the junction of the Jordan and Yarmuk rivers, provided a capacity of 18 623 kW. This accounted for no more than one-fifth of the generating capacity of the two existing electric companies in the country.

Energy consumption therefore became to a very large extent identical to oil consumption, and since oil was not discovered in Israel until 1955, its import was an absolute necessity for the population of the territory between the Jordan river and the Mediterranean long before the State of Israel came into being.

The history of oil prospecting in Palestine began in 1912.[4] The first known oil drilling in Palestine was conducted in the Yarmuk Valley in that year by a local company, the Société Agricole et Minière de la Syrie. Up to 1914, more exploratory drilling was carried out in the Qurunb area, south-west of the Dead Sea, by the Standard Oil Co. The outbreak of war interrupted the company's plans for test drilling. Prior to the outbreak of war, the Anglo-Persian Oil Company secured several prospecting licences in the Dead Sea area. In 1918 concessions were granted again to Standard Oil and to Turkish Petroleum which later became the Iraq Petroleum Company (hereafter IPC). The surveys submitted to the Colonial Office indicated that the prospects of discovering oil in Palestine were slim and in 1924 Standard Oil consequently decided to stop its exploratory work. However, by the end of the British Mandate in 1948, no less than 31 oil prospecting licences had been issued in Palestine, of which 29 were held by Petroleum Development (Palestine) Ltd, a subsidiary of IPC. Two had been held by a private local Jewish company – Jordan Exploration Co., a subsidiary of the Palestine Mining Syndicate Ltd (the parent company of the Palestine Potash Company holding the Dead Sea Concession). Most of these had been granted in 1938 for a period of four years, following the promulgation of the Oil Mining Ordinance of that year. However, the outbreak of the Second World War and the consequent impossibility of securing the necessary machinery prevented the licensees from starting work. Only after the War did the Jordan Exploration Company start drilling in the Dead Sea region, but operations were suspended when it transpired that its drilling equipment was inadequate for the purpose. Petroleum Development (Palestine) Ltd, for its part, started drilling in 1947 in the Huleiqat area (the most promising structure located by the company) but was forced to cease operation in May 1948 owing to the outbreak of war between the Jews and the Arabs.[5] It should be noted that by the end of the Mandate exploratory drilling had been conducted only in the southern end of the Dead Sea, the Negev, and the southern coastal plain, while the northern parts of Palestine were left virtually unexplored. The major reason for what must be regarded as unimpressive efforts on the part of the licensees to exploit their concessions was the general evaluation, based on contemporary geological surveys, that, 'the prospects of a commercial oil field are [...] rated as being distinctly poor'.[6] The failure of IPC to find oil in Syria (near Tripoli) likewise did not seem to hold out promise for the Galilee. American experts shared that view and informed the Secretary of State in late 1948 that

> in view of the tendency of both Arabs and Jews to weight oil heavily in their evaluation of the Negev, it should be pointed out that Palestine oil sources are considered at this end in the 'possible' to 'improbable' category ... On a scale of 1 equals prolific resources, e.g. Persian Gulf, and 5 equals no oil resources, e.g. Vermont, [Palestine is] rated geologically at the 3 level.[7]

Moreover, they expressed doubt regarding the professed intentions of British oil prospecting in Palestine.

> The Iraq Petroleum Company historically has followed the policy of taking out concessions over the maximum areas possible for the primary reason of keeping out competition. Drilling 'obligations' in these concessions contracts are principally responsible for IPC drilling activity and operations are expected to 'disprove' rather than 'prove' the oil potentialities of these areas.

Two years later an Israeli official termed IPC's interest in acquiring exploration licences 'a dog-in-the-manger one – to block anyone else from exploiting oil in [the country]'.[8] Whatever IPC's true motives, the result of almost 30 years of oil prospecting in Palestine under the British Mandate seemed a clear case of a self-fulfilling prophecy.

Palestine's increasing dependence on petroleum products and the growing share of fuels in the total industrial imports – from 3.6 per cent in 1925 to more than 8 per cent twelve years later – naturally made their price a major concern. All the more so since the price of oil affected the cost of electricity, which in turn influenced the cost of irrigation and industrial power. It also had an obvious bearing on the cost of domestic cooking, heating and motor transportation. Thus, for example, in 1936 benzine and oil accounted for 29 per cent of the total cost of motor transport and electricity and for 70 per cent of the total operating costs in irrigation. In industry, fuel oil expenditure comprised no less than 25 per cent of the value of the product. Palestine was situated close to Middle Eastern oil wells, and, moreover, refineries operated in the country from 1939 on. The costing of oil was, none the less, based on calculations of transportation to Haifa from the Gulf of Mexico. Consequently the average wholesale price of fuel oil in Palestine in the late 1930s and early 1940s was considerably higher than in the United States and in other countries in the Middle East.

This state of affairs obviously stemmed in part from the fact that Palestine, unlike some other Middle Eastern countries, was not a producer of oil. It was also affected by the monopolistic practices of the Government of Palestine in the sphere of oil. Three distributing companies (Shell and Socony Vacuum – catering to Jewish and Arab markets – and Mantacheff – catering mainly to the Arab market) operated as a *de facto* approved cartel in Palestine. They worked on a strict share of the market – Shell controlling 55 to 60 per cent of the sales, Socony Vacuum 25 to 30 per cent and Mantacheff 10 to 15 per cent. Other firms were unable to obtain import licences. Various associated oil companies entered into contracts with the Government – in 1931 for the laying of pipelines across Palestine and in 1933 for the construction of a refinery. The Government, however, failed to stipulate that they should guarantee competitive prices for Palestine consumers and should also provide for a direct payment to the Palestine Government in return for the facilities granted or for transit traffic. It should be borne in mind that this was not the usual method of conducting such affairs in the Middle East. Thus, for example, in striking contrast to the Palestinian agreements, provisions for cheap local supply were included in the convention between the Iraqi Government and the Turkish Petroleum Company signed in 1925 and in the 1931 agreement between the Iraqi Government and IPC which replaced it. In Saudi Arabia, oil had been made available by American companies free of charge to the inhabitants, while in Egypt oil companies, which were liable to income tax, were obliged to hand over part of their output to the Egyptian Government, which refined that oil in its own refineries. But, as noted above, this was not the case in Palestine and thus the opening of the refinery in Haifa in 1940 did not result in lower petroleum prices. And although by the end of the Second World War petroleum products came to account for more than one-third of the overall export from Palestine and one-quarter of its import, the transactions were in effect only transit trade – leaving in Palestine only salaries and wages of Palestinian oil refinery workers.[9] The main reason for this state of affairs was the fact that the oil companies concerned, although formally international, had an unmistakably British legal personality which explained the favourable concessions granted to them by the Mandatory Government. Examination of the infrastructure of the companies which had business interests in Palestine at that time confirms this claim. The Iraq Petroleum Company, which had the concession for the exploitation of the Mosul oil fields in Iraq and ran pipelines from these fields to Tripoli and to Haifa, was owned by an international group of companies. A $23\frac{3}{4}$ per cent interest was owned by each of the following: The Anglo-Saxon Petroleum Company (40 per cent of whose stock was owned by Shell Transport and Trading Company and 60 per cent by the Royal Dutch Company), the Anglo-Iranian Oil Company (a majority of whose voting stock was owned by the British Government), the Compagnie Française de Petrole, and the Near East Development Corporation (owned jointly by the Standard Oil Company of New Jersey and the Socony Vacuum Oil Company). The remaining 5 per cent was privately held. The Anglo-Iranian Company (hereafter AIOC, which changed its name in 1954 to British Petroleum or BP)[10] signed a convention with the Government of Palestine in 1931 granting it the right to refine oil in Palestine and to dispose of that right to other companies. Early in 1938 it transferred that right to the Consolidated Refineries Ltd (hereafter CRL), half of whose stock was owned by the Anglo-Iranian Company and half by Shell.

The reasons for the liberal treatment of the oil companies by the Mandatory Government were clear. Firstly, 47.5 per cent of the capital of IPC and 100 per cent of the capital of CRL was owned by British subjects. Secondly, the British Government itself owned 13 per cent of the capital of IPC and 28 per cent of the capital of CRL. Therefore, any benefits to these companies would have accrued to the British Government, in part directly in the form of dividends and in part indirectly in the form of taxation on profits. Under these circumstances it is hardly surprising that the crude oil which was received from the Iraq Petroleum Company was not deemed to be marketed locally and was hence exempted from custom duties. It is also understandable why the companies were not required to sell the oil at a reduced price or to keep stocks in Palestine. The refineries, whose daily capacity in 1945 was 80 000 barrels, were even permitted to import all construction and operating supplies free of custom duty.[11] It should also, of course, be noted that the largest oil-distributing company in Palestine – Shell, which supplied the country with refined products – was, for all intents and purposes, a British company. Thus it can be seen that the corporate structure of Palestine's oil industry had an obvious and detrimental impact on oil prices charged for domestic consumption and consequently on the local economy as a whole.

The Jewish community was well aware of the drawbacks of this situation and on several occasions attempts were made to redress it. In the early 1920s the Cohen family, who had established an oil-distributing company in western Europe, made concerted efforts to penetrate the Palestine market, with the idea of constructing large containers and pumping installations in the Haifa Bay area and thus lowering the price of oil (then imported on trains from Egypt). The plans were vehemently opposed by the distributing companies, which reacted by lowering their prices. However, the Jewish company stood up well to that competition and in 1927, the first cargo of their oil was unloaded by pipeline in the port of Haifa. That success, however, was short-lived. The 1929 economic crisis severely affected the Cohen family business in Europe, forcing it to sell its property and installations to AIOC a year later. Two decades were to lapse until, as will be discussed below, Israeli Jews managed again to establish an oil importing and distributing company. Until that occurred, other companies were virtually free to dictate price structure.

The powerful position of these companies and the unconditional support they received from the British Government explain why the British practice was apparently only once, and then unsuccessfully, challenged in the international arena during the Mandate period. This occurred in 1931, when the Iraq Petroleum Company's convention came before the Permanent Mandate Commission of the League of Nations for review.[12] The in-depth debate held by that forum provides a rare insight into the problematic nature of Palestine's oil supply. Several members of the Commission criticized the fact that the convention contained no provision for direct payment to the Palestine Government in return for the facilities granted. In concrete terms, they suggested that the advantages thus granted to the holders of the concession contravened the terms of the Mandate. Article 18 of the Mandate stated that the Mandatory Power should 'take such steps as it may think best to promote the development of the natural resources of the country and to safeguard the interests of the population'. According to some members of the Commission, these interests had been ill served since the only benefit accruing to Palestine was that, on the expiration of the Convention in 2001, the works affected by it would revert to the Palestine State – pending, however, the consent of the Company to terminate the agreement. As Count De Penha Gracia put it, 'the servitude imposed upon Palestine' was not 'set off by equitable compensation' which could have included low oil prices. The evident result was, therefore, that 'the concessionaire company had done a good stroke of business'. Furthermore the Commission made it absolutely clear that in their opinion the preferential treatment granted to the oil company had been based on unjust consideration. As one of them bluntly declared, 'the Mandatory Power has subordinated the interests of the country under its mandate to the interests of a company of its own nationality'. Not surprisingly, perhaps, the contending view was most strongly expressed by Lord Lugard, the British representative, who was a well-known champion of British imperial policy. He claimed that the privileges and exemptions granted to the oil company paled in comparison with the benefits which accrued to the country from influx of capital, the creation of jobs and the increase of shipping traffic. The Commission held four long meetings in an effort to reach a unanimous decision but reached a deadlock. They submitted a compromise report to the League of Nations' Council noting that 'doubts were expressed by certain of [the Commission's] members as to whether some of the clauses of the agreement in question kept the necessary balance between the advantages and privileges granted to the concessionary company and the advantages which would accrue to [Palestine]'. If it had been the British aim to discourage debates on the subject at the League of Nations or at any other international forum they certainly succeeded, as the matter rested there until the termination of the Mandate seventeen years later.

No wonder, then, that efforts inside Palestine to change the monopolistic practice came to nothing. The first challenge came in 1931 when economic interests in Palestine launched a protest.[13] Consequently, in the same year, the Government of Palestine appointed a 'Board of Inquiry into the Motor Transport Industry of Palestine'. Headed by a Government official and composed of Arab and Jewish members, the Board recommended that 'the exploitation of the Industry by the undue raising of the price of motor spirit should not be allowed any more than exploitation of the public by food suppliers'. There was no real response from the Government despite a promise of 'action'. There is no historical evidence of effective reaction on the part of the Jewish Agency. This was undoubtedly due to the very weak position of the Jewish authorities *vis à vis* the Mandatory Government. Thus, the matter lay dormant until after the Second World War, when the Jewish Agency lodged a formal complaint with the British Government against the granting of an oil concession to the newly established Trans-Arabian Pipeline Company similar to the concessions previously granted to the Iraq Petroleum Company. The Agency claimed that the latter had 'failed to take into account vital interests of the Palestine population in general, and the Jewish economy in particular'. It demanded that any new concession should include an undertaking by the oil company to make oil products available at low prices in Palestine, to purchase materials locally – provided that such materials were not more costly than imported goods – and to place the oil by-products at the disposal of local industry. The British showed little sympathy to the Jewish concerns. In a short despatch to the Jewish Agency early in 1946, the Chief Secretary of the Government of Palestine declined to accept any of these demands. He echoed Lord Lugard's line of defence, claiming that 'this Government takes the view that the benefits which accrue to Palestine from oil conventions justify the measures of exemptions accorded [to the Oil Companies]'.

In addition to the conventional measure of lodging a complaint, the Jewish Agency had two additional options for action. Jewish experts noted that strict interpretation of the concession agreement with the Anglo-Iranian Oil Company could force the refinery to produce chemicals from oil products which CRL had declined to do.[14] The threat to enter into a legal battle on that matter with the refinery, which became at that time the major source of oil supply, might thus have served as an inducement to lower prices. However, as the decision whether to take such action rested with the Palestine Administration, the Jewish Agency was understandably sceptical as to the feasibility of such action on its part. The second possibility was to import oil from areas where its prices were lower and where the output was not controlled by Anglo-Iranian or IPC. The obstacles to this seemed insurmountable. Import of oil products depended on conveyance by tankers owned by the oil companies, which could easily resist attempts to charter their vessels. Moreover, unloading and storage facilities needed to be constructed and the Palestine Administration was unlikely to grant the necessary import permits. In the event that all these obstacles were overcome, the oil-distributing companies could be expected to respond by lowering their prices to a level where the outsider would be unable to compete. This being so, the initiative could only succeed if the main consumers of oil products in Palestine at that time (the Palestine Electric Company, the Palestine Potash Company, the transport cooperatives and the bigger industrial enterprises) formed an oil-purchasing company, and undertook to buy their oil only through that company. However, the prospect of such a concerted effort seemed almost nil at that time. It was evident to the Jewish Agency that the situation would remain unchanged as long as the British controlled Palestine. That fatalistic view explains the lack of almost any detailed planning of oil supply on the part of the Jewish Agency prior to the November 1947 UN recommendation to terminate the British Mandate. It may also account for the Jewish Agency's explicit decision to refrain from raising the issue before the Anglo-American Committee of Inquiry in 1946.

That fatalistic approach concerning oil prices was at least partly misplaced since, from the early 1940s, the Palestine Government had in fact basically supported the Jews on the issue. It should be noted, in this context, that the problem of establishing a reasonable basis for the computation of oil prices in Palestine following the construction of the refineries first arose in early 1940, when they had not yet reached full production. Previously, prices to the distributing companies had been calculated on the basis of 'cost-plus' of import from the nearest source of supply to the distributor's main installation. It should be remembered that a substantial part of Palestine's oil requirements at the time was still imported by sea. Thus even when the refineries were in operation, the ex-refinery price was still based on the cost of import from the nearest 'free' source. The closest source, Rumania, being no longer accessible, 'laying down prices' were based upon the cost of import from the Gulf of Mexico plus insurance and freight. In 1941 the British High Commissioner for Palestine raised the issue of petroleum prices with the Secretary of State for the Colonies, claiming that the oil companies enjoyed excessive profits. Eventually, after a year of negotiations, a settlement was reached with the oil companies. Prices were fixed on the basis of the Gulf of Mexico price plus an amount comprising actual price of prewar freight from the Gulf plus wartime insurance from Abadan (then the nearest source of supply). The High Commissioner accepted the formula under protest only because the Colonial Secretary had implied that he was not in favour of rejecting such a scheme during wartime and assumed that it was a temporary arrangement for that time only. The situation changed, however, as the war went on and as the refineries supplied all the local demand for petroleum products. From the Jewish Agency's viewpoint, the net results of adherence to the current price system under these circumstances were first, a selling price which ignored the existence of the refinery, second, increased profit to the oil companies from the freight and insurance charges and, finally, the 'freeing-up' of a number of tankers previously employed to serve Palestine. The oil companies, for obvious reasons, chose to disregard certain undeniable facts: namely that, of the total refinery yearly throughput of 4 000 000 tons, 55 per cent came through the pipeline from Iraq; 18 per cent came by tanker from Tripoli in Lebanon; and 27 per cent came by tanker from Kuwait; and also the fact that Iraqi crude oil was unquestionably cheaper than American.

It is interesting to note that the Mandate Government and official British Government bodies actually shared the Jewish Agency's view. Thus, in February 1945, the War Economic Advisory Council for Palestine queried the relatively high price Palestine was paying for petroleum products, claiming that 'Palestine's geographical position [was] responsible for prevailing high prices in many commodities but in the case of oil this does not hold good … This needed investigation as oil prices in Palestine were 40% higher than in the United States'.[15] In August of the same year, the Council once again took up the question with the Colonial Secretary. The oil companies were continuing to charge Palestine consumers the greatly increased rate caused by the rise in insurance and freight costs of sea-borne oil, even though the oil was actually being piped to Haifa at a much lower cost. The War Economic Advisory Council reiterated their claim in January 1946 and recommended that 'pressure should be brought to bear on the oil companies to lower prices of petroleum products in

Palestine so that the country might obtain some advantage from its geographic proximity to sources of oil supplies'. Recommendations to take the matter up with the authorities in London were thus made early in 1946 by the Council and by the Controller of Fuel Oil Supplies, who opined that

> the refineries at Haifa should not be allowed to make greater profits from this country, which affords them hospitality, than they do from foreign markets and that the prices of petroleum products should not exceed the f.o.b price of similar products shipped to the most favoured foreign distributors.

The High Commissioner put the case bluntly to the Secretary of State for Colonies in July 1946, stressing his view that current prices of petroleum products in Palestine 'are artificially inflated by factors having no relations to actual costs'. The Minister in London was slow to react but in December he finally consented to the opening of negotiations with the companies for a revision of the formula which for the past seven years had fixed oil prices in Palestine. By then, however, the termination of the Mandate seemed imminent and no further action was therefore taken by the British Government until the State of Israel was established five months later. The growing realization among Mandate Officials that the Jews had been unjustly mistreated by the price system also manifested itself in 1947 in the controversy between the oil-distributing companies and the British High Commissioner. The former demanded increases in the prices of petroleum products in light of the sharp rise in world prices and other increases in expenses. The High Commissioner's protests notwithstanding, the price of fuel oil (which at that time was not controlled, unlike benzine and kerosene prices) was raised by almost 30 per cent. Regardless of Britain's decision to give up the Palestine Mandate and the UN adoption of the partition plan, British officials in Palestine did not hide their support for the Jewish position on oil prices. Thus by late March 1948, for example, the Financial Secretary of the Palestine Government was asking the manager of Shell in Haifa to reconsider its position. He made it clear that

> it would seem to us a shortsighted policy from the point of view of a British company which presumably wishes to maintain good commercial relations with whatever successor state – or states – may emerge after Palestine ceases to be under British influence. Public opinion is, as you are aware, always ready to criticize, and possibly thus to engender feelings hostile to the future interests of the oil companies, because of what is not without reason regarded as very favorable treatment accorded to the oil companies through the concessions granted by this Government.[16]

In view of these controversies it is hardly surprising that a memorandum submitted by a British official in Palestine four weeks before the termination of the Mandate proposed that 'in the interests of the economic welfare of the country, early steps should be taken by the successor authority to negotiate a more equitable price formula for petroleum products'.

There is further evidence that the Mandate authorities disapproved of the policies of the oil companies, and that their stand was in fact often closer to that of the Jews than to that of the British Government. In the late 1940s they attempted to modify the clause in the IPC transit convention of 1931 which exempted the company from any payment for the right to transport oil through Palestine. The issue was raised late in 1946 following an unprecedented agreement between the Trans-Arabian Pipeline Company and the Jordanian Government in respect of oil from Saudi Arabia under which the former agreed to pay 60 000 LP annually as a transit fee. The British Government's lack of enthusiasm for that agreement was borne out when, shortly afterwards, IPC approached the Palestine Government with a request for transit rights for oil transported from Transjordan and the latter, in its turn, demanded an annual fee. Following consideration by the Cabinet in August 1947, it was decided that the Palestine Government had the right to levy wayleave charges for pipeline facilities and that the actual amount of payment should be settled between the Palestine Government and the companies concerned. IPC eventually agreed in November 1947 to pay 45 000 LP per annum for the privilege of conveying oil through their existing pipeline from Transjordan and also from two areas in Iraq not covered by the 1931 Convention. Under the terms of the agreement, the successor authority would be able to repudiate it. Consequently the British Government initially advised the High Commissioner for Palestine not to proceed with the negotiations. However, although the termination of the British Mandate was imminent IPC wanted to go ahead with the agreement and were willing to risk further demands or repudiation by the successor authority. According to American sources, this readiness stemmed from IPC expectation of an Arab victory in the military struggle over Palestine and the anticipation that the payment would thus be made to an Arab government. On reconsideration, His Majesty's Government decided that the agreement should be concluded in the interests of economic development and the bringing of assets to Palestine. Negotiations to that effect were abruptly terminated when the State of Israel was proclaimed on 15 May 1948.

This chapter has shown that there was a substantial increase in the magnitude of demand for energy sources during the period of the British Mandate in Palestine, which stemmed from rapid demographic growth and economic development. From this perspective, the chapter has explained the Yishuv's almost total dependency on oil, as well as the special conditions of sale of this commodity, which were detrimental to the local economy. At the same time, we saw that, the dispute over oil prices notwithstanding, the Jews in Palestine encountered no real problem in securing oil supplies as long as the British ruled the country. But the question marks cast over the continued British presence from late 1947 presented the Jewish Agency with unprecedented and threatening problems of supply which – as will be discussed later – were not easily solved. The next chapter will analyse the changing situation in this domain, in the time leading up to the departure of the British from Palestine.

2 Twilight of British Rule

The British Government's decision to leave Palestine confronted both the residents and the oil companies with a new reality. The leaders in London, too, had to formulate a new policy on the supply and refining of oil in the light of the anticipated changes in Palestine. This chapter will analyse the interactions among these different actors during this period, and how they began to adapt to the emerging political reality from early 1946 up to the war that broke out immediately upon the official termination of the Mandate in mid-May 1948.

It has long been accepted among scholars that, despite progressively frequent and often bitter conflicts with the British authorities – mainly over the issues of immigration and purchase of land – the Jewish community in Palestine (the 'Yishuv') derived great economic, political and even military benefit from Mandatory rule which was formally established in 1921. The very swift transformation of that community and its institutions after May 1948 into an effective and thriving state-system owed much to half a century of Zionist endeavours but no less to the protective political–military–economic framework of Palestine from the end of the First World War.[1] The unhampered flow of oil into Palestine was definitely one of the benefits of that framework. However, shortly after the Second World War, the arrangement seemed about to come to an end. The British Government and the Zionist leadership were increasingly aware, especially following the 1946 recommendations of the Anglo-American Committee of Inquiry into Palestine, that the Mandate was rapidly coming to a close. Under prevailing circumstances, this could only mean suspension or cancellation of the existing arrangements for oil supply to the country. Since this placed a burden primarily on Britain's shoulders, it is London's perspective which will be examined most closely.

The strategic and economic importance of Middle East oil to Britain at that time has been clearly recognized by contemporaries and by historians alike, and hence needs no detailed account.[2] However, certain crucial facts should be noted which provide the proper perspective for understanding British attitudes and policy on oil in the context of the Palestine issue.[3] First, no substantial margin of reserve oil production existed shortly following the war upon which Britain could draw in the immediate future if supply from any major oil-producing area were to be interrupted (this situation, however, changed thereafter). Second, the essential and ever-increasing role played by Middle Eastern oil-producing countries was

Table 2.1 World Crude Oil Production, 1930–50 (millions of barrels)

Year	*USA*	*Venezuela*	*Middle East*	*World*
1930	898	137	47	1 374
1935	997	148	84	1 655
1940	1 353	186	95	2 150
1945	1 714	323	187	2 595
1950	1 974	547	618	3 803

Sources: N. Medvin, *The Energy Cartel* (New York, 1974) p. 16. See also note 3.

Table 2.2 Middle East Annual Oil Production, 1945–55 (million tons)

	1945	1950*	1955*
Egypt	1.3	1.6	1.5
Iraq	4.8	13.5	20.0
Iran	16.8	25.0	35.0
Kuwait	—	15.0	20.0
Qatar	—	2.4	3.5
Saudi Arabia and Bahrain	3.0	15.0	20.0
Total	25.9	72.5	100.0

Note: *estimated figure.
Source: British Cabinet Paper (47) 11, 'Middle East Oil', 3 January 1947, CAB 129/16.

common knowledge among British officials. The charts left them in no doubt about that. The result was that whereas in 1938 57 per cent of British oil imports came from the Americas, twenty-five years later half of the total came from Kuwait alone.

Third, the forecast oil production potential was perhaps even more important. The estimates of British experts at that time were that Middle East oil reserves were equivalent to, if not greater than, those of the United States, where production in the aftermath of the Second World War was around 350 million tons.

Fourth, as only about three million tons of petroleum products were needed at that time by oil-producing countries in the region for domestic consumption, more than 90 per cent of the actual Middle East oil production was available for export. This amount represented no less than about one-third of the amount consumed by the oil-importing countries. Fifth, the annual capacity of the existing refineries in the Middle East was more than 33 million tons, amounting to about one-third of the total refining capacity outside the United States and the USSR. Sixth, oil production had an obvious weighty financial significance for British oil companies. The value of the 31.2 million tons produced in 1948 was £156 million, 1951 production was expected to rise to £272 million, reaching £402 million in 1956. And, finally, requirements for consumption in the sterling area and for the British share of foreign trade were being met at that time to the extent of no less than 60 per cent from Middle East production. It was therefore an understandable political axiom at the time that serious dislocation of essential fuel supplies with no less serious financial consequences would result if the British lost the goodwill of the Arab States as a result of developments in Palestine.

The above general facts in themselves seemed to justify British apprehensions in the late 1940s, when the Arab world became increasingly embroiled in the Palestine dispute. However, that apprehension should be placed in the right perspective. First, British concern focused less on Arab rulers than on Arab public opinion. According to the Ministry of Fuel in late 1946,

> The extensive activities of British and American oil companies contribute directly and indirectly a large proportion of the revenues of Middle East countries. In Arab States such as Iraq, Saudi Arabia, Kuwait, and Bahrain, the attitude of the Arab Government would consequently tend to be influenced by a desire to secure uninterrupted development of their oil resources. This consideration would however have little weight among the Arab population generally, even less with political agitators.[4]

Moreover, Britain's various oil interests in the Middle East were not expected to be affected to an equal degree by events and political developments in Palestine. Iran, for example, the largest oil producer at that time obviously supported the Arab cause but, for various reasons, was actually detached from the conflict over Palestine.[5] Saudi Arabia was definitely more involved in the conflict, but this tended to affect United States rather than British interests. Egypt was considerably involved in the struggle over the fate of Palestine but produced only 3.5 per cent of total Middle East oil. At the same time, the significance of its control of the passage of oil tankers through the Suez Canal could hardly be exaggerated. And finally, there was Iraq, which was due to become by 1950 the second largest oil producer in the Middle East, which provided Palestine with most of the oil it used, and which was uncompromising in its stand on Palestine.[6] Oil exports from Iraq were dependent on the security of the 600 miles of pipelines running from Kirkuk to the Mediterranean coast at Haifa in Palestine and Tripoli in Lebanon. A second pipeline from Kirkuk to Haifa was due in 1948 and to Tripoli in 1949, which would then increase deliveries to each terminal from 2 million to over 6 million tons a year.

In late 1946, the British Ministry of Fuel and Power presented the Government with a 'worst case' scenario involving a 'domino effect' and placing Iraq at its focus:

> It is understood that Arab feeling in Iraq is particularly strong against the recommendations of the Anglo-American Commission on Palestine. Should serious unrest extend not only to Iraq but also to Saudi Arabia and Kuwait, the effect on industrial and commercial activity would be serious and widespread internationally, and conditions might well in these circumstances be further aggravated by renewed political difficulties in the Persian outfields which would be exposed to Arab resentment.[7]

The prospect of a Jewish state, however, seemed in Baghdad at that time too remote to justify a decision by Iraq to stop the flow of oil to Haifa that would constitute a self-inflicted wound. The British nevertheless tended to favour a Palestine policy which would avoid antagonizing the Arabs. This tendency was expressed directly and obliquely in internal Government correspondence at that time and obviously bolstered the anti-Zionist stand.[8]

The above scenario – which in 1946 was considered alarmist – seemed to become reality late in 1947, following the United Nations' recommendation to terminate the British Mandate and to establish an Arab and a Jewish state in Palestine.[9] The partition plan for Palestine provided for an economic union of the two states and both were to benefit from the existing oil supply system of the refinery in Haifa, a city allotted to the Jews. It should be recalled that the wholly British-owned Haifa refinery was the third largest refinery in the Middle East, with the capacity to process four million tons of crude oil per annum. Some two million tons of that oil reached Haifa annually via Iraq Petroleum Company's pipeline from Iraq, and two million tons were conveyed by tankers from British companies in Tripoli in Lebanon and from Abadan in Persia. The oil received and processed at Haifa was therefore regarded as sterling oil. Haifa's output of finished products was of the order of about 330 000 tons per month, of which the British share (Shell and AIOC) was about 250 000 tons, and the American share (Socony Vacuum) about 80 000 tons. Of the total production, about 50 per cent was shipped to the sterling area – including the UK – while about 30 per cent and 20 per cent respectively supplied some of the British and American trading requirements in Egypt, Greece, Turkey, Syria, Libya, Algeria, Spanish Morocco and Belgium. The eastern Mediterranean countries had for geographical reasons naturally been supplied very largely from Haifa. As a rough estimate Haifa was expected to provide between 1 000 000 and 1 500 000 tons of refined products to European countries other than the United Kingdom, or from 6 per cent to 9 per cent of all the refined oil products imported by those countries. These figures carried significant weight because the late 1940s and early 1950s witnessed a worldwide refineries shortage, which resulted in intensive build-up of such plants. Finally, the British oil exported from Haifa amounted to approximately 7 per cent of its world trade in oil. His Majesty's Government aspired, however, to increase Haifa's refining capacity to between 7 and 9 million tons by 1951, exploiting the greater quantities of crude oil which would flow through the new 16-inch Kirkuk–Haifa pipeline then under construction.[10] The financial stakes were far from negligible. Thus the difference in cost between the crude oil intake and the refined oil at Haifa was expected to reach some £20 million by 1950.

This being so, the loss of Haifa refinery or any attempt by the local government to restrict or direct exports of petroleum products or to interfere with imports of machinery, materials and crude products essential for the routine maintenance or expansion of the refinery and pipelines was likely to have a detrimental effect on the oil situation in the sterling area. Furthermore, Palestine met its requirements of petroleum products from the Haifa refinery, and neighbouring states were also supplied from that source. During 1946, for example, the refinery had produced 116 000 tons of benzine, 86 000 tons of kerosene, 73 000 tons of gas oil, 19 000 tons of diesel oil and 220 000 tons of furnace oil for Palestinian consumption. Any interference with the production of finished products from Haifa would also have serious repercussions on the neighbouring states. It should also be noted that, in addition to the annual outlay in Palestine on loading dues, taxes, rents, wages, purchase of local materials and capital costs (estimated at that time at £5.25 million), the British oil companies employed Arab and

Jewish labour and imported large quantities of stores and materials into the country. It was for these reasons that in early 1948 Britain considered it unlikely that a 'Jewish successor Government' in Palestine would deliberately take any actions to close the Haifa refinery or restrict its activities. By so doing, they would be imposing sanctions on themselves as well as upon neighbouring countries and surrendering an important source of revenue.

There were other reasons for British concern as to the future. The first was financial, stemming from the fact that the refinery company had never owned the oil that it processed. It was remunerated on a fee basis and, as its sole shareholders were the companies that distributed the refined product, the rate was almost certainly lower than would have been charged by an outside concern. Hence the Treasury and Ministry of Fuel and Power considered it as a 'strong possibility' that 'the successor government' would be attracted by the opportunity of earning hard currency or gold from the refinery operating on its territory. It would attempt to secure a benefit to its balance of payments either by insisting that the refinery company raise its processing fee to the full 'economic' level and receive some part of the fee in gold or hard currency, or by stipulating that all oil refined in Palestine must be paid for in dollars. In the first eventuality, Britain would be required to pay a fair proportion of that amount in gold, and in the second case, it would have to pay in dollars for the proportion of the Haifa output consumed in the sterling area. Late in 1947, His Majesty's Government considered three means of foiling such an attempt by the 'successor government'. First, Britain could refuse to proceed with the expansion of the refinery and the pipeline across Palestine. Second, retaliatory trade actions could be taken which would force the successor government to reconsider its demand for dollars. As a Treasury memorandum phrased it: 'Dollar invoicing is a game at which two can play and Palestine must take an appreciable part of her import from the sterling area'.[11] And in the last resort and at a considerable expense to herself, Britain could transfer the refinery elsewhere. However, in early 1948, it became apparent to the British Government that the 'successor state' was slow to make financial demands. As will be seen below, the existential problems caused by war which followed the invasion of Palestine by armies of neighbouring countries in May 1948 preoccupied the Jewish state for almost a year and delayed the tackling of the financial issues involving the Haifa refinery.

Britain's second concern was thus more serious. In late December 1947, the Foreign Office focused on the specific and immediate implications of the establishment of a Jewish state. It could evoke a drastic reaction on the part of the Iraqis, 'who have expressed anxiety about the future of the refineries in view of their interest in the export of Iraqi oil through [Haifa]', and by other Arab states '[who] may well make difficulties over ... pipelines whose terminals are to be in the Jewish state'. The fears were confirmed in February 1948 when the Iraqi delegation which was negotiating the Anglo-Iraqi Treaty in London informed the Foreign and Colonial Ministers that 'it was intolerable from the point of view of Iraqi public opinion that Iraqi oil should be used to enable Jews to kill Arabs in Palestine'.[12] This, however, was not yet the 'worst case' scenario. A dangerous (and unanticipated) event occurred in late December 1947 when the refinery was shut down as a result of a massacre of Jewish workers by Arabs at the site. In London this event was clearly interpreted as the writing on the wall. According to a Foreign Ministry memorandum of early February 1948:

> At present ... the political disorders of the territory are reaching a climax and each of the two parties may well see in damage to [oil] installations a means of reprisal against the other party ... With the probability of one community attacking the guards and labour of the other, and neither restrained by any outside authority the outlook ... might indeed bring the system to a standstill.

The possibility of physical damage to the refinery by sabotage seemed the gravest threat, as a Foreign Ministry official explained in late February: 'the supply of crude oil can always be renewed fairly quickly, whereas the destruction of the refinery could not be made good for several years'. The threat did not materialize, due among other things to the early and relatively unopposed conquest of Haifa by the Jewish forces in late April. Nevertheless, the British remained concerned for many months at the prospect that the refining operations might be disrupted for a prolonged period due to other reasons.

As so often happens in international relations, the British were faced with the need to pursue two conflicting paths of action simultaneously. On the one hand it was obviously in their economic-strategic interest to resume normal activity at the refinery even though this, as will be analysed later, would have entailed the flow of 'Arab oil' to Haifa, thereby benefiting the Jewish state. On the other hand, there was the need to maintain oil production in the Middle East at its existing and planned level, the *sine qua non* for which was Arab cooperation and goodwill. The inherent difficulty of balancing these two conflicting interests was the major reason why it took His Majesty's Government almost three years to find a partial, temporary (and far from satisfactory) solution to the problem.

In London's view, the second difficulty concerned the American and French stands on the issue of the refinery and the Iraqi pipeline leading to it. Broadly speaking, the suspension or interruption of the regular activity of the refinery and the pipeline certainly would have adverse implications for the normal oil supply to Europe and the finances of French and American companies which were shareholders of IPC. However, for neither the United States nor France was Haifa a prime economic concern. It should be borne in mind with regard to US companies that the United States Government – for various political-economic reasons – was less inclined than the British to intervene in international oil business. Second, as mentioned earlier, US oil interest clearly centred on Saudi Arabia rather than Palestine. Moreover, the export of sterling oil from Haifa adversely affected dollar oil exports from other sources, especially through the envisaged Tapline pipe from Saudi Arabia to Lebanon. Whether such considerations fully justified the retrospective claim of an Israeli oil expert that 'no one was more interested in seeing the Haifa Refinery frozen than America' is admittedly an open question.[13] However, economic calculations can certainly explain at least the unmistakable detachment of the State Department concerning these issues and its constant wish to avoid becoming actively involved. While the Americans were anxious to remain aloof, the French were less than helpful to Great Britain precisely because of their deep involvement. French nationals held 23.75 per cent of IPC's shares and understandably concentrated their economic attention on Iraq itself. Furthermore, the second IPC pipeline, which led to Tripoli offered the French a preferred solution in the event that Haifa was disconnected from IPC's oil transportation system. The fact that Haifa was of far greater importance to the British than to the French and Americans was therefore bound to generate conflicting political and economic prognoses, which as policy-makers in London realized, were not conducive to a successful solution to their dilemma.

Finally, Britain was forced to cope with obstacles placed in her path by the fledgling State of Israel, which prevented the implementation of plans aimed at resuming the oil flow to Haifa. His Majesty's Government was confronted with a sovereign state which vehemently opposed any territorial or other infringement of its newly acquired sovereignty and thus deprived London of major bargaining cards in its diplomatic encounters with the Arabs. The outcome of its endeavours was therefore necessarily disappointing. A State Department official commented to a colleague early in 1950 that the 'Department [is] somewhat depressed over [the] ineffectiveness [of the] past history [of] joint US–UK–French Government[s] approaches to Near East States on [the] Haifa pipeline'.[14] It was, however, premature in 1947 to declare the failure of efforts. The British, Americans, French and Israelis continued to be preoccupied with the issue for another three years.

The first shutting down of the Haifa refinery, in December 1947, marked the beginning of 18 months of efforts by the British Government to restore normal operations. Initially, the closure of the refinery did not affect the flow of oil through the Mosul–Haifa pipeline, so the British did not think that the disruption of oil provision and distribution in Palestine was about to last. Thus in January 1948, the British Cabinet discussed the financial and economic questions arising from the withdrawal from Palestine but confined itself to a request to the United Nations Commission that all existing agreements between the Palestine Government and the Iraq Petroleum Company and the Consolidated refineries remain valid and that British oil companies in Palestine be free to export petroleum products 'to such destinations as they choose'. The resumption of work at the refinery on 22 January 1948, albeit on a very small scale, seemed to justify their cautious optimism. Nevertheless, the impending departure of British forces from Palestine and the unclear military and political situation which was likely to ensue soon called for a more emphatic decision by His Majesty's Government. Another urgent factor was the clarification of the Iraqi Government's stand on the Haifa refinery. On 10 February the Colonial Secretary informed the British High Commissioner for Palestine that the Iraqi delegation, then negotiating the Anglo-Iraq Treaty in London, had asked that 'careful consideration' be given to the possibility of cutting off supplies of oil from the Haifa refinery to the Jewish forces in Palestine, even if that action would necessitate ceasing supplies to the Arab population. The Official Committee on Palestine, which discussed the subject of oil installations on 11 February, invited the Ministry of Fuel and Power to consider how the gap in sterling oil supplies could be filled 'in the event of any failure of supplies from Haifa'. The Committee also instructed a working party to prepare a report for the Cabinet broaching the idea of leaving a force behind to protect the Haifa refinery after the final evacuation of British troops on 1 August.

Events in Palestine precipitated the implementation of these decisions. On 14 April 1948 the refinery was shut down again as a result of a strike by the Arab employees (who comprised the majority of workers at the plant) following a Jewish attack on buses transporting them to work which resulted in casualties. The plant managers concluded that any attempt to operate the refinery with Jewish personnel only was too risky because such a move would invite Arab attack.[15] Under these circumstances, they decided not only to close down the plant but to begin reducing stock in Haifa to minimum levels before 15 May. Socony Vacuum had, in effect, already taken the latter decision and informed the State Department in mid-April 1948 that 'expecting trouble, we have already moved quite a lot of product into storage at various points in the Mediterranean'. This decision meant that Palestine would be deprived of benzine by late April, of gas oil by 15 May, and of kerosene by 15 June. The company duly informed the Jewish authorities in early May that

> although we intend to do all possible to arrange for the bulk product imports to carry on business in Palestine after CRL stocks are exhausted ... it should be clearly understood that the Company's commitments elsewhere ... and the uncertain Palestine future make it impossible to offer any sort of guarantee or agreement that imports will be available.[16]

The underlying reason for this move was the apprehension that the Jews might 'go in and take what there is'. The Shell Company followed suit shortly afterwards and the pipeline transporting oil from Iraq to Haifa was shut down on 15 April 1948. This move was decided on at an IPC meeting, the aim being to reduce crude stocks at the refinery and 'thus minimize [the] danger [of] fire and explosion in case of attack by Arabs or Jews'. However, by the end of the first week of May the pipeline had started operating intermittently once again. Thus by mid-April both the Foreign Office and the State Department were well aware of the prospect of a prolonged shutdown of the refinery and the pipeline, and of the likely effects on the United States Special Aid Programs in Turkey and Greece, for whom Haifa oil had been a major source of supply.[17] However, in view of the uncertainties of the evolving war there appeared to be very little that they were willing or able to do to tackle the basic issue. Although the British conveyed a message to Israel late in May that they 'strongly desire [to] reopen [the] refineries soon' they were forced to admit their impotence in view of 'Iraq's refusal [to] allow pumping oil'. American oil interests dictated a public withdrawal; thus the Director of Socony Vacuum in Palestine was told by his company to leave the country after the formal establishment of Israel. The reason, as bluntly presented to the State Department, was 'to prevent there being any American official of his company on the spot so that the Jews will not be able to negotiate with an official American ... Socony Vacuum feels that it can not negotiate with the Jews in face of Arab feeling[s]'.

How did the Jewish Agency and the new Israeli Government cope with these developments? What were their aims and what means did they have at their disposal to ensure the supply of oil during the period leading to independence and thereafter? Israel formulated four basic aims with regard to petroleum development in general during the first year of statehood (which remain valid for the state to the present day). These were first, to obtain fuels for domestic consumption with a minimum outlay of foreign exchange and at a low price; second, to develop a large-scale petro-chemical industry; third, to refine crude oil for export; and last, to participate in the transportation of oil from the Middle East to Europe. All four aims were clearly manifested in 1948–9, but the Israeli Government was then preoccupied with the far more serious and substantial problem of the sheer availability of fuel. Before dealing with the complexity of price systems, industrial development, oil export and intercontinental transportation, the young state was obliged to solve the existential problem of ensuring minimal supply under very unfavourable conditions.

The greatest disadvantage was an almost total lack of familiarity with the international oil business and the world of oil diplomacy. The records at the Central Zionist Archives (where the bulk of the political and economic documents relating to the history of the 'Yishuv' are stored) prove conclusively that the Jewish Agency had no real experience in these fields during the Mandatory period. These archives contain many thousands of the Agency's memoranda on various economic issues during the 30 years of British rule in Palestine. Very few of them deal with oil matters. Moreover, a thorough 170-page study of Jewish economics in Palestine, prepared by the Economic Research Institute of the Jewish Agency in 1946, devoted but a single page to petroleum. There are three probable explanations: First, from its infancy, the Zionist movement accorded prime importance to agricultural development, which was regarded as crucial for the social and economic reorientation of the Jews of Palestine. The dearth of natural resources also helps explain why industry (and oil) were generally considered of secondary importance and left to the initiative of private entrepreneurs.[18] When the Russian Minister to Israel Pavel Yershov inquired late in 1948 whether the Negev (the southern part of Israel) was important to the Jews because of its potential for oil discovery, Prime Minister David Ben Gurion replied unhesitatingly (reiterating a virtually unchallenged Zionist dictum), 'for us water is more important than oil'.[19] And third, the Jewish authorities, aware that the supply of oil was guaranteed, and faced with the uncompromising monopolistic practices of the Mandatory Government and the oil companies alike, were naturally reluctant to develop skills which they assumed they would not be able to apply.[20] Thus although the Jewish Agency leaders occasionally showed an interest in oil matters from 1919 (when they ordered a geological survey of Palestine), their actual efforts to translate occasional fanciful ideas and plans into action were, for all the reasons cited here, negligible and could hardly be described as enthusiastic. The only exception before early 1947 seems to have been the attempts to incorporate as many Jewish workers as possible in the laying of the Kirkuk–Haifa pipeline and in the operation of the Haifa refinery.

Not only were the Yishuv leaders inexperienced in oil matters: they considered it as axiomatic that British and American oil interests would generate anti-Zionist policies. This common wisdom was unequivocally summed up in a unique study published in 1947 – 'the real basis of opposition to open support of the Zionist claim [by the US State Department] was connected with American interests in Saudi Arabian oil. In the competition for the favour of Ibn Saud, a noncommittal policy on Palestine could be a bargaining advantage'.[21] Others stated the view bluntly '... although Jewish blood is doubtless thicker than water, it can not possibly be as thick as rich black petroleum, fresh from Arab wells, at so many dollars a barrel'. When signs of the withdrawal of US support for the November 1947 UN resolution were brought to the attention of Ben Gurion, his immediate diagnosis assigned prime importance to oil interests. Sharing the same idea, Israel's chief representative in the USA, Eliahu Epstein (later Elath), openly criticized American oil companies in a conversation with a State Department official in mid-March 1948. He noted that

> we have in our possession undisputed data proving that since November 29th some prominent representatives of Aramco have been engaged in encouraging the Arabs to oppose partition and have been acting as liaison between the Arab Governments and anti-partition circles in the US Government.[22]

This ingrained perception persisted well into the 1950s. British policy was, for understandable reasons, even more often associated in Zionist thinking with dependence on oil.

The imminent termination of the Mandate and the prospect of interruption of the oil supply to Palestine thus caught the Jewish Agency 'empty handed'.[23] The Jewish leadership perceived the early signs of the impending crisis shortly before the formal adoption by the UN General Assembly of the partition scheme. Thus in mid-November 1947, a newly established Committee for Oil Affairs pointed out that

> during the last two weeks, there is a noticeable tendency to tighten [the] belts. A certain limitation of sales [by the oil companies], not

officially expressed but palpable, seems to have been adopted as sales policy. The reasons are not known, perhaps they are connected with heavy export shipment, and may be that certain 'strategic' considerations play a role.

That perception reflected a reality as the oil-distributing companies were indeed slowing down their activities as a result of sporadic clashes between the Jews and the Arabs and strikes organized by the latter. There is no doubt that the companies had started preparing for the worst commercial eventualities in view of the impending war. Intelligence reports submitted to the Jewish Agency late in December 1947 indicated that Shell was planning to close its offices in Tel Aviv and Jerusalem and to leave just the Haifa offices as a 'commercial precaution'.[24] What was perhaps not known to the Jews was that, at the same time, IPC was engaged in moving its administrative headquarters for the Middle East to Lebanon and was taking steps to reduce the quantity of moveable stores, equipment and transport.[25] The resumption of operations at the refineries after three weeks' stoppage eased the situation and transferred the problem to distribution, owing to the insecure situation and transportation difficulties. Nevertheless, in light of disquieting information and the need to make adequate preparations for the anticipated military conflict, the Yishuv leaders decided in late November to begin accumulating fuel reserves. Ben Gurion duly informed the British High Commissioner of that decision and demanded a policy of 'non interference' by His Majesty's Government. The Yishuv directed its initial efforts at the distributing companies. In preliminary consultations, the oil-distributing companies were not only evasive as to plans for the post-15 May period, but also rendered future transactions conditional upon cash payments, which the Yishuv leaders could hardly afford at that time. Still, they allocated funds and effected an increase in the number of tankers.

As time passed, and in view of the impending war and the rise in local requirements, the Jewish Agency was obliged to adjust its plans to meet the 'worst case' scenario of a total suspension of the local oil supply system. The clear upward trend was mainly due to the improved standard of living, the expansion of both road and vehicles capacity, the extension of the steam power plant of the Palestine Electric Corporation and the greater demand for manufacturing purposes. The estimated 1948 demand was therefore assessed at 157 000 tons benzine (of which 60 per cent was to be consumed by the Jewish population), 99 000 tons kerosene (50 per cent Jewish) and 346 000 tons of heavy oil (82 per cent Jewish). The anticipated war could not but inflate these figures. Further efforts by Shell to bring oil from Abadan to keep essential industrial supplies during the refinery's shutdown in January and the resumption of work late that month[26] did little to alleviate the situation. Eliezer Kaplan, the Jewish Agency's Treasurer, dispatched a frantic cable to the Zionist Executive in London early in February:

> Refineries renewed production so far half scale. Distribution companies reduced local supply petrol by 25%, kerosene [by] 33% and heavy oil only for food production and electric generation. Consequently all other local industries ceasing operations thus involving scarcity [of] essentials and large scale unemployment... Note [that] reduction [of] petrol [and] kerosene [in] view of present unreliability of [the] railway services may endanger goods distribution and foremost food supply [in] towns [and] settlements.[27]

Kaplan was overstating the gravity of the crisis as he disregarded purchases from the oil companies in Palestine and the build-up of certain reserves. Due to these measures, there was no immediate shortage of oil in mid-1948. The problem was mainly financial; the oil companies refused to accept Israeli pounds, insisted on payment in dollars, and demanded $9 million by mid-June – a sum that the Israeli Government found difficult to come up with. In addition, the 'spoken assumption' prevalent among Israeli policy-makers at that time was that the oil companies were 'unreliable'. The prospects for oil supply for the new state seemed far from promising.

The impending crisis called for unprecedented direct purchase of oil by the Jews from sources outside Palestine. Preliminary investigation into such ventures conducted in London and Paris late in February by Jewish Agency officials revealed that the problem was neither the availability of oil nor its price (admittedly high but apparently – and at least temporarily – not prohibitive) but transportation and storage. All the experts consulted advised against transportation in drums as being hazardous, difficult to obtain and costly. The only recommended means of conveyance was by tanker, whether chartered or purchased. The main disadvantage of chartering was the necessity for a swift turnaround and the owner's right to refuse any particular voyage. Purchase of a tanker, on the other hand, required the huge sum of $1 000 000. In any event, in light of the scarcity of storage installations, deliberations on transportation were only academic.

The second closure of the refinery, during the third week of April 1948, caused the Jewish Agency to redouble its efforts to purchase oil, despite the pledge it had received from the refinery's manager to keep two months' consumption stock in oil reserves. One of the potential sources was the Soviet Union. By early May 1948, negotiations were concluded with the Russians (through an Israeli intermediary, Farber, General Director of a trading company in Tel Aviv) for the purchase of 5000 tons of benzine. The Soviet perspective can easily be explained in strategic terms. The establishment and security of the Jewish state unquestionably furthered their objective of driving the British out of one of their most important footholds in the Middle East. Moscow not only rendered political and indirect military support to Israel[28] but was equally willing to help the Jewish state acquire oil when it seemed that the British were in effect imposing an economic blockade. Israel's overture to Moscow and its readiness at that time, whatever the consequences, to facilitate Soviet infiltration of the oil business in the Middle East, thereby breaking the West's monopoly remained unparalleled until 1954. These actions clearly attest to the desperation of policy-makers in Jerusalem in early 1948. However, difficulties in leasing a tanker to deliver the oil forced Israel to cancel the contract.[29]

Shortly afterwards, Farber – without the authorization of the Israeli Government – concluded yet another deal with the Russians for the purchase of an additional 10 000 tons of benzine and 3000 tons of kerosene. This deal took more than six months to materialize, due to basic impediments to the provision of Soviet oil products to Israel. As noted, non-availability of tankers was certainly one of the problems, and no less significant was shortage of oil. However, more weighty than these were the political obstacles on the Israeli side. The records reveal the manifest reluctance of Israeli politicians to cross what many of them considered a strategic Rubicon, and to establish an oil connection with Moscow. The line was crossed only when Israel became convinced that for political reasons, it could no longer disregard Farber's commercial commitments.

The Israeli authorities had encountered difficulties in their efforts to acquire oil from other sources.[30] Thus, for example, requests for aviation fuel addressed to Alliance Petroleum in New York were rejected after the company discovered that the oil was for Palestine. Likewise, efforts to acquire fuel from Mexico bore no fruit. Consequently and simultaneous with the continued attempts to acquire oil outside Palestine, the Jewish Agency embarked upon several complementary courses of action. It tried to slow down the depletion of local oil stocks by the oil companies which, as noted above, began in full swing in late April 1948. On 26 April, the manager of the refineries in Haifa was 'told by the Jews' (who had already occupied the city) that he 'must not' run down stocks of refined products below three months' consumption. The order was then rejected, but shortly afterwards heeded.[31] Furthermore, in an apparent effort to ensure the reopening of the oil pipeline, IPC's director was assured by the Jewish authorities that – their military control of Haifa notwithstanding – they had no intention of reducing the quotas of oil to Arab States.

Moreover, Israel's representatives in New York and Washington were called upon to draw the attention of the State Department and the Security Council to the fact that Britain was supplying oil from Palestine to the Arabs. And finally, a concerted diplomatic effort on the part of the Jewish Agency began to actively involve the Americans and the British in opening the Haifa refinery and enabling the flow of Iraqi oil to Haifa. The basic arguments were, first, simply that Israel could not be 'starved of oil' and second, that the refinery provided the bulk of the petrol for the European Recovery Program. These demands were accompanied by a veiled threat regarding the necessity to obtain supplies 'from other sources' if the refinery remained closed. All these actions had very little immediate effect on the dwindling oil reserves in Israel. When the British Mandate ended in mid-May 1948, these reserves amounted to no more than two months' normal consumption of fuel (mainly used for generating electricity and for industrial purposes), gas oil and kerosene, and between three and four months' regular consumption of benzine. The impending war threatened to significantly shorten these periods.

Israel's frame of mind concerning this situation explains some of the decisions taken then and during the following months. Israel's leadership unequivocally assigned most of the blame for the acute oil shortage to Britain. In concrete terms, the Israelis assumed the crisis to be a direct result of London's plans to prevent the establishment of a Jewish state. Whatever Britain's reasoning on oil supply to Israel, Israeli leaders were confident of their diagnosis. For example, ten days after the outbreak of war Moshe Sharett, Israel's Foreign Minister, cabled Nahum Goldmann, President of the World Jewish Congress, who was negotiating several issues including supply of fuel with Foreign Office officials. Labelling Arab military activities a 'British-sponsored invasion' Sharett asked Goldmann to

> face [the British authorities] with [the] incontrovertible fact [of] their responsibility for Transjordan aggression carried on in concert with invasion movements by Egyptians, Syrian, [and] Iraqian [sic] troops. We can not negotiate under [the] false assumption [of] normal relations when they are doing everything through Arab League to crush [the] Jewish State out of existence.[32]

Late in October of that year, Sharett told the Israeli Delegation to the UN that, initially, the British 'aimed at annihilating us but now that their plan has failed they are planning to make our life impossible'.[33] In Israel's view, Britain was adopting an extreme anti-Israel stand both for reasons of *realpolitik* (including the very significant oil consideration) and the traditional strong anti-Israel bias of the Foreign Office, even after Britain's *de jure* recognition of their state. An Israeli diplomat candidly expressed this view in a dispatch in early 1950 concerning oil negotiations with the British authorities. He noted that:

> some of the pro-Arabs [within the Foreign Office] suffer from a guilt complex: they feel that the Arabs have been let down, and that something must be done to help them. Secondly, there is the age-long morbid attitude of the F[Foreign] O[Office] towards the Arabs, which prevents facts and realities from penetrating, or being objectively evaluated. Thirdly, there is something which has pursued us from the earliest stages of our relationship with the British after the Balfour Declaration – distrust of the Jews. Even if they also distrust the Arabs from time to time, they distrust the Jews more, and feel that they can handle the Arabs better than they can handle us in times of emergency.[34]

In the light of these subjective assumptions and objective circumstances, it is hardly surprising that two weeks after the outbreak of war Ben Gurion accorded consideration to Sharett's proposition to bomb the Tripoli refinery from the air in order to prevent further shipment of oil by the companies out of Haifa.[35]

This chapter has discussed the initial reaction of the main actors involved in the Palestinian oil economy to the British decision to leave the country, and their attitudes toward the implications of the expected military clash between the Jews and the Arabs. During this period, the British Government began to deal with the dilemma with which the new situation confronted it. The difficult nature of the situation, in which London had to protect its economic interests in the oil domain in Palestine in the face of an unstable local and international situation, prevented formulation of a clear policy at this point. On the other hand, the oil companies behaved as one would expect economic organizations to behave – they froze their activities pending clarification of the situation. The Arab stance, as expressed in Iraq's declarations about the closing of the oil pipeline to Haifa, began to emerge more clearly during this period. The result from the Jews' perspective was severe plight and the creation of an existential threat with respect to energy supply; at first this impelled them to try to solve their problems independently. The war, as we shall see in the next chapter, forced everyone to seek a new *modus vivendi*, involved additional actors in the situation and, as the last part of the chapter shows, turned the oil crisis in Palestine, by August 1948, into a focus of multilateral international diplomacy.

3 The 1948 War

The fact that the suggestion to bomb Tripoli from the air came from Sharett, whose moderation was widely recognized, attested to the desperation of Israeli policy-makers during one of the most critical periods of the war. The idea was apparently rejected and in fact became superfluous soon after, when the British Government finally formulated its oil policy for Palestine, which included a provision for discontinuing exports of fuel from Haifa. The urgent need for such a policy arose as a result of a heretofore barely researched development concerning the Kirkuk–Haifa pipeline. While the dispatch of refined products from Haifa had been terminated on 3 May 1948 at the request of the Jews,[1] not inconsiderable quantities of crude oil were still being pumped down the pipeline from Iraq and shipped from Haifa by tanker to Tripoli. According to Israeli intelligence, about 160 000 tons of crude oil were thus transferred to Lebanon between 15 May and 16 June. No detailed information has been traced which could cast light on IPC's apparent decision to continue that pumping, nor is it clear whether it was made with the full knowledge and formal approval of the Iraqi Government. However, evidence seems to suggest that the Iraqis did not consider the closing of the Kirkuk–Haifa pipeline to be irrevocable. The Chief Engineer of the refinery informed the American Consul in Haifa that during the first week of June, Iraq had approached British 'oil interest[s]' and asked how the flow of Iraqi oil could be resumed since Iraq was already feeling the economic 'pinch' due to the cessation of oil deliveries.[2] Shortly later, the Iraqi Defence Minister conveyed a similar message to the British Ambassador in Baghdad. However, IPC's decision was challenged by Anglo-Iranian which during the last days of May urged suspension of the oil flow, for two reasons. First, they feared that the Jews might suspect that refined products were being shipped in addition to crude and would take 'drastic action' to stop all shipments. The second (and probably more weighty) reason was that the Jews might decide to refine that crude oil for their own needs and thus precipitate reprisal actions by the Arabs, such as the bombing of the refinery. It is interesting to note that the other companies concerned were apparently willing to continue these shipments notwithstanding the dangers. The Foreign Office opted to leave the decision to the oil companies. They, in turn, chose to continue pumping Iraqi crude oil to Haifa and shipping it to refineries outside the Middle East. The operation thus continued until 28 June – two days before the final British military evacuation of Palestine – when the

French tanker *Roxane* left Haifa for Tripoli with 11 000 tons of crude oil. The decision to stop the operation thereafter was taken by the IPC's local manager, following the departure that day of the last British supervisors.

That act did not obviate the need for a strategic decision by the British Government, and, in fact, seemed to render it more urgent, at least where the oil companies were concerned. It is clear that they – and in particular Anglo-Iranian – found it harder to accept the status quo than did the Foreign Office, especially in view of the cease-fire negotiations which started early in June. The companies made it clear to London that in the event that a cease-fire agreement was not reached, they would order the withdrawal of all their experts and ask Britain's Consul-General to move into the refinery compound and take charge on behalf of the companies and the British Government. If the agreement did in fact materialize (as it eventually did on 11 June), they would want to start up the refinery, using crude piped either from Iraq or possibly (and more significantly) 'from elsewhere'. The Foreign Office vehemently opposed that proposition, which they perceived as involving two interrelated issues. The first one was the question of supplies to Palestine and the Arab countries. It was clear that the loss of oil from Haifa would not seriously inconvenience Iraq or Egypt. Transjordan would soon be receiving low octane fuel from Kirkuk, and was, apart from that, already being supplied via Beirut. Syria and Lebanon received imports from British and American companies through the Tripoli refining plant. On the other hand, 'Palestine' (as British officials still termed Israel at that time) was almost completely dependent on the Haifa refinery. The Foreign Office debated two possible solutions to that problem. The first was to wait until the end of the cease-fire since, according to their sources, 'the Jewish part' of Palestine was still being supplied from Haifa refinery stocks which could last until July. The second solution (which was not accepted) was to refer the matter to the UN mediator, who was then negotiating a cease-fire agreement,

> pointing out that we are very anxious to do what we can to meet the normal civil requirements of Palestine and the Arab countries but that, as refined products are of such importance for the waging of war, we must submit to him the question of what these requirements should be.[3]

As regards the concrete suggestion made by the companies, the Foreign Office and the Ministry of Fuel and Power were of the opinion that to start up the refinery 'just at the moment when we are withdrawing the last of our troops would mean that we were preparing it for the benefit of the Jewish area'. It was decided to adopt 'delaying tactics' until the prospects of a settlement clarified, justifying the prolonged period of closure by pointing to the difficulty of collecting trained labour and putting the machinery into order after a long period of disuse. Such a course of action would be problematic, since, as a Foreign Office official put it, 'it may be easier to take this decision than to explain the reasons for it to the Jews'.[4]

The general lines of British policy as evolved in early June were thus – on the strategic level – the acceptance of the closure of the Haifa refinery until a general settlement was achieved, and – on the tactical level – total disregard for Israel's oil needs. The reasons underlying that policy remained unchanged for many months and were obviously political rather than economic. Iraq's reluctance to send oil through the pipeline to Palestine, the fact that it was easier for the Arab States than for Israel to supply their oil needs, and the serious technical and financial impact of a long closure of the Haifa refinery were unmistakably perceived as secondary considerations. The British Foreign Office clearly regarded the securing of Arab support and cooperation as the prime objective in any policy concerning oil for or through Palestine.

By that time, the shortage of oil had dictated an unprecedented diplomatic and political move by Israel. On 16 June the Israeli Government made known its decision to protest to the United Nations against Britain's actions in diverting oil from the Haifa refineries to the Arab States, while at the same time preventing the Jews from obtaining supplies. In addition, Israel published a very detailed account of Britain's actions on this matter from mid-April to mid-June. The press release underlined Israel's belief that London was not only interested in the downfall of the young Jewish state, but was taking economic steps to translate its aim into action. The publication of this document was decided upon by Sharett several weeks prior to its release and it was drafted by Israel's military intelligence, which had tapped the oil companies' communications. There is no doubt that the known blatantly anti-Semitic and anti-Israeli views of the first British representative to the Jewish state, Cyril Marriott, the consul of Haifa, strengthened that diagnosis.[5] The press release concluded with a barely veiled threat that 'Israel's patience will break and counter-measures will be taken' in view of the 'unchallenged flow of the Kirkuk benzine to the armoured cars of the Arab Legion and the fuel of Tripoli to the tanks of the Syrians, while we remain at the same time at the mercy of meagre quotas of the reduced stores in Haifa, which can any moment be removed elsewhere'.[6] A week later, in an apparent attempt to add a constructive element to Israel's blunt denunciations Sharett offered the British Government an agreement whereby Israel would purchase oil stocks in Haifa to be paid for by her frozen sterling balances in London, and would guarantee not to disrupt the pre-1948 distribution patterns of refined products.

One official at the Foreign Office shrugged off Israel's accusations as 'complete nonsense', opining that

> many of the dispositions of oil supplies which the Jews refer to in this memorandum were no doubt undertaken on commercial grounds and without any political significance, since these companies are not in business for their health but are merely anxious to sell their supplies in the most convenient market.[7]

But Bevin seemed to have taken the implied threat more seriously. In view of the concern that the Jews might take control of the refinery, and the urgent need to complete the British military withdrawal from Palestine by 30 June and to arrive at a lasting political settlement, the British 'delaying tactics' appeared counterproductive. What was now required was a positive policy, and this was decided upon in the third week of June. The main aim of that policy was to achieve an agreement – with the cooperation of the Americans and the UN mediator, Count Bernadotte – which would guarantee the oil flow from Iraq to Haifa. The crux of the problem was the position of the Iraqi Government, which announced its wish that the Haifa refinery be reopened but made it clear that, if it became part of the Jewish state, Iraq would insist upon the rerouting of the pipeline, thereby putting Haifa permanently out of action. Commenting on his meeting with the Iraqi Defence Minister on 14 June, the British Ambassador in Baghdad advised the Foreign Office that 'it becomes more than ever clear that Haifa is [the] sorest of all Arab points and the evacuation [of] Haifa during cease-fire will be [a] severe shock to [the] Arabs and [be] considered as disturbing in favour Jews present balance'.[8] The initial step in the British plan to preclude such a possibility was to convince the mediator to take the refinery and oil terminals under his protection on the departure of the British staff. He would thus be able to ensure that no use contrary to the cease-fire could be made of the refinery, and that if any scheme for its future operation was worked out under his auspices, the installation would not be tampered with. At a later stage, the British envisaged the establishment of an international administration (excluding the USSR) over the port area including the oil docks and refinery, or the institution of an international regime over the entire city, including the port and refinery. These arrangements would provide the Arabs with a free port under international control, thereby guaranteeing freedom of transit to Arab parts of Palestine and to Transjordan, for which Haifa was a natural port of entry. The Foreign Office favoured the idea of a free port in Haifa under international administration, or even under the suzerainty of a Jewish state, and this for other and broader reasons. First, it would ideally parallel their plan for a

Jerusalem municipality under international control but possibly under the suzerainty of an Arab state. Such a development, it was felt, 'might go far to stimulate confidence among [the] Arabs'. Second, it would provide both Jews and Arabs with an interest in maintaining economic cooperation: 'if the free port was infringed by the Jews, the Arabs could stop the flow of oil. If the Arabs stopped the flow of oil, the Jews could interfere with the passage of goods from Haifa'. An additional benefit for the Jews was assumed to be renewal of oil supply and the granting of international status to Lydda airport, which was at that time under the Legion's control. As for oil supply to the Arab and Jewish parts of Palestine until the 'grand plan' was implemented, the Foreign Office recommended an oil sales quota policy (which would restrict quantities to approximately one month's stock in each country) so that each would suffer 'a proportionate cut'. 'If the result is that everybody is rather short of oil from our point of view', wrote a Foreign Office official, 'so much the better' since 'the only hope of persuading both sides to agree to some working arrangement for the supply of oil to Haifa and the operation of the ... refinery is for them to suffer from the closing of that refinery'.[9] The assumption underlying British strategic thinking on these subjects was apparently the growing realization that in view of Israel's military successes the early establishment of a 'compact and homogeneous sovereign Jewish State within sensible borders' which 'might differ considerably' from boundaries envisaged in the General Assembly Resolution of November 1947 would be in the interest of the Arabs.

In order to translate words into action the British naturally required the consent of the Arabs, the Israelis, the Americans and Bernadotte, the mediator. The Americans readily accepted the basic logic of the British line, but it was soon apparent that they did not agree as to its implementation. They agreed in principle that the mediator should assist 'both Jews and Arabs to maintain their normal civil economy by lending his good offices to the reopening of Haifa refinery and to ensuring that use of refinery would not increase the military potential of either side'.[10] On the other hand, however, having recognized the city of Haifa as an integral part of the State of Israel they could not support any scheme for its internationalization unless Israel gave her free consent, which they regarded as unlikely. The upshot was their concurrence in a plan to establish a provisional international regime for the petroleum facilities and the oil port under Bernadotte's auspices. There was thus a considerable discrepancy between their stand and Bevin's position. On the positive side, according to some State Department Officials, Haifa provided a 'unique opportunity for practical cooperation between the Arabs and the Jews' and if it was realized, 'the habit might spread to other areas'.[11] Bevin's plan proved likewise unacceptable to Bernadotte. Being apparently more perceptive than the British Foreign Minister, he doubted that Israel would agree to waive sovereignty over Haifa, and consequently recommended – in his plan of 27 June – the establishment of a 'free port'. His reluctance to accept Bevin's ambitious plan also stemmed from concern that it could transform Haifa into 'a second Trieste' and entangle the UN in insoluble problems. He confided to Sharett that the British proposal to take over the refineries 'astounded' him, and as he was 'utterly unequipped' for it and 'lacked any competence', his reply was negative.[12] A much more central part of Bernadotte's plan, however, was more in tune with the British scheme, which called for the detachment of the Negev from Jewish Palestine in exchange for parts of Galilee in the north. It was widely believed in Jerusalem that the British 'Grand Plan' was based, among other things, on awareness of the existence of valuable oil resources in the Negev.

Whatever the differences of attitudes between Britain on the one hand and the Americans and Bernadotte on the other, it seemed to be the Israeli stand which constituted the major obstacle to the implementation of the British plan for Haifa. On 30 June 1948 the Israeli Cabinet debated Bernadotte's general plan for the first time, and was informed that British companies would not approve oil shipment without the prior approval of the Mediator. Basic Israeli attitudes toward Bernadotte's plans were clarified during that meeting; while Sharett agreed to discuss his territorial suggestions, Ben Gurion vehemently opposed any infringements of Israel's 'total sovereignty'. Early victories on the battlefield must have added to his unwillingness to concede in the diplomatic arena. However, while most Cabinet ministers supported Ben Gurion's principal objections several favoured declaring Haifa a 'free port' for Transjordan as a significant concession promoting peace between the two states. On 7 July Israeli representatives in the United States were accordingly informed that the Government had rejected the plan for a free port of Haifa because it infringed upon Israel's sovereignty, but was willing to allocate a 'free zone' for Transjordan within the port.[13]

The fate of Haifa was naturally of interest to other elements as well – including IPC. Its directorate held an urgent meeting in London on 3 July after the completion of the British withdrawal from Haifa. It was decided to agree to the resumption of the supply of crude oil through Haifa to Europe. According to the plan the Jews would be given an undertaking that none of the oil so exported would subsequently be sold to any Arab country. In return Israel would be required to undertake upon themselves not to retain in Haifa any of the oil sent there for shipment under the proposed arrangements.

The last condition was a prerequisite for Iraq's consent to the reopening of the Haifa outlet. A week later the British Ambassador to Iraq reported that he did not object to the procedure suggested. He opined, however, that it could be taken as certain that the Iraqis would not agree to any arrangement which depended solely on a Jewish guarantee. They might insist on the presence of an Arab observer in Haifa and 'it seems doubtful whether the Jews would agree to this'. It became evident before long, however, that the concern was groundless when the IPC representatives in Baghdad informed the Director General of the Iraqi Ministry of Economics that the company could ensure that not more than 10 000 tons of crude oil would be in Haifa at any one time, an amount insufficient to restart the refinery. If the Jews interfered with this stock, supply through the pipeline could immediately be cut off. The Iraqis then withdrew their objections. The ball was now in the Israeli court and events soon proved how difficult it was to satisfy all demands.

On 6 July Bernadotte met Sharett and divulged his plans – which were rather similar to IPC's – for the temporary demilitarization of the Haifa port area and the refineries for the duration of the fighting. His scheme called for the presence of UN police in the harbour area while the administrative control of the port would remain in the hands of the Israeli Government. Bernadotte took pains to emphasize to Sharett that this plan entailed not internationalization but demilitarization and that Israel's consent could tip the balance and persuade the Iraqis to agree to the resumption of the oil flow to Haifa. The following day the Israeli Cabinet debated the proposal and Sharett emphatically opposed the idea of demilitarizing the port or the refineries, claiming that Israel was in a dominant position in its control of the town: 'If they have in mind other arrangements, let them come and take [the port and refinery] from us!' The Cabinet was infuriated by the fact that nothing in Bernadotte's plan referred specifically to a means of solving the country's acute shortage of oil. Furthermore, they declined to accept as axiomatic the need for Iraqi cooperation to restart the refineries, especially since before early 1948 the plant had received half of its crude oil requirements by tankers. Sharett adopted a truculent tone in explaining the Cabinet's decision:

> We [are] determined [to] utilize [our] bargaining power resulting from: 1. [Our] physical control of [the] area, 2. British anxiety [to] safeguard and reopen [the refineries], 3. Our ability [to] bomb Tripoli and Kirkuk [sic!] 4. The need [of] Iraq for royalties ... We hope by holding out [to] elicit [a] more favorable offer.

Israel was thus clearly reluctant to permit the undermining of its sovereignty over its main port, but was willing to negotiate 'contractual relations' for the maintenance of oil supplies with all concerned.[14]

While casting an actual veto on Bernadotte's plan, Jerusalem took several steps designed to alleviate its oil shortage. These proved ineffectual but made it even more difficult for the British to translate Bevin's ideas into reality. First, it expedited the frantic efforts to purchase oil wherever possible. On 16 June Sharett cabled Epstein that '[in] view of [the] critical situation [of] fuel [we] are sending special emissary to Rumania [to] negotiate purchase [of] benzine'.[15] Israel's envoy in Washington was instructed to enlist Soviet support to this end. Three weeks later that emissary, Mordechai Namir, signed a contract with the Rumanian Government for the purchase of 20 000 tons of fuel oil and 3000 tons of kerosene. Other types of oil were also offered. Ben Gurion noted in his diary on 24 June the most urgent need for aviation fuel and the attempt to secure 'the only available' offer in France. By 21 July Israel was being offered 5000 tons of such oil and a large number of badly needed drums by an Italian company. At the same time, it managed to obtain 10 000 tons of fuel oil for the Palestine Electric Corporation from Albatross, a Jewish firm based in Tangier. During the second week of July a special emissary was sent to Mexico to negotiate the purchase of oil and managed to acquire the crucially important amount of 3500 barrels of aviation fuel, later used in the battle for the Negev. These acquisitions, however, could not suffice to cover even immediate requirements in the absence of regular supplies from British oil companies, which had been halted in May.[16] It should be recalled that in June the Foreign Office authorized the oil companies to provide Israel with oil on a monthly basis, provided the rate of supply did not exceed normal peacetime civilian consumption. However, the companies were also instructed to include Israel's independent oil purchases from outside the Middle East in their calculations of quotas so as to avoid 'duplication' in favour of the Jews. Under these rather desperate circumstances, Israel chose to take action which changed utterly the position of the Haifa refinery.

Israel took over physical control of the refinery upon the departure of the British officials. A stock of 40 000 tons of crude oil was discovered in the IPC tanks at Haifa which – if refined – could provide at least one month's consumption.[17] Most of that oil had been left in the tanks in accordance with the IPC's safety regulations, which required a minimum of 6 feet of oil to remain in the tanks at all times, both to minimize the danger of fire in completely empty tanks and to keep the roofs afloat and prevent them from settling on the bottom and suffering damage. Only 20 000 tons of that stock was found suitable for refining, while the remainder was defined as 'sludge'. The question of whether to start up the refinery using that stock was accordingly first discussed at a

Cabinet meeting on 9 July. All Ministers concurred with Sharett's view that such an act could only serve to stimulate international efforts to reopen the refinery by putting the onus for its continued closure on the Iraqis. The 'green light' for a resumption of operations was given unhesitatingly and a week later Ben Gurion was informed that the refinery could be reopened in ten days' time. The managements of the refinery and IPC were accordingly ordered on 14 July to resume operations using their available stocks of crude oil. As expected the British Consul in Haifa lodged a formal complaint, which remained unanswered since it was addressed to the 'Jewish Authorities' – a body of which the Israeli authorities disclaimed knowledge. Aside from that, no real resistance was encountered. The Chairman of the refinery's Workers Committee, an Israeli citizen, informed the British Consul in Haifa that he had protested but had been told that 'he was a soldier and must obey orders'.[18] Moreover, several members of the British management of the refinery who had arrived from Cyprus 'seemed very satisfied about the whole thing and showed understanding for our way of dealing'. Sharett was even given to understand that they had been 'pleased at the reopening and happy to have been forced into [a] course of action which they were anxious to follow', and his impression was that 'they do not mind [a] real row with the Foreign Office'.[19] The CRL management was however concerned that the extensive publicity given by Israel to the reoperation of the refinery 'would make it more difficult to settle with Iraq... It would be best for all if the refinery could sink back into anonymity'.[20]

Such a low-key attitude could not have suited the Israeli authorities, who had taken their decision for two reasons. The first was political – to demonstrate that the refinery could be run smoothly without either the British technical staff or Arab labour,[21] and that all that was lacking to enable it to play a major role in the supply of fuel to Europe under the Marshall Plan was a supply of crude oil. The second reason was economic – to increase the independent fuel stocks, particularly of fuel oil. It should be noted that Palestine's fuel oil reserves for the Palestine Electric Company and for industry were sufficient for only about two months. The stocks of other fuels, although larger, were 'not sufficient to justify complacency'. While it was evident that there was no possibility of refining the entire quantity of 40000 tons of crude oil, it was possible to obtain sufficient fuel oil, motor petrol and kerosene to supply Israel's needs for about one month through eight days' operation of one unit of the refinery. The urgency of the situation was manifested in various additional Israeli moves following the takeover of the oil tanks and the refinery. Thus, on 27 July it was agreed that a vent should be made in the pipeline as near as possible to the Jordan and an attempt be made to extract oil. It was also decided that an attempt be made to obtain more crude by washing crude through the sludge – 'this method might lose us 500 tons of crude but it might gain us 1000 tons or more'.

The Israeli authorities seemed fully aware that they risked creating the impression overseas that the young state was breaking international law and taking possession of foreign property. This was in fact the view of certain oil circles. Hence while admitting that the Government was considering the import of crude oil for refining at Haifa Israel took pains to emphasize that the refinery had in no sense been requisitioned and that its management had merely been instructed to carry on their operations. Nor, as the formal Government statement indicated, had the crude oil been expropriated. After refining by CRL it would – according to established practice – pass into the hands of the Shell and Socony Vacuum companies, from which it would be purchased by the consumers. Israel's emissaries in Washington were asked to emphasize 'the provisional character [of] our present limited program'. Jerusalem was well aware of the immense operational problems entailed in replacing that 'limited' programme with the routine one. One 10 000-ton tanker a day was required to keep the refinery working to capacity without the pipeline, and ten such tankers a month were required to keep a single unit operating. The positive assumption underlying Israel's action was therefore that once the Iraqis saw Haifa operating without oil from Kirkuk, they would reconsider their decision to cut off the pipeline flow. According to Israeli estimates, unless reversed that decision was going to cost Iraq's treasury about $12 000 000 a year, which was more than one quarter of the country's entire national revenue. Even if this estimate was greatly inflated the loss would undoubtedly have been considerable. British Foreign Office officials predicted that Israel would fail to achieve this aim and labelled it 'short sighted'. They firmly believed that the most serious implication of Israel's action would demonstrate to the Iraqis that no effective guarantee could be given against the diversion of crude oil from the terminal to the refinery.[22] Six days later, the British view was proved correct when Dr Nadim al-Pachachi, the Iraqi Director General of Economics, declared that Iraq would not resume pumping oil to Haifa as long as Israel retained control of the refineries. They would reconsider only if Haifa refineries had been under international control. The prospect of the Jews agreeing to the resumption of oil supplies from Haifa without the reopening of the Haifa refinery now seemed slim. The decision taken by the Israeli Government solidified therefore the need for a comprehensive solution involving both the Kirkuk–Haifa pipeline and the refinery issues. Such a solution would naturally be more complicated than the solution envisaged by IPC early in July.

It would also be problematic for another reason. It soon became apparent that in the search for crude oil Israel had been attempting to cast its net wider than the Haifa reserves, which, together with some imported cargoes, guaranteed most of Israel's needs until October. The aim of the search was political no less than economic – to ensure continued production of the refinery and the resumption of export of refined products to Europe. Jerusalem was trying to take advantage of the apparent disagreements between British and American oil companies concerning crude supplies. On 23 July the State's economic emissaries in the USA were instructed to attempt 'as a matter of prime urgency' to purchase Persian Gulf crude oil, mainly from Socony Vacuum and Standard Oil Company; if these sources could not provide fuel Israel would approach 'other sources'. To facilitate this manoeuvre Israel decided not to implement the agreement with Rumania until the prospect of cooperation with American oil companies was clarified. This was not an easy decision since Namir was then in Bucharest, finalizing the agreement for the purchase of refined oil products. It soon became evident that there could be no Israeli withdrawal from the agreement. Once Namir completed negotiations in late July, to revoke the agreement would have been a diplomatic *faux pas* in view of Israel's interest in maintaining Eastern Bloc support. Jerusalem was thus obliged reluctantly early in August to authorize the purchase of the 20000 tons of fuel oil from Rumania instead of the much more urgently needed crude oil. The reactions of the American oil companies (who were unaware of this development) to Israel's initiative was positive in principle. What greatly disturbed the oil-distributing companies in Israel was the Israeli threat that, if left without any alternative 'but to import crude [oil], they will find it difficult to hand over refined products to us to distribute locally'.[23] In practice they therefore tended to agree to operate the refineries with crude oil to be provided by tankers, but stipulated that their consent was dependent on the approval of the British oil companies.[24] Above all they insisted that the initiative should have the backing of the Foreign Office and the State Department, which was certainly not forthcoming. On 28 July the negative attitude of the Americans was reported indirectly to Jerusalem and London. The State Department clearly did not share the Israeli view that 'the sight of a few tankers discharging at Haifa would go a long way to insuring Iraqi acquiescence to the flow of crude from Kirkuk to Haifa'. Furthermore, Washington still envisaged the operation of the refinery under the Mediator's supervision and control, and the distribution of the output according to the 'normal' historical pattern.

It hoped that the refinery could be opened independently of the final settlement of the Palestine problem. The State Department favoured an initiative by the Mediator for the reopening of the refinery, which might 'temporarily be handled in the category of common services, such as water for Jerusalem and electric power, necessary to the safety and well being of the population of Palestine'.[25] No specific reference was made in that connection as to how the cooperation of the Iraqis could be gained. Until this happened and apparently in light of Israel's move, the State Department saw no objection to authorizing limited sales of fuel oil by American oil companies to Israel with the approval of the Mediator. At the same time it was reluctant to give a 'firm promise' to ensure supply of these minimum essential requirements and emphasized the necessity to obtain the concurrence of the oil companies.

The Americans were not alone in offering solutions. In London, the British oil companies, headed by IPC, proposed to the Foreign Office that they should 'make a virtue of necessity' and attempt to negotiate both a resumption of the flow of oil through the pipeline and the reopening of the refinery (which for lack of crude oil was at that time again at a standstill) under their own control. They suggested that this plan should be carved out under several conditions: first, the Arab Governments should be given assurances that refined petroleum products from Haifa, adequate for their normal requirements, would be conveyed by tanker to Beirut and placed at their disposal. Second, the 'Jewish authorities' should be required to vouch for the safety of European personnel in the refinery and the terminal and to respect the free export clauses in the existing agreements concluded with the Mandatory authorities. Third, the oil companies would give an undertaking, backed by the guarantee and supervision of the Mediator, not to maintain reserves above an agreed maximum amount as an additional safeguard for the Arabs in the event of a renewal of hostilities in Palestine. Finally, all these conditions were to be coordinated with the Iraqis, the Israelis and the Mediator.

No mention was made of Israel's urgent oil requirement, but it was decided to inform the Iraqis in vague terms that, following the reopening of the refinery, its products would be made available 'impartially' to Jews and Arabs alike. The Foreign Office accepted the plan 'not out of any desire to help the Jews' but because they were seriously concerned as to the potential effect on the European Recovery Programme of the interruption of supplies from Haifa. Although they were not 'very hopeful' of Iraqi acceptance of the above plan they certainly weighed arguments in reserve which could be used to soften Baghdad's anticipated objections. The Iraqis could, if necessary, be advised that 'the Jews' could not be prevented from obtaining all their oil requirements from other sources. The same was true of the Arab countries. And, finally, if it agreed, the Iraqi Government would begin receiving royalties again. It should be pointed out that the Foreign Office considered the above proposals to be inconsistent with the Mediator's suggestions for a free port in Haifa (which Britain still supported at that time). At the same time it acknowledged that the supervision of these arrangements by the Mediator might eventually promote the establishment of United Nations authority at Haifa and further somehow the plan for internationalizing Haifa. The absence of any viable alternative and the conviction that the United States would adhere to it[26] apparently convinced the Foreign Office to support the IPC's plan. The British Chargé d'Affaires in Baghdad was accordingly instructed, at his discretion, to put the companies' proposals to the Iraqi Government. The Mediator, for his part, was expected to find a way of bringing the Israelis to the bargaining table.

On 5 August the Mediator raised the issue again at a meeting with Sharett who – being well aware of the considerable achievements of the Jewish army at that time – was far from accommodating. When asked for Israel's response to the Iraqi Director General of Economics' declaration on 27 July he informed Bernadotte that Israel's negative reaction, which had already been made public through Jerusalem's Arabic-language broadcast, conveyed a definite message:

> The gentleman expressly stated that they would agree for the oil to be resumed on condition that the whole quantity was exported and none is used in the country... The gentlemen in Iraq are slumbering... there is a State of Israel, and we shall have something to say as to what is to happen to that oil. Our condition is that we shall also benefit from it.[27]

Unless such consent was expressed by Iraqi authorities Sharett declined to discuss the issue of international control, which, as he saw it, was altogether unnecessary – 'Actually, the proof of the pudding is in the eating. If we do not properly distribute the first installment, you can always turn off the tap.' Sharett placed the onus on the Iraqis who, as he put it, had been 'cutting off their noses to spite their faces and losing dollars of which they are badly in need'. Furthermore, having been told by Bernadotte that the USA 'wants an answer', the Israeli Minister advised the American Government 'who is ably represented in Iraq by its Minister' to 'find out [there] all it wants to know'. The Mediator thus concluded that 'the Jews might accept (possibly for the benefit of Abdullah) some kind of free port at Haifa, but would never accept supervision even by him of exports through the pipeline or of distribution of [the] refinery's products'.[28] His representatives opined that nothing could be accomplished unless the US exerted strong diplomatic pressure on Israel to agree to some form of international or UN supervision of the refineries as a guarantee to Iraq that the products would be distributed according to the historical pattern. The appeal for a diplomatic effort by the United States apparently won certain sympathetic consideration in Washington. Two days later, Israel's diplomatic representatives in the Capitol were summoned to the State Department to clarify Jerusalem's position. That clarification was badly needed since it seemed that Sharett's unequivocal position, as conveyed to the Mediator from early July, was apparently poorly communicated to Israeli emissaries in Washington. For several weeks in their diplomatic contacts with the State Department, they gave the erroneous impression that Israel would indeed be willing to accept the declaration of the refinery as a free zone, exempt from custom duties and other taxes, and also that it approved of the establishment of a UN control point at the refinery.

Undeterred by Bernadotte's setback in Israel, the British, on their part, prior to Jerusalem's response to the American queries, made formal inquiries concerning 'the Iraqi option'. On 9 August, Geoffrey Herridge, General Manager of IPC's operations in the Middle East, put the company's proposition to the Iraqi Director General of Economics, who passed on a written summary to the Prime Minister. The latter replied that the Iraqi Government could not accept the conditions proposed by the company. A day later, the British Ambassador met the Iraqi Prime Minister and again raised the issue. The Premier reiterated his negative reply, explaining that 'Haifa was enemy territory' and that the Iraqi government could not therefore be expected to allow Iraqi oil to go there. At the same time, he added that his government might reconsider their attitude if and when an effective international regime was established in Haifa. This stand hardly surprised the British diplomat. Convinced that there was little prospect of obtaining 'Jewish agreement to [these] proposals in their present form' and thinking it unwise to press the Iraqi Government to the point of resignation, the Ambassador reported that he would make no further representation 'unless instructed to do so'.[29] Herridge, for his part, following a disappointing meeting with the Iraqi Prime Minister on 14 August in which he 'was treated to political discourse' cabled the IPC Head Office in London that 'there seems for the present no possibility that any further action on our part in Baghdad can serve any useful purpose but rather the reverse'. This prognosis was soon fully accepted in London.

There were only two dissenting voices within the British policy-making apparatus at that time. The first was that of Bridgeman, AIOC's Director of Relations with Governments, who urged the Foreign Office to exert pressure on the Iraqis by hinting to them that the refinery might be started up with crude oil imported from elsewhere. One of the main reasons for adopting this approach was that Shell was pressing to send supplies of refined products to Israel on the grounds that if they did not do so they would lose their distributing status in the country altogether. Furthermore, Bridgeman could hardly be expected to agree willingly to a 'wait and see' strategy while the refinery remained idle. It is clear that Anglo-Iranian and Shell were ready to comply with the Israeli plan to try and start up the refinery on crude oil imported by tankers, but were opposed by IPC. The latter feared that not only would such a step induce the Iraqi Government to shut off the Kirkuk–Tripoli pipeline, but there was the additional risk of the loss of their concessions. Prevalent opinion in London definitely supported IPC on that subject. The second dissenting voice was that of the British Consul in Haifa, who recommended consideration of another proposition – that Britain should offer Israel 'confidential' recognition that it 'had come to stay'. Such an unprecedented move, although short of even *de facto* recognition, could perhaps persuade the Israelis to 'play' – namely, to agree to the British terms for the disposition of the refinery and resumption of export of oil through Haifa.

These two alternatives were rejected. Most British officials were apparently still convinced at that juncture that time was on their side. Having ruled out, for political reasons, the option of exerting real pressure on the Iraqis, they expected Jerusalem eventually to make a move, since for several reasons they considered themselves to be in a stronger position than Israel.[30] First, the refinery belonged to CRL and, whatever the Israelis sought to do with it, they could 'not get away from that'. Second, various powers working in conjunction with the Arabs controlled the sole source of oil which could make the refinery a paying proposition. Third, although it would be a long and expensive process, the companies – if the worst came to the worst – could always build a new refinery at Tripoli and count upon full Arab support. Such a concern, using Arab oil, would render the Haifa refinery, 'trying to run on Russian-controlled oil a poor economic proposition'. British experts clearly discounted the latter possibility. They doubted the availability of Russian crude oil or of the tankers required to keep the Haifa refinery in operation. To operate the plant at full capacity required a quantity equal to the total oil production of Rumania, while the sum total of Russian production was believed to equal little more than the throughput of Abadan alone. The conclusion was that

> a boycott of Haifa, though unfortunately costly to the companies would be obviously much more costly to the Jews, and there seems very little likelihood of them allowing it to happen – particularly because they will realize that alternative arrangements outlined by the companies would work, whereas their own arrangements might not.

This rather optimistic assessment notwithstanding, British policy-makers could not rule out completely the prospects of what would be – to their way of thinking – a real fiasco. They naturally perceived the reopening of the refinery and the pipeline – with the consent of the British companies, the Jews and the Iraqis – as the ideal option. However, they could not completely dismiss the prospect of a perpetuation of the status quo of late July 1948. Such a development could provoke the Iraqis into cutting off the supply of oil through the pipeline to Tripoli and would create ill will against the British throughout the Arab world. The Egyptians too were expected to 'do their best' to hamper the operation of the refinery by obstructing the passage through the Suez Canal of tankers bound for Haifa. Finally, there was a distinct possibility that the Jews might operate the refinery without anybody's consent, on whatever oil they could import by tankers from non-British sources. This was considered the worst scenario of all. The possibility that the Jews might be driven to take desperate action, such as the nationalization of the refinery, did not seem totally unfeasible in view of their dwindling oil stocks, and the *de facto* fuel blockade imposed on them. Early in July Shell had laid down 10000 tons of fuel oil for the Israeli Government, but this allocation was cancelled following the Israeli takeover of the refinery, and no other shipment had been made since then by the oil companies. Moreover, Israel's independent acquisitions of oil were negligible.

Whereas the British diagnosis was multifaceted, the prognosis seemed clear-cut. On 17 August, the Foreign Office recommended, as the most promising way of ensuring the reopening of the refinery and the pumping of oil through the pipeline from Kirkuk to Haifa, that the US Government, the Mediator and possibly the French Government be asked to bring pressure to bear on 'the Jewish Authorities' to agree to 'some form of international control over the operation of the refinery'. As the Iraqis were demanding the 'internationalization' of Haifa, it was assumed that they would not be prepared to resume the flow of oil to the refinery on the basis of UN observation of fair distribution. It was therefore incumbent on Israel to offer more than that.[31] At the same time – in order to avoid the 'worst case' scenario – it was also decided to advise the oil companies to sell the

Jews small quantities of refined products until the refinery could be reopened. In London's view, the proposed arrangement was only intended to cover the transitional period, until a Palestine settlement was achieved, which would provide, among other things, 'a system of permanent safeguard' for the refinery, the pipeline and the port. At that time, the Foreign Office was still contemplating the idea of a free zone at Haifa, to include the oil area. The zone would be under Israeli sovereignty, but 'in the initial stages at least' the Mediator would be charged with making it operational on the basis of free use by the Arabs. The latter would be called upon to avoid placing obstacles in the path of oil deliveries. According to the scheme, the free zone would be governed by a UN port commissioner backed by an international policing force. While accepting the general lines of the plan, Bevin was reluctant to take any initiative which 'would not be well received' by the Arabs, especially 'when [the Jews] were showing the greatest animosity to us over the whole front'. He opted to wait until approached by the US and French Governments, as well as various European countries 'who stand to lose by the cessation of oil supplies from Haifa'.[32] A week later, Bevin fully explained his view in a Cabinet Paper which the Government approved. This reluctance to take the lead stemmed from a belief that, at some stage, Britain would be asked to exert very severe pressure on Iraq to agree to 'arrangements in which they did not have confidence and which we could not honestly recommend as meeting the dangers which they have in mind'. Thus if pressed by Washington and Paris to take any action, London should be able to insist that the Americans secure Jewish acceptance of 'really satisfactory conditions' before Britain approached the Iraqi Government. 'We should not ourselves be in a position of asking favours of the Jews.' Bevin also declined initially to approve Shell's request to be allowed to supply oil products to Israel by way of imports. The British oil company demanded a rapid decision, since the Israeli stocks were expected to run out towards the beginning of October and it would have taken about six weeks to deliver the requested amount of one month's civilian consumption from the Netherlands West Indies. Shell were themselves anxious to accede to the Israeli request both for fear of losing a valuable market to American oil companies and also to avoid jeopardizing any forthcoming negotiations on the future of Haifa refinery (of which they had been joint owners with the Anglo-Iranian Oil Company). These arguments eventually convinced Bevin to change his mind and the Cabinet approved his recommendation that

> no official objection should be made if British oil companies wish to supply the Jewish authorities with refined products from outside the

> Middle East, provided that the deliveries were limited to approximately one month's normal peacetime requirements and that no opportunity is given for the accumulation of stocks which might be used for military purposes.[33]

Accordingly, it was also agreed that if Israel received supplies from Rumania, Shell would divert their planned shipments to Haifa to another area. In short, Britain had decided late in August to move to the side and allow France and the United States to take the lead by forcing the Israelis to change their position. At the same time they would, for the time being, ease somewhat their actual oil blockade against Israel and thus minimize the prospect of an Israeli *fait accompli.* As a Foreign Office official explained to the representatives of the oil companies, it was essential to mark time, because 'the desired result was more likely to be achieved in the long run by taking matters slowly now than by endeavouring to hasten them unduly'.

At any rate the IPC management had not lost all hope of progress in Baghdad, opining that the Iraqis would eventually welcome some arrangement which would permit them without 'losing face' to recommence receiving the royalties which had been lost to them since the shutdown of the pipeline. Shell on its part, however, was a source of anxiety as far as supplying Israel with refined products was concerned. Its representatives reported late in August that Lebanon had seized on the high seas, a vessel – the *Anastasia* – carrying a Shell cargo of lubricating oils from Cyprus to Haifa. The Foreign Office was warned that if the company's shipments were liable to confiscation in this manner it might decide to halt shipments. That warning convinced the Cabinet to change its mind about 'carefully' informing the Arabs of the decision to provide Israel with refined oil. The prospect that they might react by seizing or bombing British tankers carrying the oil was serious enough to convince the Foreign Office to leave the Arabs in the dark. It urged the Americans, however, to persuade Israel to take some 'constructive steps which might ease the situation for [the] Iraqis'. Furthermore in an apparent attempt to discourage American oil companies from selling oil to Israel, they were informed about Shell's planned transaction and were asked to cooperate so as to deprive 'the Jews' of the opportunity of accumulating 'excessive' stocks by purchasing refined products from several sources.

While these decisions were being made, Israel held out to the Americans some hope that the deadlock might be broken but coupled it with threats. Apparently anxious about the dangerously depleted oil stocks, and not being privy to the decisions to ease its refined oil situation, Jerusalem informed Washington on 17 August that while still committed to its project for the reopening of Haifa based on a flow of tanker crude, but no longer relying exclusively on supplies from the American and British oil companies, it 'raised no objection' to the presence of UN observers at the Haifa refinery. The threat to purchase crude oil wherever possible was, however, impractical. The available crude oil for Israel at that time was in Venezuela or the Persian Gulf, but 'only if dollars were paid before delivery'.[34] The amount involved was considerable for the young state. Haifa's minimum crude requirements were about 150 000 tons per three-month period, which necessitated the allocation of $15 000 000 in cash. This sum could not be spared at that time, and expert advice was that there was 'no use [in] talking about petroleum offers unless you are prepared to contract for dollar expenditure of this magnitude'. It seemed, therefore, that Israel was incapable of independently implementing its 'grand plan' for importing crude oil to Haifa. The need to do it decreased somewhat as the British Government decision was translated into 'helpful offers' from Shell. These offers, however, were subject to two conditions which made it almost impossible for Israel to accept: First, that there be no resumption of full-scale hostilities between the Arabs and the Jews and, second, that Israel refrain from placing orders elsewhere. The first condition was particularly hard to swallow in view of Israel's offensive military plans. The solution was to play safe – that is, to attempt to bring over Rumanian products while accepting Shell's offer. Shell was duly informed that Israel was unable to delay the Rumanian oil shipment but was prepared to divert or resell it elsewhere if Shell tankers arrived earlier. This, luckily for Israel, they failed to do, and thus Israel's oil was guaranteed for 30 days. Shortly before, Socony Vacuum made it plainly clear to Israeli diplomats that, although they had no available Middle East crude oil for supply to the Haifa refinery, they were willing to assist Israel in securing the necessary refined products from the United States. What Israel wanted, however, though this had not been approved by the American company, was a two-month supply 'as iron reserve'. Casting a shadow over all these developments was Jerusalem's acute financial shortage; as one oil expert put it 'if we do not [find the money] and the war starts again, we will lose it for lack of fuel'.[35] Under these discouraging circumstances it is hardly surprising that a new diplomatic initiative to solve the oil deadlock found ready response in Jerusalem.

This chapter has analysed the emergence of the extremely difficult situation regarding oil supply that Israel faced during the first four months of the 1948 War. The main factors behind this situation were Iraq's veto on the opening of the pipeline to Haifa, as well as Britain's refusal to exert substantial pressure on Iraq coupled with its diplomatic efforts to remove Haifa from the area of Israel's sovereignty. This led to stringent limitations being imposed by Britain on the supply of oil to the Jews, the oil companies' inability to return to their 1947 position, and the lack of any real Israeli ability to fill the void that was created. Jerusalem, thus, was forced to resort to unorthodox measures that did not solve its problems but constituted a clear threat to British economic interests. The difficulties were not solely, of course, Israel's. The status quo of late 1948 was not, essentially, desirable to the British, the French, or the oil companies either. The next chapter describes the efforts to formulate an agreed solution to the problem – from the new French initiative of August 1948 to the evident, unequivocal failure of all the efforts by early 1950.

4 International Oil Diplomacy and War

The new plan for solving the deadlock originated at the Quai d'Orsay. The closure of the pipeline had deprived France of half a million tons of relatively cheap crude oil which she found difficult to obtain elsewhere at the same price, notwithstanding the continued flow of Iraqi oil to Tripoli.[1] It is understandable, therefore, why – when it became evident that British efforts to persuade the Iraqis to resume the flow of oil to Haifa had failed – France proposed to Israel a scheme designed to smooth out the complexities involved. As formally presented on 22 August to the Israeli Ambassador in Paris it was based on the assumptions that the British wanted 'both [the pipeline] flow and [the] refinery operating, while France and the USA [are] satisfied [with] crude oil [flow] only'.[2] The French proposed that Israel undertake to allow all the crude oil to be shipped if Iraq resumed the flow. Faced with Franco-American accord, the British would consent and Israel's requirements of refined fuel would be met by 'beneficiaries' oil provided from other sources. The fate of the refinery was to be decided at a later date.

The French informed the Americans about the plan according to which the reopening of the pipeline would not involve the start-up of the Haifa refinery. The latter were far from enthusiastic, considering it unrealistic to assume that the Israelis would accept a plan which provided them with no real benefits. Control of the terminus afforded Israel bargaining power which it was unlikely to relinquish until its petroleum needs were guaranteed. The State Department, therefore, urged that British and US companies offer 'some assurances' for regular delivery of sufficient oil products to cover Israel's current consumption. The United States was committed to endeavours to reopen both the Kirkuk–Haifa pipeline and the Haifa refinery. To ensure the opening of the Kirkuk–Haifa pipeline alone for export purposes was therefore a partial solution which, according to the State Department, should be resorted to only if and when it became clear that a comprehensive solution was unattainable. The Americans agreed only to meet French diplomats for 'informal and exploratory' discussion of the plan. The British Foreign Office also responded negatively. Both they and the Americans were reluctant to take action formally to replace the Mediator's scheme with that originating at the Quai d'Orsay.

Meanwhile, on 17 September Bernadotte was assassinated in the Jewish sector of Jerusalem. Four days before his death, he had completed his second plan, involving a free port in Haifa and the inclusion of the refineries in that port. This plan was put to the UN General Assembly for discussion, and Israel was asked for her response. The Israelis were urged to accept the first provision since it could prove an economic boon to them, enhancing the status of Haifa as a leading Eastern Mediterranean port such as Salonika and Tangier. The latter provision was seen as providing Iraq with 'a face-saving formula' for resuming oil supply. Jerusalem, however, was not impressed, and while expressing readiness to grant proper facilities for the use of Haifa port by neighbouring states provided that they were based on reciprocity, found 'no justification for interference with Israel's sovereign rights' with regard to the refineries.[3] Whereas the Israelis rejected Bernadotte's plan because it infringed upon their sovereignty, the Arabs spurned it for exactly the opposite reasons. Azzam Pasha, the Arab League Secretary General, explained to the American Ambassador in Cairo that his objections were based *inter alia* on the Mediator's 'failure to make Haifa... an international city'. In fact, Bernadotte's assassination did not immediately remove his plan from the international agenda as both the British and Americans supported its discussion by the General Assembly. However, his death did inevitably lead eventually to the shelving of his scheme and the emergence of alternative plans for tackling the oil issue.

Until a satisfactory solution was found, Israel had to cope simultaneously with the oil companies' programme for providing refined petroleum products and with the French scheme. The latter posed a very difficult problem. It should be recalled that Jerusalem had two potential weapons at its disposal in the struggle to secure oil supply – the control of 4 000 000 tons a year of oil refining capacity and 2 000 000 tons a year of crude oil. The question to be answered in view of the French proposal was twofold: which of these two weapons was more important, and would the surrender of one weaken the effect of the other. According to some Israeli experts at that time, refined stocks were accumulating all over the world and crude oil was in surplus supply, especially in the Persian Gulf and Venezuela. Under such circumstances, to allow crude to flow to and from Haifa would deprive Israel completely of one weapon and leave it with a second (refining capacity) that was of no great avail. The acceptance of the French plan would mean the dissipation of Israel's only means of pressure via Paris (based on France's shortage of half a million tons of crude oil) for the resumption of the flow of crude from Iraq and the reopening of the refinery. If, on the other hand – as some Israeli experts believed – the world shortage of refined products was due mainly to a lack of refining capacity, then acceptance of the French proposal would have no effect on international pressure to reopen the refineries. Another argument against the acceptance of the French initiative was Israel's guarded hope of finalizing an agreement with the oil companies with which she had been negotiating a settlement.

In mid-September Israel undertook not to place new orders in Rumania provided there was no resumption of hostilities with the Arabs and on condition of either conclusion of a 'satisfactory' long-term procurement programme with Shell and Socony Vacuum or the full reopening of the refineries. To achieve an agreement was no easy endeavour, since from Jerusalem's viewpoint there were two substantial difficulties. The first was a distinct 'lack of confidence' in Shell's offer. This stemmed from the company's decision to cancel the dispatch to Haifa of the *Beechcroft* (the first of three tankers commissioned by Shell and Socony Vacuum to carry 32 000 tons of petroleum products for Israel) as a result of information passed on to its owner that the ship would not be permitted to call at any Arab port after discharge of her oil cargo in Israel. Second, Shell had conveyed to Israeli authorities on 15 September its reluctance to undertake to provide supplies exceeding 30 days' requirements. The Israelis labelled this stand a hold 'at the throat'. Three days later, in what appeared to be a change of attitude, CRL and Shell offered Israel an undertaking to keep oil product stocks of two months. In return the Israelis were asked 'to take [their] hands completely off the refinery'.[4] Jerusalem's reaction to that offer was favourable and CRL's director, Dix, was invited to Israel to discuss the matter officially. The oil companies had evidently concluded that the temporary, *ad hoc* and monthly arrangement which they had envisaged under the guidance of the Foreign Office was not really a practical proposition. The Israelis, for their part, had made no secret of their oil purchases from Rumania. However, a more significant factor was the apparent threat of Socony Vacuum to act independently on a basis different from that recommended by the British Cabinet. The Foreign Office, therefore, (reluctantly) reached the conclusion – already arrived at independently by Shell and Socony Vacuum – that what was required was a new scheme for supplying Israel with its immediate requirements of refined products on a quarterly basis. The agreement, which was consequently finalized during the first week of October 1948, stipulated no restrictions on the part of the companies in regard to the supply of oil to Israel from other sources provided there was no renewal of hostilities between Arabs and Jews.[5] Although in the wake of the agreement Israel discontinued its efforts to import crude oil independently, it greatly benefited from the accord: first, it was relieved of the heavy burden of providing tankers; second, it was not required to establish credit arrangements as payment was made only after oil was delivered; and, third, the bulk of that payment (about 65 per cent) was made in pounds sterling released from Israel's sterling balances in Britain. The release was frankly presented by Israelis in the financial negotiations over sterling balances and claims, a *quid pro quo* for refraining from operating the refineries themselves. The British, for their part, certainly considered that concession 'a special case' since there was 'a British interest involved even more than an Israeli one'.

The conclusion of the vital agreement, which temporarily alleviated some of Israel's fuel concerns, was certainly among the main reasons why in early October Israel could respond favourably to the constant pleas of the Quai d'Orsay to accept their plan. The Israeli Foreign Minister found the situation rather flattering and certainly highly intriguing. 'If a creature from Mars had descended to the room when the appeal was made he would have been led to believe that a tiny and helpless state was begging mercy from an almighty superpower'.[6] He was clearly swayed by the French promise that implementation of their plan would not entail international supervision and hence would not infringe on Israel's sovereignty. Additional persuasive considerations were gratitude for past French diplomatic help at the Security Council, the hope of continued cooperation at the United Nations (especially in connection with Israel's efforts to gain membership), and the conviction that Paris was indeed acting alone 'and not rendering any service' to London. Ben Gurion approved a recommendation on 14 October for a 'provisional' three months' period and appended a request to the French Government to endeavour to help Israel lay in a three months' oil reserve.

Following Bernadotte's assassination and concomitantly with its attempts to secure Israeli cooperation, Paris intensified its efforts to consolidate a joint Anglo-American-French policy along the lines of its plan. On 11 October, the French conducted preliminary negotiations in London and in Washington. The State Department was again reluctant to become actively involved in the plan, claiming that it amounted to 'far less' than Bernadotte's, and could be regarded as an attempt to 'whittle down' one of his recommendations even before discussion of the report began. At the same time, it viewed with favour the idea of an agreement between the

IPC and the Iraqi and Israeli Governments 'without recourse to political action' by the French, British and American Governments. The French were therefore duly asked to provide 'something more concrete ... in order to determine further action'.[7] The efforts to bring the plan to fruition commenced on the same day in London which clearly proved more receptive to the French plan than did Washington.

At a meeting on 11 October in the Foreign Office, French representatives expounded their ideas. The planned arrangements were to be provisional and the prospect of their rapid application seemed more feasible in the wake of Sharett's personal assurance that he would advise his Government to agree to the resumption of crude shipment via Haifa without retaining supplies for Israel. To ensure Israeli consent, the French proposed confining discussions to technical considerations and avoiding as far as possible the entanglement in delicate political matters. What was accordingly envisaged was not an Iraqi–Israeli agreement but an arrangement between each side and the three powers. To translate the idea into action, the French also deliberately ignored the above-mentioned political tactics designed to persuade the Iraqis to agree to resume pumping. They suggested instead four technical mechanisms for control of oil shipments from Haifa. These were: first, establishment of a checkpoint at the last pumping station on Arab territory, where a daily measure would be taken of the amounts of oil which had passed through; second, proof that these amounts had been exported would be provided by the bills of loading of the tankers; third, stocks in the tanks would be kept to the minimum of 40 000 tons; and, finally, the valve controlling the entry of crude oil from the pipeline into the refinery should be closed and sealed. The French were reluctant to bring in the Mediator's organization to supervise the plan, since they understood that such a step would not be welcomed by the Israeli authorities. The task therefore would be assigned to one of the 'maritime surveillance' companies which were experienced in checking oil supplies. The suggested first step in the procedure was to reach an agreement with Israel so that a more 'cut and dried' plan could be presented to the Iraqis.

The Foreign Office, it should be recalled, had initially not been very enthusiastic about the French proposal for the export of crude oil through Haifa without restarting the refinery – which was the major British economic asset in Israel. This attitude was also coloured by the objections of CRL and of the British companies at IPC. Moreover, in the face of the very unfavourable Iraqi response to the IPC's proposals in August for the reopening of the refinery, the Foreign Office had been 'far from optimistic' about the possibility of Iraqi consent to the export of oil to Europe via

Haifa. However, when presented with the full French scheme it became convinced that the proposal had a reasonable chance of success. If implemented, it might obviate the dreaded prospect of the Jews managing to operate the refineries using imported crude oil, and consequently risking destruction of the plant by Arab bombardment. In addition, it was argued in internal correspondence, failure would be better than rejection. At worst, an abortive joint Anglo-French-United States approach to the Iraqi Government would 'demonstrate to all concerned' the difficulties involved, and would obviously be preferable to the adoption of a negative attitude 'in the face of urgent French arguments' that the crude oil was vitally necessary to French recovery and the European Recovery Programme (ERP).[8] The British decided, therefore, to extend to the French 'full support' but with three reservations (which the latter eventually accepted): First, since it was assumed that the Iraqis would demand some physical proof that the refinery was no longer connected with the pipeline, lines to the refinery should be cut rather than sealed. Second, the Iraqis should be approached first to counteract any suggestion that the French and the British had 'fixed up' something with the Jews in advance, which could reduce the chances of endorsement by the Iraqis. And, finally, the Mediator should be fully informed of developments. It was evident from the last point that the British – unlike the Americans – no longer regarded themselves as bound to UN decisions concerning Haifa, although formally they continued to adhere to Bernadotte's plan. The Americans were clearly considered as secondary, but still indispensable partners in the envisaged move. As a Foreign Office official expressed it: 'in spite of the unpopularity of the United States in Arab countries, the American Mission in Baghdad should, in order to provide solidarity take part in a preliminary approach by the three missions to the Iraqi Government'. It was therefore agreed that US–UK–French talks should take place in Paris on 15 October.

The low-level American delegation to these talks, consisting of two oil experts, reiterated their familiar line that attempts to secure agreement for crude oil exports via Haifa should only be explored after the acceptability of the Bernadotte report was determined.[9] The disappointed and 'nonplussed' French and British representatives, considering that attitude 'unrealistic', tried in vain to convince the Americans that even the Bernadotte plan would not lead to an Iraqi–Jewish agreement for some time, and that it certainly would not solve the crude oil scarcity instantly. The only promise which the Americans were willing to give was to take the matter up again with their Government. To win over the State Department, the British Ambassador in Washington was urged to emphasize that this was 'a case in which two European countries have got together and are only asking for United States diplomatic support in making an attempt to assist Western European recovery'. The Americans were likewise to be advised of Israel's basic endorsement of the French plan which 'should remove any ... political qualms'. The Foreign Office was greatly irritated by the fact that the Americans were making 'fairly heavy weather of the whole matter' due to 'their jumpiness about Palestine during the remaining pre-election period'. Whatever the reasons for their attitude, the State Department did indeed become more receptive following these communications, but insisted on remaining in the background and thereby running minimal political risks. A week later, having been assured by Ralph Bunche (the UN Acting Mediator) that the envisaged move would not undermine the status of Bernadotte's proposals, it finally endorsed the Anglo-French position. At the same time the State Department clarified its position that the 'strictly economic' initiative should be taken by those having the 'principal interest in this matter', namely France and Britain, in discussions in Baghdad and Tel Aviv. The United States would make a separate approach, which in the Israeli case would be contingent on the initial favourable response from the Iraqis. The latter condition manifestly contradicted the procedure envisaged by the British who proposed that the United States Government, 'being the only one in diplomatic relations with the Jewish authorities', take the lead 'supported unofficially by the French and ourselves'. London was, however, forced to accept the American reservations and it was subsequently agreed that the French, who had already sounded out the Israelis, should initiate further discussions with them. The Israelis were to be offered assurances 'if required' that they would continue to receive supplies of oil products from outside the Middle East. The qualifying term 'if required' was insisted upon by the British, and it enabled them to keep the Iraqis (at least temporarily) in the dark regarding supply of oil products to Israel. The British Ambassador to Baghdad was informed later that in the event of Iraqi agreement Britain should not be in a position to make a formal approach 'to the Jewish authorities so long as His Majesty's Government do not recognize and are not in official relations with the latter'. It is interesting to note that the British did not insist that Israel give assurances to refrain from seizing oil stocks in Haifa. The apparent reason was that Britain was convinced that the Israelis would not take such action, being well aware that if they did 'the system would break down' and 'the good faith of the Jews would be considerably damaged against a gain of small quantity of crude oil'. The question of timing of the diplomatic approach was duly left to British and French representatives in Baghdad.[10]

It was several weeks before the time seemed ripe. With the benefit of hindsight, the delay clearly indicated the anticlimactic direction the initiative was about to take. In early November, the British declined to give instructions to their Ambassador in Baghdad to launch action until the French agreed to support their position in the Security Council debate over the Palestine issue. Action was then further delayed by the Iraqi Prime Minister's departure for Cairo a week later. The British Ambassador reported that he saw no hope of securing the Iraqis' consent in view of their fear of the reaction of the public, and of the Iraqi Army as well as of hostile criticism from other Arabs States, especially Egypt. 'The best we can hope', he therefore advised the Foreign Office on 11 November, 'is [a] temporizing reply'.[11] And indeed when he and the French Minister in Baghdad finally met with the Iraqi Minister for Foreign Affairs a week later, the latter's only comment on the proposal was that the Iraqi Government had to be 'very careful of public opinion'. There ensued four months of Iraqi 'no comment' policy over the matter, which certainly stemmed in part from the reluctance to give a negative reply. This tendency was probably influenced by a British warning that a £5 million loan negotiated between the Iraqis and IPC 'could not be [agreed] until oil is again flowing through Haifa leg pipeline'.[12] On 30 December, the matter was reported to be 'under study' in the Iraqi Ministry of Economics. While still not giving a positive answer, in mid-February 1949 the Iraqis reiterated their precondition for permitting the flow of oil through the pipeline – and again demanded a declaration by the United Nations Conciliation Commission[13] on the internationalization of Haifa and the refinery area, which was by now a highly unlikely prospect. The Government's approach was conveyed quite clearly to the Iraqi public. On 19 February, for example, Dr Dhia Jafar, the Minister of Economics, told a local Arab journalist that

> it is not the intention of the government to resume supplies of oil to Haifa before the Palestine problem is settled in a manner acceptable to the Arabs, although this attitude is costing the Iraqi Treasury dearly. No sacrifice is too great for the liberation of Palestine.[14]

By conveying its opposition without stating it explicitly, Baghdad demonstrated its mastery of at least one element of the diplomatic art. At the same time, however, it killed the initiative aimed at solving the oil problem.

Israel was not made privy to most of these developments, but none the less refrained from initiating any diplomatic moves designed to improve its oil reserves. The agreement with the oil companies, coupled with some limited purchases of aviation oil, eased the situation for a while. Ben Gurion noted on 15 December (prior to the military operation aimed at large parts of the Negev), that Israel's Air Force had enough fuel for six months of continuous fighting and Goldmann likewise was able to advise the British delegate to the United Nations several weeks previously that 'the Jews were now fairly comfortably off for fuel'. Hence, the need to reopen the refinery lost its urgency, but Jerusalem clearly appreciated the fact that the agreement was only a provisional and short-range solution to Israel's oil problems. Even if the Anglo-French-American move in Baghdad succeeded, it would be good for only three months, in accordance with Israel's preconditions. After that period, Ben Gurion expected the question of distribution to be reconsidered 'according to the historic pattern'. Nor could the fate of the refinery be left undecided for long, since only a working refinery could ensure adequate oil reserves and render Israel independent of the oil-distributing companies. It would also reduce Israel's monthly oil bill by 30 per cent, and relieve her of the need to pay most of it in foreign currency. Finally, the refinery would add approximately $5 million to the annual national income from taxes and maintenance involved in its operation, a sum which then equalled a quarter of the State export income.

Two problems, however, called for a highly significant and immediate decision by the Israeli Government. The first was Moscow's uncompromising demand to honour the unauthorized (second) agreement for purchase of refined fuel which Farber had signed in May. The second was a Rumanian offer to sell Israel 100 000 tons of refined oil in 1949, provided the undertaking was given by the end of November. Jerusalem declined on principle – for financial and political reasons – to accept the first demand and wanted to keep all options open as long as possible as far as the second demand was concerned. It became evident in late October 1948 that Moscow's repeated demands could no longer be held at bay without serious political repercussions. Authorization was thus given by 3 November for the purchase in Constanza, Rumania, of 10 000 tons of Russian leaded motor spirit at a cost of half a million dollars. Further offers by the Russians, the last of them towards the end of 1949, were rejected however – partly for lack of storage tankers but also because they carried political implications unacceptable to Israel at that time. The same considerations applied to the other source of Eastern Bloc oil. The provision of refined oil products by the British and American companies held out significant economic advantages (such as prices) which were absent from the proposed Rumanian transaction. Late in November Israel informed its representatives in Bucharest of its negative decision. In retrospect, it is clear that the decision to close off the 'Eastern Oil Option' was both highly rational and at least temporarily effective. It was only five years later that Israeli policy-makers seriously questioned these decisions and adopted a different strategic path. In the meantime, the agreement with Russia (which was scheduled to be implemented in late December 1948), the purchases in Rumania and the fuel provided by Shell and by Socony Vacuum temporarily guaranteed stocks of refined oil products for Israel. In Jerusalem's view, the provisional character of these transactions was but one disadvantage; the other was financial. Fuel purchased in late 1948 was considerably more costly than that in 1947. As a result, a substantial increase in the consumer oil price, coupled with Israeli austerity measures affecting oil consumption, became inevitable in early November. While Israel's policy did not clash with British plans, the independent initiative envisaged by British oil companies in Israel seemed to do just that. Thus in early November, CRL began planning repair work designed to put the plant in working order. The British Foreign Office's reaction was distinctly unfavourable, on the ground that if such a step became known, it would be widely believed in the Arab world that Britain was about to recommence operations. 'This would make the Iraqis extremely suspicious about our proposals to pump crude down the line for export.'[15] CRL's management was therefore duly advised by the Foreign Office to postpone the planned action.

However, by late February 1949, when Iraq's rejection of the Anglo-American-French move became known, the managements of the refinery and IPC came to the conclusion that the general guiding line of the Foreign Office was neither justified nor appropriate. As they saw it, other contrary factors could be taken into account, such as the distinct possibility that the Israelis would soon not consider themselves bound by their guarantee to allow Iraqi oil to pass through Haifa for export only. Furthermore, they might despair of the prospect of renewed operation by the British management and force CRL's hand by reopening it themselves to work on crude imported from the Eastern Bloc. Positive developments such as Britain's *de facto* recognition of Israel, the armistice agreement between Israel and Egypt, and the great interest shown by the Iraqi Government in laying a new thirty-inch pipeline which provided IPC with a potential lever, dictated a new approach, according to the oil companies. William Fraser, Chairman of AIOC, and John Skliros, Managing Director of the Iraq Petroleum Company, therefore asked the Foreign Office on 2 March 1949 to renounce the French plan and to arrange 'as a first step for the Egyptians to allow shipment of crude oil for Haifa from Abadan and Kuwait to pass through the Suez Canal'.[16] This approach undoubtedly reflected a decision by CRL management to become much more actively involved in the efforts to reopen the refinery. This resolve had been manifested in several preliminary steps to promote its plan, some of them taken prior to the raising of the issue at the Foreign Office. These included: alerting some 50 CRL officials and experts who were standing by in Cyprus, to be prepared to return to Israel; confidential information disclosed to the Israeli Government about plans to resume operation of the refinery by July; a first visit to the refinery since the end of the Mandate by Dix (Manager of the Consolidated Refineries) and his assistant, Moffat, persuading Israel to impose a blackout on information relating to preparations for the reopening; the overhauling of the powerhouse (the first stage for resumption of operations); and the handing over to the British management of the refinery by the emergency caretaker management appointed when the Mandate ended.[17] IPC apparently decided to join in the initiative because of the resumption of negotiations in Baghdad on 20 February over oil concession revision. Its calculation was that, as a result of two months of improving internal security, the Nuri-al-Said Government were 'in a stronger position than any previous cabinet to take [the] drastic step of reopening the Haifa pipeline'.[18] The reward for such a daring move would be generous remuneration for oil concessions which 'will go a long way towards absorbing public disapproval'.

The reaction of the Foreign Office, on the other hand, was distinctly unenthusiastic. It was sure that Egypt would not permit oil for Israel to pass through its territory, and even if it did, it was doubtful whether the Iraqi Government could be induced to agree to the reopening of Haifa and resumption of the flow of Iraqi crude through the pipeline. Moreover, the Iraqi Government might 'react violently' against IPC's interests in Iraq. The Foreign Office decided therefore to seek the advice of British Ambassadors in Baghdad and in Cairo before IPC's Manager approached Nuri Pasha, Iraq's Prime Minister, directly and privately as proposed by Fraser. A week later, during negotiations with IPC in Baghdad, Nuri again broached the idea of internationalizing Haifa or making it a free port as a condition for reopening the oil pipeline (which in any event, could take place only 'next June or July').[19] His response substantiated the views of both diplomats who had strongly opposed the suggested approach to the Iraqi Prime Minister. Foreign Office officials still believed that it was necessary to tackle the issue of the pipeline and the refinery within a political scheme. Haifa would accordingly become a free port, which would include the refinery and the pipeline terminal. This arrangement would be accompanied by an agreement whereby the output of refined products should be distributed in the same proportions as in 1947 'so that

Nuri Pasha could say that the reopening of the refinery was not enabling the Jews to stockpile for war purposes'. The arrangements were to be made under the auspices of the Conciliation Committee which the UN had established to promote a general peace agreement between the Jews and the Arabs. The Foreign Office included among plans submitted on 9 July to both Arabs and Jews negotiating peace in Lausanne the granting in Haifa of free port facilities to the Arab States including an arrangement for the resumption of the flow of Iraqi oil to that port.[20] Thus, once again, the British Government was dealing with the political rather than the technical aspects of the problem.

The plan was so evidently inconsistent with reality that one must seek another explanation for the British position. It is plausible to assume that the Foreign Office was using its formal plan as camouflage, designed to relieve pressures on all concerned, but mainly on the British oil companies who, as a result of the disruption of operations in Haifa, had forfeited a considerable part of their market to American oil companies. It should be noted that the British companies, and especially the Anglo-Iranian Company, seemed to have run out of patience. Consequently in mid-June they conveyed, through the *Economist*, 'a sort of warning' to the Iraqis that Haifa could be reopened on tanker oil. Israeli officials were also told at that time that the company would be prepared to carry out their threat to Iraq and Egypt and bring Venezuelan oil by tanker from the Gulf of Mexico, which would not pass through the Suez Canal. Patience seemed to be running out in Jerusalem as well. Thus in mid-1949, while negotiating a financial settlement with Britain, Israel began urging a solution to the refinery problem. In late May David Horowitz, Director General of the Israeli Finance Ministry, conveyed veiled warnings to Elkington, Head of the Middle East Section of AIOC, to the effect that 'the companies will probably arrive at a favorable conclusion, if we show them the way by opening the refineries [ourselves]'.[21]

Under these circumstances, it seems hardly surprising that the British were following a second plan of action, far from public view. The idea underlying the plan apparently emerged during the negotiations between the Iraqi Government and IPC, which had begun in June 1949, and which were faltering due, *inter alia*, to the disagreement over the opening of the pipeline to Haifa.[22] During these talks, in which representatives of the Foreign Office often took part, the Iraqi Economic Minister was asked on 19 July whether Egypt's decision to allow crude for Haifa to pass through the Suez Canal would ease the opposition within Iraq to the opening of the Kirkuk–Haifa pipeline. The Foreign Office was hopeful that the imminent lifting of the arms embargo on the Middle East (which had been suggested by the United Nations Mediator as a step to follow the conclusion of the Arab–Israeli armistice) would invalidate formal objections to the opening of Suez to the passage of strategic commodities, including oil. The Iraqi Minister replied that while he personally was of the opinion that such a course of action could indeed relieve pressure on his Government, the operation of the refinery was 'a very difficult problem'. There is no way of ascertaining whether Iraq was indeed receptive to the new British idea or was merely trying to avert pressures. Be that as it may, the Foreign Office seemed to believe that an opportunity had been opened up. Four days later, the Iraqis were informed that internationalization of Haifa was indeed the ideal solution to the oil problem, but that past failure had taught the British Government the futility of attempts to achieve it.

The keys to success, therefore, lay in Egyptian consent to the opening of the Canal for oil shipment to Haifa. On 22 July, British diplomatic representatives in the Middle East, then convened in London, were briefed about the new approach. With the single objection of the Ambassador to Egypt, nobody questioned it. The new stand appeared to be substantiated by subsequent indications from the Iraqis, including Nuri Said's pronouncements during his visit to London in mid-August, that 'if [the] refineries were reopened he would reopen [the] pipeline and would not question what happened to the oil'.[23] At the same time the Israeli Minister in London was assured by Strang, the British Permanent Under-Secretary of State at the Foreign Office, that 'our aims [are] absolutely identical, [and that] they [are] working steadily for tankers passing Suez as preliminary to pipe opening'.[24] Israel was urged (and consented) to refrain from bringing the Suez Canal question before the Security Council and from taking 'rash decisions' on the refineries, so as to enable the British to promote discreetly the solution to the oil problem. British apprehensions were unfounded, since the Israeli Government was not contemplating any such decisions, perceiving no viable alternative to the suggested course of action. As long as the refineries served important state interests such as the acquisition of hard currency, the provision of employment and the provision of cheaper oil, Israeli leaders unanimously (though never publicly) agreed that nationalization would not be profitable. This was because crude supply from Western or Middle East sources was not feasible in that case, and offers from Eastern Europe were highly expensive. Moreover, to refine a limited volume of crude oil for Israel's needs alone seemed to render production utterly uneconomical. A committee appointed by the Israeli Ministry of Finance to investigate claims against the Mandatory Government arising out of concessions it had granted advised in early June 1949 against challenging the validity of the refinery concession. It argued that it was 'unlikely that legal means acceptable to the international community could be marshaled against the oil companies.'[25] Israel was also well aware of the vulnerability of its frozen sterling balance in London, which amounted to £28 million. Britain was obviously able to retaliate by immediately freezing the rather generous allocations for oil purchases from these balances or by deducting an exorbitant price in the event of the refinery's requisition. For these reasons alone, Israel had no choice but to accept the British plan.

How did Britain view its role in promoting economic cooperation between Arab and Jews? Were London's and Jerusalem's aims really identical, as Strang indicated to Israeli diplomats at the UN? Answers to these questions provide the correct perspective regarding the objectives which the British were trying to achieve in relation to the refinery issue. Their plans inevitably touched on much broader strategic decisions following the crystallization of the post-1948 War diplomatic arrangements, including British *de facto* recognition of Israel and the cease-fire agreements between Israel and Lebanon, Egypt, Syria and Jordan. Such decisions were indeed taken by the British Government after the July 1949 Middle East Conference. One of the subjects discussed was whether the British Government ought to seize all opportunities to impress on the Arabs the necessity for cooperation with Israel, particularly in economic matters. The final paper on Middle East policy which emerged from that conference and was approved by the Cabinet late in August contained highly significant passages:

> We should be ready to take such opportunities as occur of improving [Anglo–Israeli] relations in such ways as do not endanger our position in the rest of the Middle East and the Moslem world. We do not at present dispose of [our] influence with the Arabs, that we can safely press them to make friendly overtures to Israel... It would be too high a price to pay for the friendship of Israel to jeopardize, by estranging the Arabs, either our base in Egypt or Middle Eastern oil.[26]

In view of these guidelines Britain could hardly couple its approaches to Egypt and Iraq about Haifa with either a general appeal to Arab–Israeli cooperation or with an active anti-boycott policy. According to one Foreign Office official, 'it would not only be a waste of breath but would make the Arab Governments less disposed to follow our advice on other matters'. The only natural course of action *vis à vis* the Arabs was therefore 'to show them that the action we propose over Haifa will give Israel no or very limited advantage'.[27]

In late July the focus of British attempts to conciliate the Arabs shifted for several weeks from Baghdad to Cairo. During this time the Foreign Office tried persistently, albeit cautiously, to promote its plan. Indeed on

11 August the Security Council, to Israel's dissatisfaction, lifted the arms embargo. London and Jerusalem seemed to see eye to eye at that time on the desirability of restoring the freedom of passage for shipping passing through Suez. Israeli representatives were informed of the British hopes that following a meeting with the Egyptian delegation to the UN, the blockade 'would be raised'. The State Department subsequently accepted the Foreign Office suggestion to convey to Egypt a note supporting the lifting of shipping restrictions in the Suez Canal.[28]

Whereas previous British plans had been designed to provide Iraq with a face-saving device, the new schemes were directed at Egypt as well, with the same purpose. The Foreign Office – in close cooperation with the oil companies and with the passive support of the State Department and the wholehearted approval of the Israelis – proceeded to arrange for Western Hemisphere crude oil to arrive (for the first time) in Haifa simultaneously with tankers carrying Persian Gulf crude oil, to start up the refinery. In communicating the plan to Israeli officials, the CRL Manager made no specific references either to the Persian Gulf or the Canal but 'they were under no misapprehension as to the proper interpretation' of his remarks. The operative details of the plan indicated that the refinery would resume operation immediately upon the receipt of two crude oil cargoes due in Haifa from Venezuela on 18 and 20 September. The third cargo, from the Persian Gulf (probably Kuwait) was due about 22 September via Suez. The smooth passage of that cargo would pave the way for regular shipments of two cargoes per week, probably from Kuwait, through the Canal and consequently no further Venezuelan crude oil would be imported. It should be noted that the 'best case' scenario envisaged only partial reoperation of the refinery. Hence the two shipments would suffice to keep just one unit of the refinery fully operative. Operation at full capacity, however, would call for seven tanker cargoes, averaging 12 000 tons per week – which could hardly be spared in view of the dense tanker traffic carrying crude mainly for Europe. If, however, passage through Suez proved impossible or too difficult, the plan called for temporary reversion to Venezuelan oil. In this case efforts would be made to bring a few cargoes of crude oil from Tripoli to Haifa. The aim of the entire project was to create a chain reaction as described by a well-informed American diplomat in Tel Aviv:

> 1. resumption operation with small 'token' shipment from Venezuela or other sources, 2. thereby causing Egypt acute financial pain at seeing

> lucrative flow bypassing her and thus inducing her to free Suez route for Persian Gulf oil, 3. thereupon bringing [an] anguished howl from Iraq at thus being let down by an Arab brother and culminating in reopening of Haifa pipeline.[29]

Another American diplomat described the plan as 'a slightly fantastic series [of] events' which clearly reflected a considerable degree of scepticism concerning two imponderables – eventual Iraqi and Egyptian cooperation. By early September, when the tankers from Venezuela were *en route* to Haifa the project seemed to have lost its initial momentum due to several developments. First, since his return to Baghdad, Nuri Said had become 'rather less forthcoming' on the pipeline question than during his visit to London. He was now taking the line that 'when the refineries reopened he will open [the] pipeline only on condition [that] oil [is] not used in [the] refinery'.[30] Whether this stand reflected a real change of mind or just a tactical move by the Iraqi Prime Minister is rather difficult to determine. It is clear, however, that this development proved the perceptiveness of the British Chargé d'Affaires in Baghdad who, two weeks earlier, had predicted that 'Nuri [Said] might prefer [to] resign rather than risk [the] consequences such as befell Saleh Jabr in January 1948 when [the] Portsmouth Treaty, like Haifa refinery question now, was [a] ready made ... issue around [which] most Iraqis united'.

An additional disturbing development in London's view was the continued publicity given by Tel Aviv to the plan for reopening the refineries and bringing tankers through the Canal. According to British officials, 'slanted stories' made it appear that 'Israelis have forced these developments' which threatened to 'increase both Iraqi and Egyptian intransigence'. The issue was subsequently taken up at considerable length by the Egyptian press. At the same time the press in Iraq was claiming that Saudi Arabian oil was to go to Haifa. The Saudi Arabians had as a result issued a declaration from Cairo that they would not allow the Arabian–American Oil Company to send oil to Israel lest 'a single drop of Saudi Arabian oil should reach any Jewish destination, either directly or indirectly'. Finally, under these circumstances the British Chargé d'Affaires in Cairo strongly urged the Foreign Office to postpone the plan for two or three months or until after the local elections and to refrain from trying to send a tanker through the Canal by force or from exerting 'over-strong' diplomatic pressure on King Farouk.[31] It was, however, too late for the British Government to call off the entire project or to accept the oil companies' recommendation to send a British tanker through Suez with a view to creating a *fait accompli.* The Americans were informed accordingly on 3 September that they 'are still proceeding [according to] plans'.

Since plans needed to be adjusted somewhat to the new circumstances, discussions were held a week later in London, attended by representatives of AIOC and IPC. The Foreign Office's new conception conformed to the established view that Egypt could and should be provided with yet another face-saving device to induce her to agree to the passage of oil tankers bound for Israel. Accordingly, as Burrow put it, British diplomats would 'ask the advice of the Egyptians as to whether it would be helpful from their point of view if the tanker were ostensibly given another destination and diverted to Haifa after it had passed through the Canal'. A positive reply would establish a significant precedent for 'all subsequent tankers bound to Haifa'. Simultaneously, the Egyptians should be asked 'confidentially' whether an Israeli announcement consenting to the setting up of a free port in Haifa 'as part of the final settlement' might also be of help. The latter suggestion was endorsed with no reservation. However, the reaction of the AIOC representative to the first proposal was far from enthusiastic. He was concerned about the likely repercussions on his company's shipping fleet (90 per cent of which used the Canal), if Egypt initially agreed to the plan but changed its mind once the tanker had been diverted to Haifa, and finally targeted the company for blame. 'Farouk', it was claimed, 'could not be relied upon not to let us down'. The only alternative to that 'suggestion of subterfuge', however, would be the highly embarrassing cancellation of the entire plan, and hence it was decided to try 'the experiment' with a Shell vessel which was due to leave the Persian Gulf in mid-September and to arrive at Haifa on the 28th of that month. Failure of that 'experiment' would not entail the immediate cancellation of the planned start-up of the Haifa refinery. The 45 000 tons of crude due to arrive from Venezuela in the middle of September could keep it going for between six weeks and two months. There was also the possibility that AIOC might ship oil down from Tripoli, which could, however, result in the closure of the northern branch of the pipeline as well. Consequently, Egyptian cooperation was considered mandatory for the ultimate success of the plan.

While the first shipment of crude oil from South America arrived at Haifa on schedule, the British initiative suffered another setback in Cairo. Apparently responding to British approaches, the Egyptians announced that they would only reopen the Canal to tankers for Haifa if Iraq reopened the pipeline first. When challenged regarding the validity of their argument that defence took priority over international conventions as far as passage through Suez was concerned, the Egyptians responded with what was to remain a consistent policy argument: 'An armistice [agreement with Israel] was not a peace [treaty].' It should be noted that understandable political objections apart, the Egyptians had economic reasons to oppose the reopening of the Haifa refinery. Egypt was then producing 2.5 million tons of oil per annum – of a quality which was heavier and inferior to Iraqi oil. The Egyptians were eager to expand production and also to establish refineries in their territory. Corrosion at the Haifa refinery could not therefore cause Egyptian politicians sleepless nights.

Initially, the impasse threw the Foreign Office back upon Nuri Said's suggestion that the pipeline be reopened for crude oil for export only. The approach to Iraq required a concomitant 'careful handling and preparation' of Israel and assurance that the envisaged arrangement concerning the Iraqi oil would only last a few weeks and would eventually lead to the full reopening of the line, including supply of crude to the refineries. Within days, it became evident that Nuri was reluctant to open the line until a political solution was found. This discovery forced the British to go back to square one of their negotiations with Iraq. IPC gave the Iraqi Prime Minister to understand that it would continue to withhold the £3 million grant until the line was opened (a policy persistently pursued until April 1950). Since the British believed that he was the Iraqi politician most likely to risk opening the pipeline, it was thought sensible to leave him to decide when and how he could put the matter across.[32] The State Department later backed that line of thought and did not consider it advisable 'to push Nuri to open [the] Haifa pipeline so long as, in [his] judgment it would be difficult or impossible to do so without explosive results internally in Iraq'. The Americans went even further; senior US diplomats strongly urged the State Department to advise the Foreign Office not to link the reopening of the Haifa pipeline with the loan 'which Iraq so urgently needs'. This recommendation was accepted and on 29 November the British Embassy in Washington was approached accordingly. Efforts to modify Egypt's stand were to continue notwithstanding, as it appeared that both the King and the Prime Minister were both disposed to favour a solution if it neither evoked charges that they were betraying the Arab cause nor stirred up dissent among elements opposed to the palace and government. In the meantime, in view of the question marks as to whether Egyptian and also Iraqi statesmen would – in the cynical language of an American diplomat – eventually 'play the game, heed their cues, and follow the script in this particular drama' the arrival of the highly significant tanker at Suez was deferred.[33]

Cairo's intransigence proved no easier to overcome than Baghdad's objections to the plans presented to them during 1948. As in the case of

Iraq, the reluctance of the Foreign Office to put significant pressure on Cairo to permit passage of tankers through Suez was a significant factor. It should be noted that, in line with the policy formulated by the Cabinet late in August, the British did not bring real pressure to bear in their negotiations with Egypt. For example, they entered into discussions with Cairo about sterling release without explicitly raising the issue of the refinery. In addition, apart from IPC's preconditions for their loan and royalties, no pressure was applied in Iraq. The policy did not, however, place restrictions on dealing with Israel and at that junction, London chose to submit a formal request to Jerusalem. On 4 October, after reassuring the Israelis that Britain was 'working hard' on the matter and 'patiently expecting satisfactory results', the British Minister to Israel, pursuing government policy, requested Israel's cooperation. He asked the Israelis to give assurances publicly or through the United Kingdom Government that they favoured the setting-up of a free port, including the oil terminals and the refineries administered by 'all interested parties, also Arab states whose export [and] import would go through Haifa'. The Israelis were also asked to declare that they had 'no intention [to] nationalize [the refinery]'.[34] Ten days later, after a Cabinet debate, the Israeli Government responded by rejecting the request. Israel was not willing to make Haifa a commercially free port administered by a mixed board, and it reiterated its readiness to negotiate with individual Arab States about free zones in Haifa port for their imports and exports, on condition that they made peace with Israel, repudiated their boycott and were ready to establish reciprocal relations with Israel. Israel was also reluctant to include the oil terminals and the refinery in the free zones, and pointed out that while it had so far refrained from airing the Suez Canal issue at the Security Council, it would not be able to do so indefinitely. The only positive reaction perceived by London was a declaration to the effect that 'it is not part of the policy of the Government of Israel to nationalize the refinery'. Under these circumstances, Dix, the manager of CRL, was understating the case when he told an American diplomat early in November that 'he sees no chance of oil coming through Suez to Haifa in the near future'.[35]

Three days later, after more than a year of inactivity, entailing a net loss to the British of $50 million,[36] the Haifa refinery began operation with a limited supply of crude oil shipped by tankers from Venezuela by the Shell Company. In the light of the current and expected oil stocks based on fuel purchases in South America totalling 100 000 tons of crude, only one unit of the plant was started up, providing enough refined oil products to take care of Israel's requirements only until early 1950.

Time was running out as far as the implementation of the British plan was concerned. The Foreign Office was persisting in its lukewarm efforts to induce Egypt to change its position, but without success. In the third week of November 1949 the Israeli Foreign Ministry was informed that Bevin and the Egyptian Ambassador in London had discussed the passage through Suez of oil ships *en route* to Israel. According to this information, the Egyptian diplomat stated that Egypt would be prepared to authorize such passage in return for substantial arms supplies from Britain. Bevin refused 'to be party to such [an] arrangement' and the deadlock ensued.[37] However, by early November the British seemed to have achieved a limited success with the Iraqis. During the Arab League Political Committee's meetings in Cairo Nuri Said 'hinted' to British diplomats that he perceived no objection should oil companies service the Haifa refinery with tanker crude from Tripoli. Upon learning of this, AIOC urged the Foreign Office to arrange quietly for shipments from Lebanon, as had been done in the past. The recommendation was not accepted, as the Office insisted on making its own official inquiry. On the 10th of that month, the Lebanese Prime Minister was therefore approached by the British Minister in Beirut. The Premier read the proposal 'calmly' but indicated that he could see no advantage in that procedure to the Arabs. However, following the Egyptian and Iraqi example of 'passing the buck' on the issue, the Lebanese statesman promised to submit the proposal to his Cabinet. If the Cabinet agreed, he would consult with other Arab states and obtain their reactions. The State Department was consequently asked by the Foreign Office to convey to the Lebanese Government its support for the operation designed to 'increase the refinery capacity in ECA countries' and to 'reduce the United Kingdom's dollar drain', and agreed to do so.

The joint approach did not create a stir in Beirut. However, shortly afterwards all Arab diplomatic representatives there were given copies of the British proposal. While advising them that 'it behoved the Arabs to be circumspect concerning it', the Lebanese Foreign Minister asked to be advised about their Governments' attitudes.[38] Soon after, both Reuter and *al Ahram* in Cairo published reports on the UK–US approach, and the newspaper expressed the view that the reply of the Arab States would probably be in the negative. On 29 November the Foreign Office instructed the British Ambassadors in Cairo and Baghdad to approach the Egyptian and Iraqi Governments. The latter was urged to give a favourable reply to Lebanon inasmuch as Egypt and Iraq were the two states chiefly concerned and were the 'leaders of public opinion in the Arab world'. At the same time the British Ambassador in Cairo was instructed to express to the Egyptian Government the British view that the Lebanese inquiry presented 'a good opportunity' for Egypt to lift all restrictions, including the passage of tankers through the Canal. The British Ambassador in Baghdad was likewise to express the hope that the Iraqi Government would avail itself of that opportunity to reopen the Haifa pipeline. Similar representations were to be made with the support of the American Embassies in Damascus and Amman. The British were forced to wait two weeks for any formal response. The first reaction, which came from Cairo on 13 December, was negative and sufficed to bring the Foreign Office to 'drop this tack' and abandon further attempts to activate the refinery with Middle East oil via the pipeline or the Suez Canal. Two weeks later the decision proved correct when all the other Arab Governments presented the same answer.[39]

The closure of the Haifa refinery seemed inevitable as a major and immediate outcome of that development. It had been foreseen by the oil companies almost a month before Egypt made its final decision to reject the British plan. AIOC's Director of Relations with Governments, Bridgeman, informed the Foreign Office on 23 November that the company had no plans for further action after closure since dispatch of further cargoes from Venezuela would merely deprive the refinery at Curacao. It should be noted that the cost of oil conveyed to Haifa by sea from sources outside the Middle East was considered by the Company 'prohibitive', and according to its analysis Haifa would forfeit much of its attraction were the refinery supplied only with this crude, *inter alia*, because of the higher freight cost and the relatively high wages. Bridgeman claimed that the stocks of refined products at the refinery would be sufficient to keep Israel supplied until the second half of February 1950. This left two months' leeway before further cargoes of refined products from South America would be needed. After that, the Foreign Office was warned, 'it would ... be open to the Israelis to expropriate the refinery and to endeavour to buy crude in the United States'.[40] The AIOC manager seemed to be losing hope of reactivation of the refinery under British control with Middle East crude, and accordingly advised representatives of the Treasury, Ministry of Fuel and the Foreign Office that his company would be unwilling to invest any further capital in it. Time was definitely not on CRL's side.

Bridgeman was probably also influenced by information that the French group in IPC had officially suggested that the 16-inch pipeline to Haifa should be diverted to Lebanon, adding that if no other group was willing to undertake the diversion, they would build the new line themselves.[41] It is doubtful whether the French would have been able to shoulder the

$4–6 million project alone. They did, however, make plain that they would do all they could to minimize the $25 million drain on their balance of payments caused by the loss of Haifa crude oil. To this end, they proposed also that Iraq and Israel be persuaded to agree to the diversion of the unfinished 16-inch pipeline from the Jordan/Israel border to a Lebanese port in return for the reopening of the 12-inch pipeline to Haifa. What followed suit was a suggestion for a joint Anglo-American-French approach to the governments concerned. The British opposed that suggestion on political-economic grounds, since it was thought that diversion of the pipeline would be interpreted as an 'un-neutral act favourable to the Arabs',[42] would signal the abandonment of Haifa by the British and would make it easier for Israel to requisition the refinery. Nor were all the American partners in IPC supportive of the French scheme in the initial stage, as they had enough oil at that time. They feared that the scheme would entail cutting back oil production in Saudi Arabia and leave them with less oil than their competitors. Moreover, the IPC management were then of the opinion that it was preferable to concentrate the Company's efforts on constructing a new 30-inch diameter pipeline from the Iraq oil fields to the Mediterranean rather than to deploy their limited personnel and material resources for the diversion project.[43] In any case, the Iraqis had learned of the diversion scheme and it undoubtedly reinforced their intransigence on reopening the pipeline. The British were confronted therefore with a joint Iraqi–French front. It was based on the belief that Iraq, while forced during the Mandate to accept Britain's 'ill advised' preference for the Haifa terminal, had in fact favoured the French plan for transporting all Iraq oil to Lebanese and Syrian ports. Hence, according to French officials, the present diversion scheme, far from representing submission to Iraqi pressure *vis à vis* Haifa, constituted 'a return to economic principles (shorter distances) and post-Mandate considerations'. British officials were also greatly concerned that every day that elapsed brought the European refinery programmes nearer realization and thus lessened the demand for the Haifa products. Hovering over these considerations was the knowledge that as a result of the refinery and pipeline non-operation British oil companies were incurring annual losses estimated at around $50 million.

The seriousness of the financial and political implications of the situation explains why the Foreign Office left no stone unturned in their efforts, under the accepted rules of the game, to prevent the closure of the refinery and to open the pipeline. Having lost hope of convincing the Egyptians and Lebanese to follow the suggested course of action, they devised a new formula a few days before the refinery was due to suspend all work. The plan, which actually made a virtue out of necessity, was to be tried out on

Israel and (as one Israeli diplomat put it) on 'the obdurate Iraqis'. The fact that, in early January 1950, the British Government approved a £3 million loan to relieve the strain on Iraqi railways was not unconnected to the effort to change Baghdad's policy. Israel, for its part, was asked to consent to the export of all the Iraqi oil, provided its own requirements were met from crude brought in from other sources and refined at Haifa. The new elements in the procedure were first, the formal acquiescence to regular operation of the refinery for Israeli consumption alone, and second, the possibility that such crude would be brought by tankers making their way from the Persian Gulf to Haifa without passing through the Suez Canal. The Foreign Office official who put the proposal to an Israeli representative admitted later that if the companies had to fall back on Venezuelan crude oil to supply Israel, the arrangement was unlikely to endure.

It should be noted that the foundations of the solution were laid in late May 1949 by Elkington, Head of the Middle East section of AIOC, in a conversation with Horowitz. The Israeli was reminded that the refineries were working at 2 000 000 tons production a year, of which 1 500 000 tons were for export and the rest for internal consumption. He was queried about his Government's attitude towards a proposal for operating the refinery at the half a million tons capacity alone and 'saving foreign exchange in that way'. Horowitz replied that this would hardly be satisfactory, but told Elkington that he would consult his Government. Reaction in Jerusalem proved positive and it was passed on to Sir William Fraser, AIOC's General Manager, for consideration. As viewed from Israel the plan had several advantages for CRL: first, as the demand for refined products was expected to amount in 1950 to only 750 000 tons, the export of oil – to which the Iraqis so vehemently objected – would not exist; second, partial operation of the refinery could nevertheless be worthwhile in view of the growing Israeli demand for fuel and the prospects of the sale of by-products such as asphalt and butagaz. As regards Israel's own interests, this possibility was – for obvious reasons – a second-best solution, but nevertheless preferable to the prevailing situation.

During these months of late 1949 seemingly more attractive plans for the activation of the refinery and the pipeline were broached and it is not surprising, therefore, that this scheme was not pursued. The situation changed in mid-December and the Foreign Office – cognizant of Israel's basic approval of the plan as an alternative to indefinite closure of the refinery – decided to scrape the bottom of the barrel and broach a new version of Elkington's plan. It was the definite view of the Foreign Office that this approach represented the maximum which it could do towards solving the problems without resorting to the threat of sanctions, which they were certainly reluctant to do.[44] The closure of the refinery on 23 December 1949 left Israel with enough refined products for another two to three months from that source and did not affect its ongoing purchases of refined oil from the companies – but it was an ominous indication that time was running out.

A week after the presentation of the new British plan, it seemed to have gained a certain momentum. The State Department was urged to make up its mind concerning the Iraqi–French plan for the diversion of the pipeline. In late December it reached the conclusion that only such a plan could secure continued operation of the pipeline 'outside [the] influence of changes [in the] Arab–Israeli political situation' and provide an opportunity – 'admittedly slim'– for reopening the Haifa 12-inch line.[45] The shutdown of these installations was a cause for concern since it 'may convince [the] Arabs [that a] blockade [is] worthwhile and [would] make [an overall] solution more difficult'. According to the American analysis, consent to the French diversion plan could constitute a bargaining card for obtaining Iraq's commitment to reopen the pipeline and Lebanon's consent to tanker traffic to Haifa. Israel's probable objections or reprisals might accordingly be overcome by fuelling Haifa with Caribbean crude until Iraq crude became available. Thus, notwithstanding the difference of opinion with London concerning the French diversion scheme, the State Department was essentially lending indirect support to the British plan for solving the oil refinery problem.

By late January 1950, reports from Baghdad were dispelling London's cautious hopes. The Iraqi Deputy Prime Minister informed the British Ambassador that he would 'never' agree to reopen the 12-inch pipeline to Haifa. The Foreign Office was consequently advised by the Ambassador that the Iraqi Government would reject the French proposal to open the pipeline in exchange for diverting the 16-inch line to Sidon in Lebanon, since the Iraqis believed that if they waited long enough, both lines would be diverted to an Arab port.

This chapter has portrayed the international efforts to establish a new order with respect to the supply and refining of oil in Israel during the last stages of the 1948 War and the first half of the subsequent year, and has examined the reasons for their failure. Britain's diplomatic efforts to alter the uncompromising stances of Iraq and Egypt stood no chance of success in the absence of any readiness, for political considerations, to impose sanctions against them. The British were also reluctant to adopt the oil companies' recommendation to try and present Egypt with a *fait accompli.* The lack of Israeli readiness to make Britain's task easier by offering concessions on sovereignty over Haifa or its refineries also contributed to the intractability of the situation. Because, in this situation, political considerations were decisive for the Arabs, the French initiative – that sought to focus on technical solutions – did not stand a chance. Indeed, in such a context the British companies' complete stoppage of the supply of crude oil to Israel, and severance of all other ties with Israel, were to be expected. If Britain could apparently have lived with this situation, Israel could not. These factors, as the next chapter analyses, brought the sides by early 1950 to an unprecedented clash that led to a surprising new reality in the domain of oil supply to Israel for much of the following decade.

5 Cutting the Losses

As indicated above, a complete impasse seemed inevitable if Britain continued to play according to its own rules of the game. Bevin certainly considered them appropriate and clung to them even on the rare occasions when his policy was challenged by colleagues. One such occasion occurred in mid-January 1950 when the Minister of State, McNeil, informed Bevin, who was *en route* to Cairo, that the Prime Minister and the Economic Policy Committee would like him to raise the question of the reopening of the refinery with Nahas Pasha, leader of the Wafd Party. The Committee 'strongly felt that we had been patient with Egypt and that you might now be able to persuade them to give way on the Canal'.[1] Bevin replied that he would 'do his best' but the concluding remarks of his cable indicated the opposite – 'it should not be overlooked that Israel has so far flouted or ignored every United Nations recommendation'. In a subsequent House of Commons debate, Bevin made no effort to disguise his attitude, referring to 'instructions' given to him to raise the issue with the Egyptian politician, who had 'argued cogently and legally ... declining to yield on that point.' The Foreign Minister revealed candidly to the House his uncritical approach to one of the major obstacles preventing the settlement of the refinery and pipeline issue. He commented that

> like the rest of us ... Iraq has her comrades in the Arab world and one of the difficulties is that none of them will be accused of letting down the other. That is not a bad trait. I grew up in a school that rather practised things like that ... and therefore I can quite understand their feelings in this matter.[2]

Israel, for her part, was less than enamoured of the most recent British plan. On 26 January 1950 the Israeli Minister in London, Eliash, expressed his country's readiness to give an undertaking that oil from the Iraqi pipeline would be used exclusively for export. However, he coupled that concession with a demand that the oil companies meet Israel's oil requirements from other sources 'at an "as if" price i.e. whatever the source of the crude may be, the price of the refined products to us to be the same as if the oil has come through the pipeline'. While Israel was thus actually signalling its guarded consent to the regular operation of the refinery on non-Middle East crude, it nevertheless openly declared its determination to minimize the losses entailed. Such losses were no small matter for the fledgling state. According to calculations made in Jerusalem, Israel would be obliged to pay $35 million for an anticipated consumption of one million tons of oil per year brought from Venezuela ($18.5 million for the crude itself, $11 million for ocean transportation and $5.5 million for refining and marketing). In comparison, the outlay on Middle East crude would have been $24.3 million ($12.5 million for Persian Gulf crude, $6.3 million for transportation by tanker and $5.5 million for refining and marketing). The extra expenditure of $11 million per year, a sum equal to almost one-third of the country's expected total oil expenditure on refined products and to almost 5 per cent of its total import, loomed large. Moreover, the financial benefits of the use of Middle Eastern crude far outweighed the benefits of operation of the refinery at full capacity on Venezuelan crude. The third point raised by Israel had already been aired in informal discussions with representatives of the oil companies several weeks earlier and was presented formally in late January. Thus, Eliash referred to the suggestion of a pipeline from Eilat to Haifa which would be of strategic value whatever the results of the current negotiations with Iraq and Egypt. It would provide a bifurcated supply as 'various emergencies might arise at any time' and could feed the Haifa refineries with Persian Gulf oil (from Qatar and Kuwait) without passing through the Canal. It is highly unlikely that the Israeli Government had faith in the political and economic feasibility of that plan. It was most probably aired in order to accomplish another purpose, as stated colourfully later by Kosloff, Israel's influential Oil Adviser – 'It could always be used as a whip to tame the Arabs into a reasonable attitude' concerning the Kirkuk–Haifa pipeline and the passage of oil for Israel through the Suez Canal.[3]

Whatever the underlying motives, there was very little in the Israeli response to please the British. London would seriously endanger its relations with the Arab world if it lent its support to the Eilat–Haifa pipeline project. Moreover, it was not fully reconciled to Israeli control of the Negev and its southern edge – Eilat. Then there was the question of who would be prepared to provide the necessary capital and the crude oil for construction of such a pipeline. IPC would not be interested, since their cooperation would imply that they were willing to allow Iraq to dictate their policy regarding the disposal of Iraqi crude oil, and to write off the existing 12-inch line from Iraq to Haifa as a dead loss. AIOC and Shell – as partners in IPC – would not be interested for the same reasons, and in face of the uncertain political situation in the area would be reluctant to risk more capital in Israel. In London's view, therefore, the

Israeli Government was the only party interested in the project and its implementation.

The second demand concerning the price of refined oil products related exclusively to the oil companies, which at that time were reaching significant decisions, suggesting that they were resigned to the Haifa refinery deadlock. The AIOC management certainly lost hope of the reopening of the refinery. On 2 March 1950 it advised its manager in Haifa of the decision to close down the already inactive plant as early as possible and to place it on 'a caretaker basis'. The operational meaning of that decision was far-reaching and its implications were obvious. When in 'full maintenance' position the refinery could resume operation immediately on the basis of an annual throughput of one million tons. However, once the reduction scheme – which went one stage beyond 'reduced maintenance' – was carried into effect, five or six months would be needed to recondition the refinery before processing of crude could recommence even at a limited throughput. The decision implied, in fact, an almost total abandonment of the refinery.[4]

Several weeks later, IPC took a complementary decision which in fact signified the formal renunciation of their recurrent demands made to the Iraqi Government concerning the Kirkuk–Haifa pipeline. It should be recalled that from very early on the company had shown considerable determination in its efforts to pressure the Iraqis into reopening the line. Its readiness to make continuous concessions on oil royalties and on a *quid pro quo* loan for that purpose was motivated by its heavy financial losses. The situation made them feel, as one IPC official put it vividly, 'short of one leg and with the other semi-paralyzed'. However, the formal stand masked internal controversy on the issue. On the one hand, AIOC insisted that any increase in royalties should be contingent on Iraqi consent to reopen the Haifa line, and on the other, the French and (from January 1950) the American partners in IPC exerted heavy pressures to change the company's position. AIOC's decision on the Haifa refinery reflected the first step towards coming to terms with reality. The logical second step was taken in the third week of April when they finally joined with the other partners in IPC in agreeing to postpone action on the Haifa pipeline until the end of the year. More significantly, while expressing a token hope that by 1950 'some solution will be found to the Haifa pipeline problem', the company decided to proceed at full speed with the 30-inch pipeline to Banias, Syria. In putting it on stream ahead of schedule they could satisfy both French needs for crude and Iraqi demands for increased revenue. Furthermore, according to the plan, if no progress was made on Haifa during that time, at the end of 1950 the Company would take the decision as to whether to transfer the pump station equipment from the Haifa line to the new 30-inch line or to divert the entire line to an Arab country. The Iraqis were consequently advised about the decision 'to waive IPC's insistence upon solution of the Haifa pipeline as a condition pre-requisite to reaching agreement in other direction' which Nuri Pasha was naturally 'pleased to hear'.

It is indisputable, therefore, that by March–April 1950 British oil companies had decided to abandon the Haifa refinery and that the British Government voiced no objections. Moreover, it has already been established that during the long months of negotiations between IPC and the Iraqi government, the Foreign Office generally supported the latter's position on royalty rates. Their reasoning was that a major cause of anti-Western sentiment would thus be removed and second, that only with the aid of increased revenue from oil could Iraq achieve economic development and political and social stability. Grudging acceptance of the Iraqi position on Haifa – which meant actual abandonment of a plant with a capital value of about £30 million – thus became an understandable complementary element in that strategic conception.[5]

Although Jerusalem had not been made privy to these decisions, the proclaimed positions of the oil companies forced Israel to base its oil policy on direct acquisition of refined products from British and American oil companies or from any other available source. These purchases could be made only under very unfavourable financial, political and strategic conditions, some of which had already been manifested in 1948 when the policy was practised intermittently. The scheduled closure of the refinery would spell the end of any substantial progress towards the establishment of a petro-chemical industry in Israel and would mean a considerable loss of foreign currency income generated from its operation. The Israeli Government avoided the closure by adopting unprecedented countermeasures in late May–early June 1950. It is difficult to ascertain whether these measures were adopted in direct response to the aforementioned IPC decision (of which Israeli intelligence later learned), but there is little doubt that in the wake of the AIOC decision concerning Haifa, Jerusalem was prepared for a 'worst case' scenario. As will be demonstrated later, the reluctance of the oil companies in late 1949 and early 1950 to undertake any binding and long-range obligations in Israel due to the unclear situation of the Haifa refinery must have reinforced Israel's decision. In addition, the 30 March Claims Agreement with Britain ensuring the orderly and quick transfer of the sterling balances to Israel must have invalidated a weighty argument against the course of action eventually taken.

Thus after months of insinuations by Israeli officials that they would ultimately requisition the refinery and operate it themselves if it remained idle, the British Government and the oil companies received a formal 'hardly veiled' threat to that effect. It simply stated that if the refinery did not resume operations to supply Israeli needs as 'a partial solution', Jerusalem would be left with no choice but to take advantage of the existing Mandatory law whereby the Government was empowered to take over the refinery if the oil companies failed to operate it. The message was designed to represent a 'definite showdown without further procrastination'.[6] It was conveyed in person by Horowitz to the British Ambassador in Tel Aviv on 2 June and a week later to representatives of the oil companies in London. The Israelis tried to improve the prospect that their ultimatum would succeed by appending a thorough calculation (drawn up well in advance in cooperation with an Anglo-Jewish oil expert) which demonstrated that in contrast to the accepted opinion, there was no economic reason why the oil companies should not reopen the refinery solely to supply local demand. A central element of the calculation was the lowering of the freight expenses involved in feeding the Haifa refinery with Middle East oil carried around the Cape of Good Hope by arranging for the empty tankers to return through the Suez Canal – a project termed 'Operation Vasco de Gama' in internal correspondence. The consequent cif (cost + insurance + freight) price at Haifa of Kuwait crude transported via 'Vasco de Gama' would then be cheaper than that of Venezuelan crude. It took the British two weeks to form an opinion on that demand. Israel's economic calculations had been checked and found sound. Anglo-Iranian and Shell, as joint owners of the refinery, finally indicated that in principle CRL was in agreement with the proposal, which they considered to be commercially feasible. Furthermore, from the foreign exchange angle, the British Ministry of Fuel, in the last analysis, came down in favour of the scheme. It was argued that if low-dollar-content crude was supplied to Israel, instead of the high-dollar-content products which were then being shipped to Israel from the Western Hemisphere, Britain would thereby save dollars. That earning outweighed the dollar outlay on additional (mainly American) tankers that would be required for the 15 000-mile Persian Gulf/Haifa haul, which was 4000 miles longer than the Venezuela–Haifa route.

Surprisingly enough, even the Foreign Office came to the conclusion that on political grounds there appeared to be no basis for objecting to the proposal. It recognized that the reopening of the Haifa refinery might 'irritate the Egyptians and the Iraqis that their blockade of Israel should thus be circumvented' but pointed to the admittedly remote possibility that it might possibly, at the same time, be instrumental in leading to the reopening of the Haifa pipeline and the free use of the Suez Canal for tankers.[7] The merit of the case seemed so obvious that one wonders why an agreement based on similar suggestions by Israel had not yet been approved. It stands to reason that only the dawning realization on the part of the British Government and the oil companies that there could be no return to the *status quo ante* in Haifa, and, in particular, that Israel was therefore about to carry out its threat, thereby establishing a most dangerous precedent for similar requisitioning in the entire Middle East, could outweigh the contending political and economic considerations. These considerations were certainly still dominant in Bevin's mind. In his report to the Israeli Cabinet (and subsequently in his memoirs), Horowitz described the Foreign Minister's last-minute veto of the plan, which he cast while hospitalized after receiving a visit from Iraq's Prime Minister. Bevin's objection was eventually overruled by the Chancellor of the Exchequer, Sir Stafford Cripps, who had on previous occasions demonstrated his pro-Israel sympathies especially on economic matters, and his readiness to challenge the Foreign Minister's views.[8]

The explicit Foreign Office decision on the refinery reinforced the implicit one already taken concerning the Kirkuk–Haifa pipeline. Both certainly marked the end of an era for the British Government, which, perceiving no viable alternative, was essentially acquiescing in a very undesirable economic *status quo*. The two decisions meant, in fact, renouncing the reopening of the 12-inch pipeline to Haifa and the completion of the 16-inch line from the Israeli border to Haifa. These pipelines would have increased Iraqi production by between six and seven million tons per annum, with a consequent increase in the supply of sterling oil; while the operation of the Haifa refinery at full capacity would have made available to British controlled companies some 2.75 million tons of oil products worth about £18 million per annum, with about £4 million annual revenue to the British Treasury from tax on the companies concerned. Although there were still some apparent dividends from ritual advocacy of the opening the Kirkuk–Haifa pipeline, they were definitely marginal, and designed mainly to signal to the Iraqis that, in the words of a British official, 'we are not happy to let it lie' and to the oil companies 'that we are not indifferent'.[9] To all intents and purposes, but for an occasional reference late in 1952, the issue was shelved in mid-1950.

An agreement was therefore concluded on 28 June 1950 between Israel on the one hand and Shell and AIOC on the other, whereby refinery operations would be resumed on a lower than capacity value to cover local consumption needs. The companies would accordingly import approximately 500 000 tons a year to cover their two-thirds share of the market. Crude would be imported from either the Caribbean or via the Cape of Good Hope from the Persian Gulf. It should be noted that the agreement with the British companies was of further advantage to Israel which still had Sterling Balances holdings in Britain to cover much of the oil purchases from these companies. However, Israel was still not assured of the remaining one-third of its needs and naturally preferred the two American distributing companies then operating in the country – Socony Vacuum (holding 25 per cent of the Israeli market) and Standard Oil of New Jersey (10 per cent), which purchased the Mantacheff concern in September 1948 – to fill the gap. In previous negotiations with these companies, Israeli officials had found them much more forthcoming than the British. Furthermore, Israel was emphatically opposed to their exclusion from the local market as it could adversely affect future American financial investments, and award Shell in effect a distributing monopoly. It would also probably antagonize the American Government. One of the aims of Horowitz's visit to the United States late in June was to preclude these possibilities. A favourable response from the Americans was, however, by no means guaranteed. Such a response would entail decisions by United States companies to import crude oil into a 100-per-cent British refinery rather than to import refined products directly. When the Haifa pipeline had been open these companies had paid a processing fee to refine their oil in Haifa. Under the new conditions, however, it was undoubtedly cheaper for them to refine in their own facilities and import finished products. Moreover, Israel was then attempting to tax Socony Vacuum retroactively on their profits on exported products refined from Iraqi crude at the Haifa refinery. According to Socony Vacuum's management, it would also involve the company in a dangerous precedent all over the world. Such taxation would persuade American companies to refine their oil outside Israel. And finally, as will be shown below, Israel was then devising a plan to form a partially government-owned marketing company which would compete against the established private firms and take over a considerable share (approximately 30 per cent) of the market. This scheme understandably caused concern to Socony Vacuum and Standard Oil. Such considerations notwithstanding, the companies confidentially informed the State Department on 11 July 1950 that while they did not wish to pay the taxes, neither did they want to forfeit their share of the Israeli oil market or of the goodwill which they had built up in the country. On the other hand, the State Department 'spoke rather sharply' to Horowitz about the envisaged oil-marketing scheme and stressed the American Government's opposition to state trading, and their support for the private interests then controlling the oil market in Israel.[10] Horowitz found it therefore expedient to assure the State Department that the plan had been discarded by the Israeli Government. The positive arguments cited by the oil companies won the day, and on 13 July an agreement was signed under which they undertook to supply crude oil to the Haifa refinery. This meant among other things that Israel's current annual foreign exchange needs for oil supplies were reduced by $3 500 000. Although the agreement provided for imports practically on a cash basis it still came as a great relief for the Government, since petroleum products had been the biggest single and ever-increasing item in what an Israeli official termed 'its payments headache'.[11]

The Haifa refinery was consequently ready to resume operation on 27 August after being fed with Qatar crude brought by six tankers. Their destination had not been made public on the advice of the British Acting Political Residency in Bahrain, who had seen no objection to the export of Qatar crude oil under that condition. The procedure – which was consequently adopted also for Kuwait oil – was to provide the tankers with papers showing that they had been ordered to sail to Cape Town and there receive further orders. These orders invariably instructed them to go on to Haifa. Some ships returned empty through the Canal, which meant that they were liable to be added by the Egyptians to the black list of ships which visited Israel. That, however, was of no great import, since it was simple to ensure that these tankers did not subsequently call at Arab ports other than Kuwait.[12]

A new epoch in Israel's oil policy was thus opened. For the following half-decade, this policy was to be based in part on the agreements which transformed the Haifa refinery from a plant exporting worldwide to what was basically a domestic industrial enterprise. It was owned and controlled however by foreigners, who had reluctantly accepted the metamorphosis brought about by Iraq's and Egypt's refusal to allow normal operation. Under the given circumstances, the agreements were not only an economic accomplishment for the Israelis but also of political and strategic significance, a fact which many historians have failed to recognize. It was a major achievement for Israel to have succeeded in circumventing the Arab economic blockade, whose power had been clearly demonstrated.[13] The oil blockade was an integral component of a boycott which was first proclaimed by the Arab League in late 1945, as an embargo on

Palestine-Jewish products and was extended after 1949 to preclude commerce between Arabs and Israelis and to discourage foreign firms from doing business with the Jewish state.

Beginning as a ban on ships flying the Israeli flags, the maritime Arab blockade was broadened in 1949 to prohibit third-party vessels from carrying contraband war materials – arms and oil – to Israel. The financial implications for Israel's oil imports were considerable. Direct and indirect damages to the Israeli economy from oil boycott actions (consisting of the closure of the Haifa refinery, reduction of its operation and the closure of the Suez Canal to oil bound for Israel) in the period 1948–51 was estimated at $23 million. In the period from 1951 to 1955 they amounted to $44 million (see Appendix 7).[14] However, the boycott failed to achieve its declared aim, namely to totally disrupt Israel's oil supply. On the other hand, the determination of the Arabs was manifest in their willingness to accept financial losses which, according to Israeli estimates, amounted to between eight and ten million dollars in royalties for Iraq and a total annual sum of $22 million, as a result of Egyptian boycott decisions. The fact that Britain reluctantly acquiesced in the forfeit of no less than $60 million in potential currency earning per year due to the oil sanctions unquestionably attested to their effectiveness.

In the face of these economic facts, together with the reluctance of Britain and the USA to address the issue and the consequent futile efforts of the UN to redress that situation, the Israeli leadership came to realize that they lacked the power to solve the problem. Their prognosis, however, was not fatalistic as far as oil policy was concerned and from very early on there were indications of which path Israel would eventually take to alleviate Arab economic-political pressures. As Kosloff confided to a British oil businessman who had been on Israel's pay roll in 1949–50:

> Westerners do not appreciate the unbusinesslike attitude of most Orientals. At times they are capable of committing the most harmful economic errors just to preserve their silly vanities ... I [therefore] regard the whole Middle East, and primarily Iraq and Egypt as a strongly antagonistic region ... No consistent economic relations with these countries can be relied upon ... The only safe countries in the Middle East for successful oil operations are those where 'oil is bigger than the country' e.g. Qatar, Kuwait, Bahrain, Oman, Trucial Zone, etc.[15]

Iran hardly fitted this geographic definition but none the less was eventually added to the list. The agreements with AIOC, Shell, Socony Vacuum and Standard Oil of New Jersey – made, in fact, in open defiance of the Arab boycott – did indeed open up opportunities for Israel which, as will be shown below, eventually expanded in the general directions envisaged by Kosloff and others.

And finally, for the British, the agreements which bound it to Israel slowed the process of shedding the political–economic legacy of the Mandate (or as one Israeli official termed it '[the closure] of the Israeli file'),[16] but could not reverse it. It became apparent in late 1950 that AIOC was sufficiently optimistic as to the prospects of peace between Arabs and Jews to withstand Arab pressure to close down the Haifa refinery and quit the country. However, the agreement concerning the refineries committed the British oil companies to a local concern producing slightly more than half a million tons of oil, compared to the companies' overall worldwide 60 million tons of crude and refined products. These figures provide the proper perspective on the subsequent significance of Israel to the British companies. Political considerations and the minuscule Israeli oil market were certainly the reasons for the Foreign Office's reluctance to bring the country within the frame of reference of the Working Party on Middle East Oil. The British Ambassador in Tel Aviv who criticized this attitude, urging that Israel should not 'be arbitrarily regarded as not being in the Middle East', was advised that

> 'while Israel is in an important position from the point of view of oil transport and may itself become a producer, the need to concentrate on the most vulnerable and immediate targets had led to the conclusion that we should not be justified in recommending expenditure in Israel for the sake of our oil interests so long as there is no settlement of the Palestine question with the Arabs'.[17]

The final steps in the British process of disengagement from Palestine were taken only seven years later when the Haifa refinery was sold indirectly to the Israeli Government and when the Shell Oil Company decided to cease its operations in the country. In the interim, British policy – which perceived two major barriers to Middle Eastern oil supply to Israel – remained in fact unchanged. According to a Foreign Office memorandum in mid-1951: 'while we should continue to explore any scheme to offer hope of inducing either Iraq or the Egyptian Government to modify their present-day attitude, no formal representations should be made to them on the subject pending an improvement in the relations between Israel and the Arab States'.[18] Eden, the Foreign Minister in the new Conservative

Government, found it difficult to accept the inevitable consequences of leaving Haifa 'indefinitely idle', and wondered whether it was 'not about time we had all this out frankly with the Arabs'.[19] He failed, however, to impose his will on the opinionated Foreign Office and the less-than-enthusiastic oil companies. Moreover, following Egypt's refusal to comply with the Security Council's resolution of 1 September 1951, that called on her 'to terminate the restrictions on the passage of international commercial shipping and goods through the Suez Canal', the British Cabinet passed a significant resolution. Its rejection of the use of force to bring oil tankers bound for Israel through the Canal in effect confirmed a policy which had been practised since 1948/9.[20] The subsequent efforts to convince Egypt to join a defence agreement crystallized that stance. Moreover, the Foreign Office knew that as in the past, it could rely on the support of the State Department, which also believed that a British–Egyptian agreement should precede any endeavour to secure the lifting of the Canal restrictions.

The situation was a source of considerable frustration to the Israelis. As Eban, Israeli Ambassador to the US, aptly wrote, 'it is a story of utter frivolity and ineptitude for three years, well reflected in Eden breathing fire and brimstone before [the] election, and bleating ineffectually afterwards'.[21] While British inactivity concerning the Canal was difficult to disguise, her attitude towards the Kirkuk–Haifa pipeline was concealed from the Israelis. It was, however, reconfirmed when the British Embassy in Baghdad was approached late in August 1952 by the Iraqi Minister of Economics on the question of the extension of the 'Haifa' pipeline from Mafrag, Jordan, to Sidon, Lebanon. The Foreign Office pointedly declined to take sides on that issue. The result, as far as the refineries were concerned, was constant economic and technical devaluation, a process which was likely to intensify after the completion of a major European and Mediterranean refinery expansion programme. As a considerable amount of American capital had been invested in the erection of these refineries, it was quite understandable that the American group disliked the idea of Haifa regaining its previous position as an important refining and oil-exporting enterprise. Whereas London was resigned to this state of affairs, Jerusalem's aims, as analysed below, were diametrically different.

The sharp clash that broke out between Israel and Britain over the decision to close down the refineries culminated in mid-1950, as we saw, in an unforeseen compromise that, as noted, was incapable of satisfying either of the sides. Practically speaking, this compromise promised the continuation of British safeguarding of the supply of oil to Israel. In itself the agreement of 28 June was, however, temporary and limited. What was needed was a long-range convention that would address a spectrum of issues that it did not cover. But that goal was not easy to achieve, since the sides had conflicting interests in many areas. Thus, the next chapter analyses the complex negotiations that were conducted between the British oil companies and the State of Israel for almost four years beginning in late 1950, with the goal of arriving at a comprehensive pact that would replace the Mandatory arrangements in this area. In so doing it illuminates the difficulties involved.

6 Legal Readjustment: Israel and the Oil Companies

By August 1950, Israel had found temporary solutions to some of its fuel supply problems. However, the reopening of the Haifa refinery and the continued functioning of the three distributing companies had been effected without the creation of a fully agreed legal foundation to replace the arrangements of the Mandatory era. While such a situation seemed only natural in the months immediately after the 1948 War, the fact that – in strict legal terms – it did not really change until Israel became totally independent of these companies half a decade later requires an explanation which the present chapter will attempt to provide. The analysis below will present the perspectives of the British oil companies on the one hand and of Israel on the other in the negotiations which were held in the early 1950s, and that did not culminate in an agreement. The account will clarify, in particular, Israel's constraints in translating its sovereignty into independence in the area of oil supply. At the same time, however, it will also sketch the background to Israel's decreasing dependence on British and American companies, its temporary reliance on Soviet oil supply and finally, the opening up of the Iranian market which was to become its principal source of fuel provision for many years.

From the outset, political issues, which were not to Israel's advantage, complicated the problem of oil supply, while the economic and technical issues on the other hand were often favourable. Israel, therefore, found it easier to restrict its diplomatic efforts to the oil companies, with which it could probably have established common ground more easily than with the British Foreign Office. The considerable economic and political involvement of the British Government often made attempts at rapprochement futile. For obvious reasons, Britain's involvement in Israel's oil market continued well beyond 1950. However, the Foreign Office's acceptance of the closure of the Kirkuk–Haifa pipeline and the Suez Canal to oil bound to Israel, and acquiescence in the July 1950 agreement between Israel and the oil companies, shifted the issue from the political to the economic-technical plane. The onus of oil supply was therefore increasingly laid exclusively on the oil companies. Their natural dependence on the cooperation of the

Israeli Government was bound to make them more conciliatory in their attitude than the British Cabinet and less likely to force an agreement unsatisfactory to that Government.

As noted above, the Jewish Agency was well aware of the detrimental effects of British methods of regulating the oil business in Palestine. It was manifest that, when granting concessions to IPC, the Anglo-Iranian Oil Company and CRL, the Mandatory Government failed to safeguard the interests of the local populations. It had helped the oil companies to enrich themselves by allowing an effectively monopolistic 'exploitation of the market'. According to a senior Israeli official, 'our country has been robbed of its natural resources for the benefit of foreign interests. No state can afford to acquiesce in such a situation without actually giving up sovereignty'.[1] This perception was not confined to Government circles. It should be noted that two Israeli extreme left-wing parties, Mapam and the Communists, which in 1949 represented about 17 per cent of the electorate, advocated the nationalization of the refineries. Although the remaining political parties appeared to be content with the *status quo*, the prevailing opinion – as represented in the Knesset debates and in the press – was that insofar as possible, Israeli interests should replace foreign interests in the transportation, import and marketing of petroleum and its products. Israel was in an anomalous situation as the only country in the world where oil was imported, refined and exported without ever becoming the property of the country or enhancing its economic interests in other ways. It was awareness of this anomaly which underlay Israel's efforts to purchase crude and other petroleum products abroad, to acquire and charter tankers, to consolidate an Israeli-owned local marketing company and to promote a variety of pipeline schemes with Israeli participation. The Israeli press seemed to regard the refinery and other oil properties as quasi-national assets and to feel that the interests of the oil companies frequently conflicted with those of Israel. It was apparently widely believed that the foreign oil companies could be much more helpful to Israel if they so chose, and that they made excessive profits.

These attitudes stemmed from the desire to cut Israel's expenditure, from the strategic consideration that dependence on foreign organizations be reduced, from national pride, and from the socialist ideology of the ruling party, Mapai, and other left-wing parties. This public attitude towards foreign oil companies had a relatively strong impact on the Government's plan of actions and policy. It was manifestly essential to redress the situation, but by no means simple to find the appropriate method. This became increasingly clear to Jerusalem during six months of internal deliberations on the subject which began late in July 1948.[2] The most effective way to prevent further 'exploitation' by the oil companies appeared to be to cancel all their concessions, to requisition the refinery, to launch a legal confrontation with the companies concerning their concessions, and to initiate independent oil importing and refining. Such action, however, was liable to cause far-reaching complications.

Israel could have declared the Haifa refinery a public utility, promulgated a law to the effect that the shareholders would be compensated by the issue of Government debentures or similar securities, and thereby transformed CRL legally and economically into a national asset. It should be noted, however, that the Government of Israel had since its inauguration devoted much of its attention to the safeguarding of foreign property rights and had issued unequivocal declarations in that regard. Thus, when the state came into existence the Provisional Government passed a Legal Ordinance which endorsed most of the Mandatory laws, including the Anglo-Iranian Convention. Furthermore, paragraph 19a of this ordinance recognized all the rights and concessions awarded by the Mandatory Government to foreign companies. Seizure of the refineries would – according to Israeli officials – render all the Government's declarations null and void and would be regarded by the outside world as a first step towards nationalization. This would hardly be conducive to attracting foreign investments – and especially those relating to oil installations. Furthermore, nothing would have been achieved by seizure alone. The expert view was that it could only be effective if, at the moment of seizure, Israel's crude oil stocks were sufficient for four to five months and if an uninterrupted flow of crude oil could be guaranteed for the subsequent period. The expenses involved in the build-up of such stocks and of sufficient refined products required an immediate currency expenditure which was simply not available at that time.

Even if that problem could somehow be solved, there still remained the insurmountable difficulties of securing an uninterrupted crude supply from abroad. This would have been very difficult owing to the power of the oil cartel in supplying countries such as the USA, Venezuela and Canada. Under prevailing circumstances, with crude and refined products available practically anywhere in the world with the exception of the Arab countries, Israel was 'more or less in the same boat with CRL and ... with AIOC and Shell', according to Israeli officials. However, the most likely reaction of the oil companies operating in Israel to requisitioning by Israel would be an organized retaliatory boycott which 'could bring disaster to our economy and paralyze our defense system'. And, even if Israel succeeded, under a 'best case' scenario, in securing enough crude for the nationalized plant beyond local requirements, the Haifa refined products would face, 'to put it mildly extremely restricted markets'.[3] The nationalization of the refinery was therefore unanimously rejected almost from the outset. The idea of building a new refinery seemed less likely to cause a head-on clash with the oil companies but in fact, this scheme also evoked many of the above counterarguments. It should be noted that according to experts, in order to be of benefit to Israel, a refinery required thermal cracking suitable for producing high-grade motor and aviation gasoline, and especially the products needed for a projected chemical industry. In 1948, the Haifa refinery was incapable of fulfilling any of these requirements, and by the early 1950s it was definitely considered an obsolete, so-called 'colonial' plant. At its 1948 technical set-up it could not have supplied the entire range of Israel's fuel requirements, and the construction of an independent modern refinery would greatly enhance the Israeli economy. However, even if Israel managed to mobilize the \$80–100 million required to build such a refinery, its subsequent operation and the subsequent marketing of the products by the Government would surely lead to the exclusion of Shell and Socony Vacuum from the local market. This could hardly promote Israel's wish to establish friendly relations with the West, which had been one of its basic aims. Furthermore, under these circumstances it was highly unlikely that oil-producing companies, which had been owned by Shell and Standard Oil Groups, would be interested in supplying crude to the new refinery. In addition, the 1948 experience had shown Israelis that – although refining equipment was available in the country, and despite the availability of crude in world markets – it would not be practical to commission the refinery on imported crude.

As for independent acquisition of crude and refined oil products from other sources, the far-from-successful Israeli attempts during 1948–9 in this respect demonstrated to policy-makers in Jerusalem the considerable uncertainties and the high costs and risks involved. Moreover, by 1949 Israel's storage capacity was rather limited, so that even if it bought cheaply in tanker lots, it might find itself simply unable to store the oil. Capacity for 'white' products (like benzine) was about 7000 tons (providing for one month's consumption) and the stock was kept full to the brim and held in reserve for defence purposes. Since tanks for these products were elaborate and expensive structures, it was unlikely that the state could augment its storage capacity for these materials in the immediate future. The bulk storage space for 'black oil' (fuel oil) actually belonged to the Palestine Electric Corporation and the Nesher cement factory, and would barely suffice for a full load from a tanker if sufficient working reserves were left in the tanks. Even had Israel been able to overcome these and other difficulties, it was not capable of establishing on its own a secure, long-range supply system. Only such a system, able to cope with the detrimental effects of the fluctuations in world oil supply, could provide the secure foundations required for the development of a petrochemical industry. Only full cooperation with the oil companies could offer this security and minimize the danger to Israel of an international oil crisis such as followed the nationalization of Iranian oil in mid-1951.

Israel's difficulties in translating its political independence into economic freedom were further exacerbated by a basis characteristic of the world oil transportation market which deserves brief comment. In the early 1950s approximately 95 per cent of the world's tanker fleet consisted of 'captive' tonnage operated by the major oil companies. About half of that tonnage was owned by the companies themselves and the greater part of the remainder was operated by them on the basis of long-term charters. From time to time, as needed, they also chartered tankers on a spot voyage basis, and in theory, Israel could have relied on this. However, since only a small proportion of the world tanker tonnage was available for charter at any given time, either by the oil companies or others, comparative minor fluctuations in the demand for tankers caused great variations in spot or voyage charter rates. These circumstances and the Arab League threats of a boycott on tankers reaching Haifa dissuaded Israel from independent chartering of tankers to transport its oil acquisitions. Israel could have afforded to purchase a single tanker, but such a vessel, even if operating between Israel and comparatively close Black Sea or Mediterranean ports, could carry only a fraction of its petroleum requirements. To build up a relatively large tanker fleet was simply beyond Israel's financial capabilities at that time. Moreover, both solutions spelled economic loss as there would be no possible return cargo originating in Israel, and all of the sources of oil for transportation to more distant European or United States ports were in Arab countries which were closed to Israeli shipping.

An alternative possibility to promote Israel's interest *vis à vis* the oil companies was the resort to litigation concerning their concessions. It should be recalled that there had been four main types of concession in mandatory Palestine: exploration permits; pipeline permits; refinery permits; and special port privileges. In each case there were certain questions of legality which varied in degree. Israeli experts were of the opinion that the oil companies had a strong case for claiming validity for pipeline, refinery and special port privileges as they had complied with all the legal stipulations. It was, therefore, assumed that no internationally acceptable legal argument could be marshalled against the companies involved in the operations of the refinery, the pipeline and the port. This, apparently, explains why the Israeli Government had recognized their right to concessions in the

Ordinance Regulation Law. Even if Israel decided to challenge the validity of these concessions, the usual strictures of international law applied to the Government, which had undertaken all the obligations incurred by the previous Government. The best Israel could hope for, and experts believed this too to be a dubious possibility, was that the existing international conventions would allow the Government to cancel these concessions, if it paid full financial compensation to the companies. In such a case, the sum involved was assumed to be beyond the immediate financial resources of Israel.

The companies' position in regard to the exploration permits was, however, assumed to be weaker. There appeared to be several arguments which strongly challenged the legal claims of the Petroleum Development Company (Palestine) and Jordan Exploration Company to valid exploration licences. Thus, for example, under the terms of the Mandate, the Mandatory Power was entitled to assign any of the natural resources of the country only to organizations under public ownership or at least public supervision. IPC hardly fitted this description. The exploration permits had not been registered with the Land Registry; hence, according to some Israeli legal experts, they were not legally valid. The *force majeure* clause in the concession did not extend the permits – hence it could be argued that they had already expired. However, a committee appointed to deal with these issues conceded in early 1949 that the Israeli arguments were controversial and could not reassure the Government as to the outcome of litigation in local courts, or before the International Court of Justice. Unilateral cancellation of exploration permits was therefore considered a risky move. Furthermore, any legal proceeding would undoubtedly be protracted, and until it was resolved it would be very difficult to lease the areas in the Negev and the coastal plain to other organizations. It was decided, therefore, to delay taking action concerning oil-prospecting concessions. This proved to be a wise decision, since early in November 1952 IPC waived any rights in connection with the oil-prospecting licences which it had received from the Mandatory Government.[4]

It was likewise decided not to replace the refining and distributing concessions unilaterally but to enter into negotiations designed to revise the agreements and thus further Israel's interests. It should be noted that by abandoning the idea of nationalization and the legal confrontation options, Israel was not left powerless. It certainly had enough administrative and legislative powers at its disposal to stymie all efforts of the oil companies to operate at a profit. Thus, for example, the Anglo-Iranian concession did not exempt the refinery from any exchange control regulations. The Israeli Government was able, therefore, to institute multiple exchange rates for different sources of foreign exchange. By fixing a very disadvantageous rate for foreign exchange earned by the refinery, the Government could ensure that it made little or no profit. Other measures which were not at odds with the current concessions could also be employed to cut down the commercial value of oil refining and marketing in Israel. Thus price control by the Government for refined products sold to local consumers could critically affect the profitability of the companies' operations in Israel and would constitute a major means of inducing them to be more accommodating. The concessions, as such, were therefore of limited significance unless the concessionaires could secure the goodwill and the cooperation of the Israeli Government. Moreover, the oil companies had invested substantial sums of money in Palestine, a fact which according to Israeli officials reduced somewhat their bargaining power. It was likewise assumed in Jerusalem that the companies would consequently be ready to pay a certain price for the right to operate in Israel, as long as that price was commensurate with the value of their investments in the country. Thus, Israel did not lack the wherewithal to force the oil companies to enter negotiations. On the other hand, the companies if pressed too hard might decide to cease operations in the country. This had, in fact, already happened intermittently during the 1948 War. The Israeli market, as will be shown below, was scarcely an economic attraction at the time. The British oil companies continued to operate the Haifa refinery but after mid-1950 definitely lost any interest in spending money on its modernization. The partial operation of the plant yielded a small profit at best, which resulted in part from the need for continuous readjustment of the processing in order to take three widely different types of crude which arrived at irregular intervals instead of processing one standard crude. Israeli officials were very well informed and extremely concerned about the resulting attitude of the oil company managements towards the Haifa refinery. One of them commented in early March 1953: 'We have all gained the impression here that there already exists a form of 'mental abandonment' in the company as regards Haifa and [that] the difference between that frame of mind and the actual physical and legal status… [is] small'.[5] On the other hand, the oil companies could maximize their profits only by the adoption of a positive posture towards the host country. According to AIOC's Chairman, William Fraser, 'I regard every Government in whose country we operate as a landlord. If I have a good landlord I am also a good tenant'.[6] Israel and the oil companies were therefore involved in what is known in conflict theory as a 'a mixed motive game', or conflict situation where cooperation in efforts at resolution are mutually preferable to unilateral coercion. The crux of the matter, as perceived in Israel, was to improve the concessions – no easy task – thereby rendering oil operations attractive both to Israelis and to the foreign oil companies.

The IPC pipeline concession was of no importance. By itself the pipeline was of little intrinsic value to Israel after the 1948 War. At best, it could be dug out of the ground at considerable expense and used for other purposes. The benefits that Israel derived from the line were relatively inconsequential. The IPC did not pay taxes, it was exempted from import duties and it offered only limited employment possibilities. As for the port activities and income from the operation of the oil dock, Israel was better off without the pipeline terminal as long as CRL was located at Haifa. The maximum reasonable benefits which Israel could expect from any crude pipeline were revenue through fiscal channels, royalties based on throughput and option to buy crude at a reasonable price. As time went by, it became evident that there was no hope that Iraq would in the foreseeable future open the Kirkuk–Haifa pipeline. Thus, while it was certainly necessary to create a new legal framework to suit the circumstances, this was far from urgent. Nor did the oil dock concession granted to IPC and AIOC present a thorny problem to the Israeli Government. Economically speaking, that agreement was perhaps the only one which was in keeping with reality and with the interests of an independent state. A fee of five shillings per ton loaded or discharged in the oil dock and two shillings per ton loaded or discharged in the Haifa Bay through underwater lines represented a good return on the estimated costs of £200 000 for the oil dock. By comparison with other ports, however, the rates were rather low.

The Israeli Government, therefore, considered a satisfactory agreement with CRL the most important subject to be tackled. There were four issues involved in it which entailed decisions by the Israeli Government; oil prices, raw material for petro-chemical development, foreign exchange earned by the company and taxes. Israel had consistently claimed that the principal form of exploitation practised by the oil companies was the excessive prices charged to local consumers. It will be recalled that the companies had been permitted to charge on the basis of the current Gulf of Mexico quotation, plus 50 per cent of the pre-war freight, Gulf–Haifa, plus 50 per cent of the current freight and insurance, Abadan–Haifa. Middle East crude refined in Haifa had thus been priced in Palestine like the refined products brought from the Gulf of Mexico. This arrangement totally disregarded the fact that 55 per cent of the refinery's entire input came through the pipeline from Iraq, 18 per cent by tanker from Tripoli and 27 per cent by tanker from Kuwait. Likewise, it took no account of the fact that Iraqi crude was unquestionably cheaper than American. The Israeli Government also claimed that the middle Gulf quotation rather than the low one was used as a basis for calculating the price, thereby resulting in an increase of anything between 500 mils and 1.5 Israeli pound per ton. It was calculated in Jerusalem that the State could claim back more than $17 million in excessive oil payments made during the British Mandate.

The refinery concession contained no special provision which could serve as a basis for a change in the price structure, but due to several developments since 1948 this issue was not urgent. It should be noted that – by sheer coincidence – the international crude oil structure in the Eastern Hemisphere had undergone a change since the shutdown of the refinery during the early stages of the 1948 War. Previously, cif prices at port of destination had been calculated on the basis of supply from the US Gulf (which made for high prices in the Mediterranean in spite of the low freight rates from the Middle East, the actual source of shipment). It had since been established, step by step, that there was only one fob crude oil price at the Persian Gulf and the cif price at Haifa was therefore now lower than it had been under the previous system. Quotations for finished products did not follow suit and in 1949–50 were still based on US Gulf quotations. This development helped to reduce the price structure to Israel's advantage. However, the closure of the Kirkuk–Haifa line and the Suez Canal to oil earmarked for Israel rendered her highly dependent on oil imported from the Western Hemisphere. Consequently, the claim that Haifa should be classified as a separate 'basing point' for prices forfeited much of its validity due to the impact of the 1948 War. A committee appointed to examine the issue reached the logical conclusion that: 'the effort to reduce prices can not be directed *against* the existing price system but will have to concentrate on obtaining maximum advantage *within* this system'.[7] Thus, for example, Israel raised objections to the companies' practice of including in the crude price the return freight expenses from Venezuela to Israel, despite the fact that oil tankers usually made their way back from the Middle East fully loaded.

The newly established State of Israel had no petro-chemical industry. The presence of a relatively large refinery within its territory which was making no contribution to its economic development spurred efforts to redress that situation. The second major reason for Israeli interest in ameliorating CRL's concessions was the desire to derive chemical products from the refining operations. The raw materials on which the petroleum-based chemical industry largely relied at that time were the so-called olefines – that is, ethylene, propylene and butylene – which were contained in the gases produced by the cracking of light and heavy oil fractions. Israel contemplated creating a company to hold a cracking unit, which would be fed by stocks of the Haifa refinery and would sell back to it those materials which were not exploited for further chemical synthesis. Meanwhile, under the prevailing economic conditions in Israel, and particularly since speed was the essence of any programme, the erection of the cracking unit by the Haifa refinery appeared to be the quickest solution. Such a decision certainly depended on AIOC's long-range plans for the Haifa refinery, which seemed to be unclear in 1949–51. If it took a negative decision it would certainly be unlikely to accept Israel's demand. Even if the company's decision was positive, it could always argue that if it wished to be able to adapt easily to future changes in world market demand, it could not guarantee to supply Israel with raw materials which might later become essential to its own operations. These considerations notwithstanding, it should be noted that CRL could have met some of Israel's demands for assistance in developing petro-chemical industries by supplying raw materials without investing money in cracking operations.

Israel broached several additional desiderata aimed at improving its position *vis à vis* the companies. The first related to foreign exchange. Since that issue had not been of great practical significance when the concessions were granted there was no specific provision covering it in the convention with IPC and AIOC. Israel appeared thus to possess a weapon to be wielded in order to gain some control of the concessionaires' operations. The simplest way to employ it would have been to propose to the refinery that it make available to Israel in foreign exchange the difference in value at Haifa between crude oil at its market value and the value of finished products obtained from the crude. The claim would be justified on the grounds that such difference was due to the industrial processing carried out within Israel. That difference (or 'uplift') amounted in 1949 to between $4 and $6 per ton. Whereas Israel's possible gains from such an arrangement were not insignificant, the oil companies would suffer vast losses as a result of the setting of a precedent whereby a Middle Eastern Government was enabled to capture their refinery's earnings in foreign exchange. The Israeli Government was well aware that the oil companies operating in the Middle East had too much at stake to be able to make allowances for Israel since, thereby, the profitability of their entire refining operations in the region would be endangered. Jerusalem feared that, if pressed on the matter, the companies would prefer to keep the Haifa refinery shut rather than agree to be part of Israel's exchange control system. The conclusion was that – although the demand for exchange controls was certainly a promising bargaining card – Israel's exchange position could be effectively ameliorated not by insistence on that demand. The solution was, rather, to reduce prices and to obtain considerable tax revenue, as the Israeli Government could not – for both economic and political reasons – agree to the continued exemption of the oil companies from local income tax.[8]

The second improvement Israel was interested in effecting in the new agreements with the oil companies was not based on these reasons. Policy-makers were unanimous in their rejection of the current distribution monopoly in the Israeli market. Hence they regarded as an essential goal the establishment of an independent oil-distributing organization which should initially handle at least 20 to 25 per cent of total domestic requirements and would be granted rights to make use of the Haifa refinery for that purpose. Such an arrangement would not only strengthen national interests but also provide a means of checking the size of the distribution margins, and gradually prepare the ground for a possible takeover of the entire market. Israeli experts maintained that while such a company would do more to impel foreign oil companies to lower their prices to a reasonable level than any method of persuasion, its establishment would not imply the dispossession of these companies. Furthermore, Israel was obviously interested in the expansion of the refinery's production beyond the requirements of the local market. Such activity could benefit both its Exchequer by tax revenues and the oil companies themselves, especially if use was made of Middle East oil brought through the Suez Canal. Israeli awareness of the unquestionable importance of reaching agreement with the oil companies concerning import, refining and pricing of oil explains why the issue of oil-prospecting concessions was relegated to the sideline. Finally, and perhaps most significantly, Israeli officials considered a binding arrangement with the oil companies to be the only promising step towards an eventual reopening of the Middle East oil market for Israel.

Some of these arguments were weighed by the Israeli Cabinet at its meeting on 30 August 1949. Its records indicate that the Government did not consider itself the 'successor' to the Palestine Government, and consequently it did not feel itself bound by the terms of the concessions granted to the oil companies under the British Mandate. At the same time it gave its consent to the 'actual prolongation of these concessions' and to the operation of the refinery 'under certain conditions'.[9] These were to be determined in future negotiations with the oil companies. If the Israeli Cabinet hoped for an early conclusion to these negotiations, they were to be disappointed. It took both sides more than three years to finalize them with Heads of Agreement which were never ratified. The process began several weeks after the Cabinet decision, but no binding agreement could be reached, even in theory, until the opening of the refinery was finalized in August 1950.

During meetings in early December 1949 and in early February 1950, the oil companies took the position that it would complicate their relations with the Arab countries if their concession agreements were to be negotiated at that moment. They claimed that if Israel wanted to achieve resumption of normal refining operations, she should not press for opening before the time was ripe. Israel duly accepted this advice. There were several additional reasons why the subsequent negotiations were protracted. First, Israel was not finding it easy to pay for the oil which the oil companies provided under the terms of the July–August 1950 arrangements, even at the time when it was utilizing its sterling balances in England. Furthermore, the fact that these payments were made on a 'hand to mouth' basis reinforced doubts in foreign economic circles as to Israel's ability to honour its financial obligations once these balances were exhausted. On the other hand, these problems certainly strengthened the oil companies' resolve to consolidate their legal rights in an agreement with the Israeli Government which would explicitly reaffirm their rights and thus guarantee proper compensations if the refineries were nationalized.[10]

Second, the oil companies had from very early on expressed their consent to help Israel build up a petro-chemical industry by providing by-products which did not require capital investment, in a way which would not adversely affect their main projects. At the same time the specific demand for renovating the Haifa refinery plant, by construction of a catalytic cracking unit and alkylation plant which was to cost $1.5 million and take three years to build, was not accepted. Not only would such construction greatly increase refinery expenses, but the possible effect on aviation gasoline production would render it noncompetitively priced for export and hence only useful for local consumption. Also influencing the oil companies' stand were the instability of crude oil supply and the uncertainty as to payment for local offtake. These reasons also explained the CRL management's already established unwillingness to expand its regular refining activities beyond the demands of the Israeli market.

Third, although the oil companies did not categorically reject the demand for the establishment of an Israeli distributing company on condition that other foreign oil companies were not involved, the size of the Israeli market and the conditions for operations of an Israeli company naturally involved conflicting interests.

Fourth, the oil companies rejected Israel's proposal for a new price formula (based on cost of crude production at the source, plus actual cost of transport, plus refining margin equal to the difference between the average price of refined products and the posted price of crude at the Gulf of Mexico). However, they manifested willingness to reach compromise on another price formula allowing for lower priced distillates, a process which was bound to involve prolonged negotiations.

Fifth, the most difficult issue, as anticipated, related to Israel's foreign exchange demands which the oil companies vehemently rejected but which for obvious reasons were not removed by the Israelis from the agenda. The companies thus refused to accept Israel's proposals, namely: that a proportion of the foreign exchange obtained from the sales abroad of products refined at Haifa should be surrendered to the Treasury against Israeli currency and that they be permitted to convert their Israeli currency into sterling in annual instalments of 10 per cent capital plus interest.

Sixth, the oil companies regarded exports of refined products as 'crude in transit' and therefore refused to accept Israel's formula that income tax should be levied on the full uplift of the Haifa refinery, both domestic and export sales. Moreover, from the political aspect, they found it difficult to endorse a formal arrangement obliging them to pay income tax to Israel for Arab oil refined at Haifa. Time was thus an essential prerequisite for attempts to bridge these gaps and to settle many other technical and financial differences of opinion.

The seventh major reason for delays was AIOC's preoccupation from mid-1951 with the oil crisis following Iran's nationalization of its oil industry.[11] For some months, that crisis delayed the company's careful preparations for negotiations with the Israeli Government concerning the proposed new convention. The crisis made it all the more urgent for AIOC to finalize the revision of Iraq's oil concessions, a fact which was not likely to encourage flexibility in its negotiations with Israel.[12] For obvious reasons, IPC was clearly anxious to evade formal negotiations with the Israeli Government concerning its assets and preferred to continue in its anomalous legal position in Israel.

And finally, quite a few members of Israel's Cabinet and especially Ben Gurion, the Prime Minister, manifested distinct reluctance to present an agreement with the companies to the Knesset for ratification. This inevitable compromise would have granted significant monopolistic rights to a foreign enterprise for 50 years to come. Israel's chief negotiator, David Horowitz, tried in vain to convince ministers that the proposed agreement 'did not grant the companies anything which was Israel's but actually something which it lacked'.[13] Since the Knesset's endorsement was legally vital for the oil companies it was thus impossible to bring the official process to formal completion.

Thus, the protracted negotiations were never finalized, although interim arrangements were made for regulating the oil transactions between Israel and the oil companies. These were based on compromises which each side preferred to either formal endorsement, or, alternatively, outright rejection of the other's position. On 22 February 1951, the Israeli Cabinet approved Heads of Agreement with the companies to be finalized in future negotiations and to be presented for approval by the Knesset 'in due course' (or, according to Ben Gurion: 'when there is a stable Cabinet'). Israel's Prime Minister insisted that the Heads of Agreement should be defined as 'dealing with the refineries' and not as an accord between Israel and the oil companies. The oil companies agreed to pay income tax for previous years, including the Mandatory period. At the same time, the basis for assessing future income tax was left open for the time being. This was one of the basic reasons for the Government's reluctance to request the Knesset's approval of the Heads of Agreement. Israel's claims to a share of foreign currency earnings from the sale of refined products were spurned and consequently abandoned. While prices were not definitely fixed, by-products were to be available for a petro-chemical industry at nominal prices of waste, and otherwise at marketed prices or prices of substitutes. The Israeli Government was also permitted to participate in the local market to the extent of up to 30 per cent, by buying crude oil and having it refined by CRL or by purchasing a share of the refined products on the same terms as Shell or Socony Vacuum but with no authority to export. The oil companies gave no written commitment to maintain any particular level of output, but rather an understanding that the refineries would go on operating efficiently to cover Israel's domestic needs. Likewise, no mention was made of the IPC's exploration licences in the Negev which – by tacit consent – seemed to have been left in abeyance until the position of the refineries had been regularized.[14]

Most of the outstanding issues were still pending a year later when a high-ranking Israeli delegation failed to bring intensive negotiations with oil companies' officials in London to a final conclusion. During the intervening twelve months, only one of the provisions of that Agreement was implemented (settlement of taxes due the Israeli Government to the end of 1950) and only one other was in the process of being effected. The latter provided for an Israel Government-sponsored marketing company. That organization, named 'Delek' (Hebrew for 'fuel'), had actually been established and hoped – by exercising the options provided by the agreement – to enter the local market in the second quarter of 1952. Another unexpected development with positive implications – unconnected with the ongoing negotiations – occurred early in July. The Iraq Petroleum Company left the Israeli Government a clear field for oil exploration by notifying it that the company had no further interest in oil prospecting in Israel and thus removing a potentially thorny issue from the agenda. In other respects, however, the Agreement could hardly be considered satisfactory to both sides. First, the AIOC and CRL concessions in Israel were not ratified by the Israeli parliament. Second – on the one hand – the tax position of oil companies was settled up to the end of 1950. Their claim that CRL could not be considered a profit-making concern under prevailing circumstances – so that tax should not be levied on income tax but should be based instead on a lump-sum payment – was in fact approved by the Israeli Government. On the other hand, the rather loose provisions for the annual computation of current taxes resulted in quite divergent interpretations by the Israeli Government and the oil companies. And, finally, the variety and quantity of the products produced by the refinery did not increase to an extent satisfactory to the Israelis. CRL also failed to reactivate a combination cracking and distillation unit, as agreed (which would have raised the octane rating of straight run gasoline) and constantly refused to commission a catalytic cracker and an alkylation unit. Accordingly, Israel was unable to derive even a part of its aviation gasoline needs from local production and was also obliged to import sizeable quantities of motor fuel. The negotiations which dragged on throughout 1952 (and were interrupted for several months following the death of Israel's former Finance Minister) did not resolve basic issues such as what taxes CRL was to pay to the Israeli Government, its relationship to the Israeli petro-chemical industry, and the right of Delek to have crude oil refined by CRL.[15] The company and the Israeli Government nevertheless continued to cooperate on the general basis of the Heads of Agreement of 1951 and according to day-to-day arrangements, which were modified as necessary.

The ongoing negotiations ended in early 1953; on 25 February the Final Draft of Agreement between Israel, AIOC and CRL governing the companies' operations was initialled by the Israeli Government subject to agreement on certain outstanding points. According to the agreement, CRL would make a lump-sum payment to cover all past outstanding claims for payments and henceforward would pay an annual tax whose rate was to be negotiated. Under the terms of the draft convention, the company would have the right to import whatever it desired without an import licence, but would pay customs duties on all 'consumer goods'. Delek, for its part, would continue to receive throughput rights for 1953 equal to 15 per cent of the refinery production for the domestic market; this figure was to be increased by 5 per cent a year to a maximum of 30 per cent in 1956. And finally, CRL undertook to bring its cracking plant into operation to raise the gasoline octane, and also to produce as needed certain selected products that had previously been imported. While providing a legal basis for the oil companies' operations and legal protection for their established positions, the Draft Agreement also effected several benefits to Israel, in particular the securing of the oil companies' continued operations and qualified cooperation in expanding Israel's independent oil enterprises up to a certain limit. The annual income from taxes on the companies was more than half a million dollars, and $2.5 million if the refinery operated at full capacity. The Agreement specified that in order to assist in the development in Israel of industries for the production of petro-chemicals, CRL 'shall use its best endeavour to make such raw materials available from petroleum processing' provided that 'the normal commercial operations of the refinery are not thereby prejudiced'.[16]

However, there were also several weighty disadvantages to the agreement. First, it placed stringent limits on the Government's imports of crude oil, and of refined products and local purchases of additional refined products. This could effectively prevent it from eventually taking over the marketing either of all or one of the petroleum products. Second, the contracting period of 49 years was widely considered to be excessive for an agreement which retained actual control of oil import and distribution in the hands of foreign companies. Third, the draft did not contain a general clause granting specific rights to the Israeli Government in the event that CRL was operated by the owners for purposes detrimental to the security or economy of the country. Fourth, it explicitly prevented the export of any product refined in Haifa by the Israeli Government. Fifth, it did not bind the company to refine crude in excess of Israel's domestic requirements, not even when and if crude oil of Israeli origin became available. Sixth, it banned the production in Haifa of aviation spirit. Seventh, Israel was unable to successfully challenge the oil companies' claim that as a buyer of refined products and not crude oil it was obliged to pay the Gulf-plus price without taking into consideration the actual price of crude. Israel's claim that – as a country East of Suez – it was entitled to pay transportation costs based on the Persian Gulf, was likewise not accepted. And eighth, although the Draft Agreement provided for arbitration procedures in case of disputes, the oil companies could well afford prolonged legal proceedings, whereas Israel was definitely incapable of so doing. Serious doubts were therefore cast in government circles, especially in the Army and Ministry of Defence, as to whether the Final Draft Agreement was compatible with Israel's economic and defence requirements. Thus they asked whether better terms could be extracted from the oil companies and whether – if that proved impossible – the legally flawed status quo was nevertheless preferable. It is clear that these doubts were responsible for the decision to initial the Draft Agreement in order to secure some of its advantages but at the same time not to present it to the Knesset for approval. This procedure repeated the pattern established in 1951, which avoided ratification and thus left some room for manoeuvres.[17]

The formal pretext for the delay of ratification were the several unsettled items in the Draft, which took more than nine months, till the end of November 1953, to finalize. By that time, several developments had occurred which forced Israel and the oil companies onto a collision course concerning oil supply from Middle East sources and offered Israel tempting opportunities to broaden its oil acquisition beyond the Anglo-American circle. As a result of these developments, the Israeli Government was initially even less eager to complete the legal process. For their own reasons, the oil companies adopted a similar attitude, during 1954 appearing to lose much of their interest in the original 1953 Draft Agreement. The outcome was that in 1957 – when the oil companies terminated their business connections in Israel – the 1953 Draft Agreement was still unratified. The Government, however, was not legally free until then to promote its oil interests as it saw fit. In the final analysis, the Heads of Agreement of 1951 and the Draft Agreement of 1953 provided actual restricting legal frameworks within which Israel was nevertheless able (until 1958) to engage in efforts to improve its position with regard to the oil companies, especially by independent oil purchases from Kuwait, Russia and Iran. These major endeavours are the subject of the following chapters.

Part II Between Moscow and Tehran

7 The Establishment of the Delek Oil Company

The dependence on foreign companies (especially British ones) which had been given legal expression in the 1953 Draft Agreement naturally influenced Israel's search for an independent oil supply. It was forced to come to terms with the economic and political interests of these companies, due among other reasons, to several internal and external constraints on its freedom of action. This chapter will analyse how Israel coped with these difficulties from mid-1950 till the establishment of an independent national oil company two years later, which enabled initial, limited activity in the areas of import and marketing of oil and eventually laid the groundwork, as will be described in the subsequent chapters, for expanding Israel's role in its own energy economy.

The first internal constraint facing Israel was the steep upward trend of domestic oil consumption due to the fast rate of population and economic growth (the compounded average annual growth rate of its GNP for 1950–8 was 11.4 per cent)[1] during Israel's formative period (see Table 7.1).

By 1953 Israel's overall demand for oil distillates stabilized at 1 170 000 tons, 270 000 of which were imported from overseas while the rest was derived from over one million tons of crude refined at Haifa. In 1954 the changes were insignificant.[2] The per capita consumption in the country reached 738 kg per year at that time. As Table 7.2 shows, Israel had a higher petroleum consumption per capita than any European country with the exception of Sweden.

This interesting fact did not, of course, stem from Israel's advanced state of industrialization and agricultural mechanization, but was rather due, as noted earlier, to Israel's lack of an alternative source of energy, like coal or hydroelectric power.

It is understandable, therefore, that concomitantly with the Government's efforts to secure oil imports designed to meet growing requirements it attempted to control the increasing demand or to confine it to several economic sectors. The frequent shortages of oil during the first five years of statehood forced it to try various means to restrict consumption, which proved less than effective. During the 1948 War and until the middle of 1949 petroleum distillates were rationed. Notwithstanding the high morale of the population during the war and immediately afterwards, a rampant black market in petroleum products developed. Thus military fuel needs were

Table 7.1 Israel's Oil Consumption, May 1948–62 (in tons)

Year	*Benzine*	*Kerosene*	*Gas Oil*	*Fuel Oil*	*Total**	*Index*
1948/9	77 815	58 513	51 066	211 006	398 390	100.0
1949/50	114 770	85 713	86 359	284 752	571 594	143.5
1950/51	147 770	99 945	115 901	365 266	728 888	182.4
1951/2	173 380	125 748	132 584	398 738	830 450	208.4
1952/3	167 790	125 534	135 160	487 444	915 928	227.1
1953/4	175 682	143 217	154 495	589 986	1 063 380	266.9
1955	184 000	244 000	184 000	694 000	1 247 379	302.1
1956	205 000	175 000	222 000	684 000	1 339 398	336.4
1957	179 628	147 562	232 145	765 641	1 397 582	350.8
1958	191 000	157 500	264 800	841 900	1 525 900	383.3
1959	185 000	173 000	293 000	959 000	1 680 000	421.6
1960	94 000	191 000	315 000	1 009 000	1 760 000	441.7
1961	211 000	227 000	341 000	1 132 000	1 978 000	496.4
1962	220 000	249 000	377 000	1 247 000	2 165 000	543.4
1963	242 612	200 955	412 628	1 389 873	2 369 093	594.6

Note: * Including miscellaneous from 1954.
Sources: Report of the Oil Investigation Committee, 10 November 1954, ISA 601/9; G. Meron, 'The Oil Crisis and Israel', *Davar*, 20 March 1957, Hebrew; a memorandum dated 4 September 1957, ISA 2968/75; an undated *aide-mémoire*, probably from early July 1958, ISA 2954/2; a memorandum dated 23 January 1959, ISA 2968/74/C; M. Sherman, 'On Organizing the Oil Distributing Market in Israel', *Petroleum World*, December 1962, p. 27, Hebrew; *Petroleum World*, April 1964, p. 33, Hebrew; and *The Israeli Government Year Book* (Jerusalem, 1963), p. 76.

Table 7.2 Yearly Oil Consumption Per Capita 1953 (kilograms): A Comparative Perspective

USA	2423	Holland	300
Canada	1715	France	293
Sweden	752	Italy	152
Israel	613	Austria	151
Australia	566 (in 1952)	Greece	142
Norway	542	Federal Republic of Germany	132
Denmark	446	Portugal	91
England	349	Spain	74
Belgium	335	Turkey	42
Switzerland	303	Yugoslavia	30

Source: Report of the Fuel Committee, 10 November 1954, ISA 601/9.

inflated to double the true requirements during rationing, and many essential undertakings (such as bakeries) did not operate at all but made a profit from illegal sale of their fuel allocations. As a consequence, rationing was soon abolished. In 1950, in order to overcome difficulties with payments and low stocks of benzine, the State Fuel Controller decided to cut total benzine deliveries by the marketing companies by 10 per cent. The acute shortage of benzine which ensued caused long queues to form at all service stations. Many truck drivers spent their time queuing for fuel, which they then sold on the black market. Benzine deliveries for agriculture were almost completely halted and the supply of vegetables began to dwindle. An attempt was then made to restrict private vehicles to certain zones, but the system failed as a result of sloppy implementation and control. The subsequent decision to ban most vehicles from the road one or two days per week collapsed under the sheer weight of impracticality. Government officials, including Foreign Ministry staff, were ordered to resort to public transportation for inter-city travel. It should be noted that even had these efforts been crowned with success, their impact could only have been marginal as private cars accounted for a very small share in the total oil consumption – less than 3 per cent in 1954/5 (see Table 7.3). Since, on the one hand, the curtailment of transportation was only possible up to a certain

Table 7.3 Israel's Oil Consumption By Sectors, 1952–5

	1952/3		*1954/5*	
Sector	*Metric Tons*	*%*	*Metric Tons*	*%*
Army & government	58 000	6.1	73 600	5.8
Civil aviation	4 400	0.5	3 000	0.3
Shipping	53 100	5.7	91 100	7.3
Trains	18 200	1.9	17 200	1.4
Trucks	73 000	7.7	89 000	7.0
Buses	27 400	2.9	30 500	2.4
Cars	45 800	4.8	50 800	4.0
Agriculture	71 000	7.5	87 100	6.9
Industry	121 500	12.8	182 000	14.4
Cement	62 000	6.5	128 200	10.1
Electricity	308 200	32.5	394 300	31.2
Total	948 700	100.00	1 264 000	100.00

Source: Report of the Fuel Committee, 10 November 1954, ISA 601/9. See also Pinkas' comments at a meeting of the Economic Committee of the Knesset, 10 June 1952, ISA.

limit without seriously impeding the movement of the working public, and since benzine consumption for leisure driving was an insignificant factor, it followed that more drastic restrictions could not result in any real saving. Nevertheless, it was decided to limit the import of motor vehicles to a very small minimum, and government control was imposed on gasoline and other petroleum prices – which included a very high customs charge plus a small profit margin. To restrict kerosene consumption would have much more serious consequences, especially during the winter months, since this traditional 'poor man's fuel' was indispensable for domestic use and – to a certain degree – for tractors. There remained heavy and light fuel which accounted for two-thirds of the total consumption. For sound economic reasons it was not desirable to limit oil consumption for agriculture, industry and electricity. The demand growth rate for the latter in 1949–52 can be seen in Table 7.4 to correspond to a redoubling period of 2.9 years.

Still, light distillates (benzine and kerosene) declined from over 38 per cent of total consumption in 1948 to about 27 per cent in 1955. On the other hand, the heavier oils – which were used primarily for electricity generation, industry and agriculture – increased in importance during the same period. Undoubtedly, the trend was to use more of the oil for production purposes and less for direct consumption. Various other means were employed to achieve saving. Thus, for example, in 1952 the Government launched a relatively successful campaign to convert industry from light fuel oil to bunker fuel oil. The fuel saving was nevertheless insignificant

Table 7.4 Electricity Consumption in Palestine and Israel, 1945–52 and 1953 (Estimated)

Year	*Million kW*	*% Change*
1945	25.5+	14.7+
1946	33.9+	17.0+
1947	48.3+	20.7+
1948	35.1−	12.5−
1949	68.8+	27.9+
1950	128.4+	40.8+
1951	88.6+	20.0+
1952	97.0+	18.2+
1953	190.0+	30.2+

Source: Israel Electrical Company report, 24 December 1952, IDFA 488/55/212.

due among other things to the fact that – with the exception of electricity – none of the 16 other oil-consuming sectors absorbed more than 13 per cent of the total. The achievements in fuel saving could therefore hardly alleviate the grave concern among Israel's leaders at that time at the prospect of economic breakdown resulting from possible drastic reduction of oil supply. It should be noted that most of the oil imported to satisfy Israel's needs was crude oil. In 1955, of the total import of 1 457 000 tons, 72 per cent was crude oil and 28 per cent refined products. An overwhelming proportion of the refined products imported into Israel was fuel oil, and the remainder consisted of aviation gasoline, lubricants and other specialty products. This situation was the result of the partial exploitation of the refinery due to the oil companies' reluctance to use it for export purposes. Consequently, the plant's basket of refined products geared to local requirements of benzine, kerosene and gas oil, provided less fuel oil than needed. Hence, although the crude oil run supplied domestic consumption needs for all 'white products', it was necessary to supplement domestic fuel oil production by import of relatively significant quantities of distillates.

The second constraint confronting the government were the acute financial problems which brought the country's supply system on several occasions to the verge of collapse during Israel's first half-decade. Its spending on oil acquisition greatly aggravated the already shaky balance of payments position (see Appendixes 1 and 2). Thus, an outlay of some $35 million for petroleum products consisted of no less than one-third of the $105 million deficit in 1951. The country was expected to spend $40–45 million on petroleum in 1952, while forecasts for 1953 were in the vicinity of $50–60 million. The rapidly rising consumption trend was expected to continue for a number of years. Customs and other taxes on petroleum products and company assets and earnings, although bringing over IL 9 million to the Israeli Treasury in 1951, could hardly cover this expenditure. Israel managed to overcome the problem in the initial stages. American oil companies were paid in part through the American Grant-in-Aid programme regulated by the Foreign Operations Administration (hereafter FOA). Likewise, due to the release of the Israeli Sterling Balances in London, Jerusalem was able to finance the bulk of its oil purchases, acquired from British companies during the first two years of statehood. It should be noted that almost half of the £12.8 million released between November 1949 and December 1950 were allocated for oil purchases, mainly from British oil companies.[3] And when the agreed allocation for 1950 was exhausted, the British Government decided in December 1950 to approve Israel's request to expedite the release of the remaining £14 million on the grounds that much of it would cover sterling oil purchases. The situation changed drastically as the shortage of alternative financial sources became evident in mid-1951. As a result, Shell was obliged initially to reduce supplies to Israel to a cash for delivery basis, as did the American oil companies. Several months later the British company simply decided to cut off oil supply to Israel due to its growing debts and inability to honour its financial obligations. This prompted the *Observer* to share with its readers the opinion that 'Israel faces economic collapse'.[4] The fact was that Israel had been left with oil stocks for a mere four weeks' consumption, and was in danger 'of a complete paralysis'. The British Foreign Office shared Israel's grave apprehensions which predicted that such an eventuality was likely to have a grave effect on political and economic relations with Israel, and intervened to delay the implementation of Shell's decision for a few months. It was only due to rather frantic financial efforts and unorthodox fund-raising on Israel's part that the decision was cancelled in late May 1952.

Long-term supply, however, was still not assured. Jerusalem had hoped, following the drain of the sterling balances, to obtain credit from the United Kingdom to cover its oil purchases. However, the responses to the requests which had been made from 1951 were uniformly negative. There was certainly a political reason for the refusal. The Foreign Office was naturally concerned about the possible reaction of the Arabs towards such economic support for Israel and opined that since the country's problem was 'a long term one' and as the State Department appeared 'to accept that Israel was a recognized burden of the United States ... [Israel] must look to the U.S. rather than the United Kingdom for assistance'.[5] This view was supported by economic reasons which dominated British political thinking on oil supply for Israel. First and foremost, the United Kingdom's economic situation in the late 1940s and early 1950s severely restricted the possibility of extending credits. Furthermore, granting of concessions to Israel would put Britain under pressure to match them with similar concessions to the Arab States. Second, in the case of Israel – apart from the understandable doubts cast on its ability to repay debts – the basic question which the Treasury posed was not how it could maintain Britain's exports to Israel but whether it would pay to do so. British financial experts were clearly of the opinion that whereas – at the end of the Mandate – Britain had been 'well ensconced' in the Israeli market, that market was not important to them in the long term. While concerned at the inevitable prospect of a drop in exports to Israel after 1948, the Treasury refused to sanction measures which did not yield fair returns merely for the sake of maintaining trade. There were two criteria likely to determine whether the return would be adequate: price and types of goods. Israeli prices were high, in 1952 5 per cent higher than those of Spain and Italy and over twice the American price. As regards goods, apart from citrus, there was no Israeli product which Britain was anxious to import on a sufficient scale to bridge the gap between Israel's citrus earnings (£4.5 million in 1951) and British exports, mainly oil (£12 million). Britain could not then afford luxury imports from Israel such as fruit juices, confectionery, wines, flowers and plastic novelties, while the idea of importing textiles seemed to the British Treasury 'unrealistic'. In the short run, therefore, the granting of long-term credit and purchase of nonessentials from Israel so as to boost her sterling earnings seemed unreasonable economically. Neither was the long-term perspective promising. As viewed from London, the Israeli economy seemed to be developing along lines not dissimilar to Britain's – that is, importing raw materials and exporting mainly finished goods. If anything, its economy would, therefore, be more likely to compete with rather than complement Britain's economy. The prevailing prognosis was, therefore, that it was probably worthwhile to keep a foot in the Israeli market, and that Israel's citrus earnings plus her other sterling earnings sufficed for this purpose without need for extension of credit.

In fact, these other earnings, which stemmed largely from Israel's Reparations Agreement with Germany, constituted the third constraint on her freedom of action *vis à vis* British oil companies. Under the agreement signed on September 1952, the German Federal Republic undertook to pay the Israeli Government 3450 million Deutschmarks (about £290 million) over a period of 12 years. It had far-reaching implications for the Israeli economy and two specific and contradictory implications for its oil acquisition. An almost inevitable consequence of the agreement was the sharp reduction in the British export to Israel of goods which Germany was to supply. This could not but diminish further the slim prospect that Britain might grant Israel financial credit which could be used to purchase oil. On the other hand, the Agreement had far-reaching positive impact on oil deliveries. For the two-year period up to the end of March 1954, the Germans agreed – as part of the reparations – to pay 75 million DM (about £6.5 million) each year to finance Israel's purchases of crude oil from United Kingdom companies. The arrangement meant that these companies continued to supply Israel with crude in the normal way, but the oil bill was sent directly to Germany and settled in sterling. The deal, in fact, was basically conducted between Germany and Britain for provision of oil by British companies to Israel. Chancellor Adenauer was especially enthusiastic about that section of the Reparations Agreement as 'a quick and impressive' manifestation of German assistance to Israel's economy.[6] Since Germany had at that time a large surplus to its credit in its trade relations with Britain, the British for their part had no objection to these payment arrangements for oil purchases until the end of March 1954 but asked to be consulted before they were extended beyond that time.[7] When the time came, the agreement for payment of 75 million DM was extended for another two years. Thus for the time being Israel solved one of its most pressing problems relating to oil supply (see Appendix 3). Moreover, Israel's ability to pay in sterling established her as a desirable customer in the eyes of the British companies. These facts and the aforementioned constraints which had affected Israel's position in the discussions leading to the 1951 Heads of Agreement and the 1953 Draft Agreement with the British companies made it totally unacceptable for Israel to embark on an open collision course with the British oil companies concerning independent oil purchases or drastic changes in the shares of the domestic distributing market. On the other hand, the leaders of the fledgling state could hardly be expected to accept readily what was widely viewed as a virtual foreign monopoly over the supply of its main energy source. Gradual and cautious action aimed at preventing such monopolization and preparing the ground for eventual takeover was thus an understandable course of action. The same was true of the endeavours to redress the situation of Israel's detachment from Middle East oil sources.

Both aims were promoted by the establishment of an independent Israeli fuel corporation integrated into the existing oil import and distribution network. Such a company would have created competition, leading to a reduction in the cost of oil. Most of the Israeli officials concerned were convinced that the Government could not leave so vital a commodity in the hands of foreign companies which in time of trouble could withhold petroleum products from Israel. It should be noted, however, that a small minority were of the opinion that a marketing company could serve no useful purpose in time of national emergency, and that it would better serve Israel's interests to acquire tankers which could be employed in times of crisis when foreign firms might be unwilling to risk their tankers. The company became a legal reality only two full years after the Government made up its mind to establish it – and even then it operated only on a very small scale. This is understandable in light of the aforementioned difficulties in concluding agreements replacing the Mandatory-era concession to the oil companies.

The initial formal step was taken at the end of August 1949 following the Israeli Cabinet's endorsement of an *ad hoc* committee's recommendation. During preliminary negotiations with the oil companies in mid-December, Israel asked to be granted the rights to acquire and refine certain quantities of crude at Haifa at reasonable prices, and also to acquire certain quantities of refined products, making use of the Haifa storage and pipeline installations of the oil companies. In return, it offered an undertaking that none of the refined products would be exported. For obvious reasons, the oil companies proved less than enthusiastic. The Anglo-Iranian representatives pointed out that they could not agree that the Haifa refineries should make the allocation because the total quantity would be deducted from their oil percentage. IPC's representatives followed suit, and since Shell's representatives were absent, no reaction could be solicited from them. The ensuing discussions were essentially theoretical, as no actual agreement could be achieved prior to the settlement on the operation of the refineries which was concluded only in mid-1950. However, the intermediate negotiations prepared the ground on both sides for an eventual agreement on that issue.

In February, for the first time, Israel approached the Shell Petroleum Company, the largest distributing company in Israel, with a suggestion that they make room in Israel for an Israeli Petroleum Company. This company would be formed to take up a 35 per cent share of the distribution of oil products within the country. It was proposed that the company gradually build up its trade and the facilities for handling it, but in the early stages receive assistance in regard to facilities from the existing oil companies. It was also suggested that, when the refinery went into operation, the company should be supplied with products from the refinery at whatever basic price might be agreed for such products when consumed in Israel. Shell's initial reaction was far from positive. Its representatives claimed that the plan contravened Israel's declared policy of encouraging the investment of foreign capital, and that it would be necessary for the oil companies to reconsider their development plans if they were to be deprived of part of the share of trade built up over a period of years. It was also argued that the proposal would involve the duplication and multiplication of facilities which in turn would inevitably result in increased marketing costs. At the same time, they indicated that they did not wish to adopt too rigid an attitude towards the proposal if the Israeli Government attached major importance to it and was convinced that it was in Israel's interests. However, further progress in the negotiations was blocked by the disclosure by Israeli representatives that the Jewish-owned Manchester Oil Refineries, Petrofrance and an American interest, would become minority shareholders in the new Israeli company. The plan was to create a company with 45 per cent Israeli private capital, 10 per cent Government capital and no less than 45 per cent foreign capital.

The latter was to be divided evenly between the three companies. Jerusalem's perspective was clear. Foreign oil companies could provide not only financial backing but also badly needed operative experience and connections crucial for the establishment of alternative supply sources for Israel. Thus, for example, Manchester Oil, whose managing director was Dr Kind (a known supporter of the Zionist cause), was closely associated with Aquila refinery in Trieste, the Albetros refinery in Belgium and the planned Condor refinery in Italy. Shell's vehement objections were also understandable. While willing to consider the idea of a local Israeli company, they could see no justification for their displacement by other foreign capital. Shell was fully supported on that point by Anglo-Iranian as managers of CRL. The companies maintained that other foreign interests, which had no oil of their own in Israel, nor any established investment in the petroleum business in Israel, and had risked no capital in the development of outfields or the construction of refineries for the supply of local markets, ought not to be placed in a privileged position at the expense of the established oil companies. As Bridgeman later phrased it, 'you can hardly expect us to present on a plate to other oil companies what we have created there by our substantial investment of work and money'.[8] It is also reasonable to assume that the exclusion of these new companies was highly desirable for British oil interests, as it was liable to slow down Israel's takeover of the local market.

Israeli authorities encountered scant opposition to their plans from American oil companies operating in the country. When informed in late March, Socony Vacuum representatives did not object to the entry of another company into the Israeli field for marketing petroleum products 'on a fair competitive basis'. The attitude clearly stemmed from their position as junior partners who were in a relatively weak position (holding a quota of 25–30 per cent) and probably also due to guarantees by Israeli authorities to secure their position. Ostensibly the formal position of Standard Oil of New Jersey did not differ from Socony's. Its managers believed that the Israeli Government would not adopt any official measures to eliminate competition from foreign distributing companies in Israel. Nevertheless, it was assumed that the new company would undoubtedly be favoured to such an extent that the operations of the three distributing companies would be curtailed by economic forces. In other words, the entry of a fourth company into the restricted (yet rapidly growing) field would naturally reduce the business of the three established companies and the smallest of them – holding the quota of barely 15 per cent of the market – was bound to be hit hardest. The decision reached, therefore, as early as May 1950 and implemented only four years later, was to induce the new Israeli company to buy Standard Oil's share. The initial informal approach was made by the American Consul in Tel Aviv early in June but received no response.

It was the attitude of the American oil companies which probably accounted for the fact that Jerusalem initially showed no readiness to compromise on that issue. Discussions were held in March and April between representatives of Israeli and of the foreign shareholders of the planned oil company, the protests of Anglo-Iranian notwithstanding. It became clear eventually to Israeli officials that shareholding by foreign companies would never be tolerated by British oil companies. The latter threatened to curtail drastically the planned improvements of their facilities, and it was Israel's impression that insistence on the original plan would endanger the entire project.[9] Jerusalem finally found it advisable to give in while insisting that the company be allowed to benefit from foreign advisers. The agreement to open the Haifa refinery reached in London in early June definitely made it easier for the Israelis to remove from the negotiating table what they and British oil companies considered to be a major stumbling block.

If the Israeli authorities expected an agreement facilitating the establishment of an independent oil-distributing company to follow suit rapidly, they were greatly disappointed. It will be recalled that while in New York, David Horowitz was totally surprised to learn of the State Department's strong objection to formation of the company, which was considered a first step towards excluding American oil companies from Israel's market. It is difficult to ascertain whether this step followed upon an approach by the oil companies or was in fact an independent move. What is clear, however, is that the stakes were so high that Horowitz found it expedient to assure the State Department that the plan had been discarded by the Israeli Government. Yet by December, Israel had resumed negotiations on the subject with British oil companies. The latter consented in principle to the demand to grant Israel rights to independent purchase of crude and refined oil and rights to refine and distribute it. Deliberations focused on an agreed ceiling for these activities, which, as Bridgeman put it, would 'limit' harm to the oil companies. Cognizant of these apprehensions, of the fast growing local demand for oil which augured well for all oil companies, and of the difficulty entailed in activating the independent oil company, Israel proposed a sliding scale for the scope of its activities, starting with the provision of 15 per cent of local consumption, rising to 35 per cent. The oil companies accepted the principle and the Israeli Government was allowed to participate in the local market to the extent of 30 per cent by buying crude and having it refined by CRL or by purchasing a share of the refined products on the same terms as Shell or Socony Vacuum. According to the sliding principle, the national company was entitled to import, refine and market 20 per cent of local requirements in 1953, 25 per cent in 1954 and 30 per cent in 1955. The estimated quantities were 260000, 390000 and 590000 tons respectively. The options did not, however, include permission to export. This being so, CRL was obliged to revise its arrangements with the Jersey (Esso) and Socony subsidiaries. On 30 January 1951, the aforementioned Heads of Agreement was duly signed between the Israeli representatives and the oil companies, including provisions for the establishment of an independent Israeli oil-importing and -distributing company.

The initial planning steps were duly taken three weeks later, but it took almost a year to complete them. Israel encountered several difficulties in translating plans into action. By March, due to the complications involved in the nationalization of Iranian oil, most companies were unwilling to commit their crude supply for 1952 because of fear of severe shortages in the event that the Iranian output was diminished or cut off completely. By May, however, Socony Vacuum and Esso agreed to supply the required crude and on 1 June they undertook to deliver 100000 tons of Venezuelan oil to the Israeli Government in 1952. Israel undertook to take charge of the charter of tankers, paying for handling and refining in Israel and thus saving hard currency 'identical with the – though fluctuating – still sometimes extremely high profit margin accruing to the foreign oil companies'. It should be noted that payment for that deal had been arranged through the Grant-in-Aid programme operated through the Foreign Relations Administration (FOA).

The agreement was signed although the Israeli distributing company had not in fact yet been constituted. A year later, on 7 July 1952, the first shipment under the agreement arrived in Haifa.[10] The terms of the first agreement clearly reflected one of Jerusalem's main aims, which obviously went beyond the issue of sheer supply. It specified that – in the event in the course of the contract period – it became feasible to transport any Middle East crude oil destined for Israel, either by tanker through the Suez Canal or by pipeline, Israel was entitled to request that Socony Vacuum make available such oil in lieu of Venezuelan crude, and to terminate the contract if the oil company were not in a position to do so.

As Israel had no tankers at that time, shipments had to be synchronized with imports by other companies, so as to maintain an even flow at the refinery. That was hardly a trivial issue, since the contract with Socony Vacuum had been signed before the conclusion of the ratifying process for reaffirmation of the Heads of Agreement. It is not surprising, therefore, that Anglo-Iranian 'felt very strongly' about the implications of the Israeli refining option 'as it stood' and why Israeli officials considered their grudging cooperation in that matter 'an act of good will'.[11] It was only in mid-November that CRL formally agreed 'as a temporary arrangement' to process Government-owned crude oil at the refinery. Israel accepted the qualitative specifications imposed by Anglo-Iranian on the quality of crude imported by Israel for refining purposes. This meant that Israel was authorized to tender oil of a major Middle East crude type, or a type not inferior to the average Middle East crude quality at the Haifa refinery – which 'would not prejudice the normal commercial operations of the refinery'. The refining charges, however, were based on the assumption that the refinery would be operating at full capacity and were consequently lower than those paid by other oil companies. The Israelis considered that concession mandatory in view of Delek's probable difficulties, and totally justified in light of the reluctance of Shell and AIOC to resume full operation of the plant. The British companies acquiesced reluctantly, but after discovering eventually that the concession accounted for much of their operating losses tried in vain to rescind it. By early December 1951, the procedure for the formal establishment of the company had been completed and on 12 December the Israel Fuel Corporation ('Delek') came into being. The arrangements with the oil companies were later incorporated into the Draft Agreement initialled in February 1953, but as noted earlier, they were not finalized. In strict legal terms the agreement between Delek and CRL became operative by virtue of an *ad hoc* agreement between the parties.

The stockholders of the company were: the Government of Israel – 10 per cent; the Israel Investment and Finance Corporation (affiliated to the Palestine Discount Bank) representing also foreign investors (including US businessman Rudolf Sonneborn) – 30 per cent; the Palestine Economic Corporation, New York – 5 per cent; Bank Leumi Le'Israel – 10 per cent; Noa, the umbrella organization of the transport cooperative societies – 17.5 per cent; and Hamashbir Hamerkazi, the Histadrut's cooperative wholesale purchasing organization (the last two representing foreign investors through AMPAL) – 17.5 per cent; the American Palestine Trading Corporation, New York – 17.5 per cent; and 'Zim' Israel Navigation Company – 10 per cent. Emanuel Racine, the former director of a fuel marketing organization in Paris was appointed as Commercial Manager. The main operative aims of the company were to purchase crude oil abroad, have it refined by CRL on a contract basis and earmark the refined products for the company's own use. As these activities naturally involved diplomatic endeavours, the Foreign Office and the Petroleum Division of the Finance Ministry filled important positions. Gershon Meron, hitherto Director of the Economic Division, Ministry for Foreign Affairs, was appointed Managing Director of the Company and Dr Felix Shinnar, Economic Adviser to the Ministry of Foreign Affairs, and Israel Kosloff, Petroleum Director and Oil Adviser to the Ministry of Finance, served on the Executive Committee of the Company. Moreover, from very early on, Kosloff actually conducted the company's external contacts on behalf of the Israeli Government.

Delek's operations were expected to secure for the company at least the margin between self-cost and local sale price, which until then had gone entirely to the foreign oil companies. Quite apart from securing a reasonable profit, the situation involved a considerable saving in hard currency for the Israeli economy, estimated at several hundred thousand dollars in the first year alone. On the one hand, from its inception the company faced a favourable market situation in Israel. Thus, as it was already connected in part through its shareholders with the most important bulk consumers in the country, there was barely any need to canvass for new buyers. As soon as refining of the first consignment of crude started, specific sales arrangements were concluded with the main consumers (the army, the navy, the merchant marine, the Palestine Electric Company, the transport cooperative societies, Hamashbir Hamerkazi, communal settlements, and so on). In that manner, a large clientele was secured with the advantage that the company, at least in the initial stage, was able to operate with a reasonable minimum of storage installations. In addition the company was expected to modernize distribution methods in Israel. Under the rather old-fashioned existing system, the refined product was loaded in Haifa on tank trucks and conveyed all over the country – an operation which entailed a disproportionate expenditure not only on the maintenance of a very large fleet of such trucks, but also on the gasoline to run them. As the foreign oil companies declined to invest money to redress that situation, one of the first actions of Delek was to lay a six-inch pipeline from Haifa to Tel Aviv, the main consumption area, thereby cutting the costs of transportation to about one-fifth of their previous level.

On the other hand, the company had to tackle a host of sometimes quite intricate financial and technical problems: the awkward situation, due to the Korean War, of the tanker market overseas; the scarcity of some raw materials; the technical problems of building operations; the delivery terms for the basic equipment required by the company; and the ever-fluctuating prices. The basic problem was not the availability of oil but its quality, price and the payment arrangements involved in its purchase. Theoretically, none of these issues involved political considerations.

In fact, however, they did, since as analysed below, the company had to establish its own routes within the often-hostile political and economic set-up of the international oil market without swerving from its aim of securing benefit for Israel from her proximity to the Middle East oil supply centres.

The establishment of a national oil company was, as this chapter has emphasized, essential to enabling Israel to pursue its interests under existing constraints. The next chapter discusses Israel's initial attempts to secure for Delek independent sources of supply, and the parallel efforts by British oil companies, up to 1953, to bind Israel to Middle Eastern oil sources. The account will focus on explaining the failure of Israel's efforts to secure supply from Venezuela and from Kuwait, and will also shed light on the British companies' decision to sever the Kuwait–Israel oil connection that they had established previously. In so doing it will also discuss the implications of these developments for further Israeli efforts to secure oil supply in later periods.

8 Alternative Sources – Venezuela, Kuwait

In its efforts to secure, diversify and economize sources of oil supply, Delek faced several problems. The major ones were cost, quality and a dearth of potential sources. From very early on, the American market was ruled out partly due to the relatively high prices of crude and freight expenses (the fob price of US crude oil was approximately $2.50 per ton more than that of Venezuela) and partly because of the reluctance – based on political considerations – of large American oil companies such as Standard Oil of California, Texas Oil and Gulf to sell oil to Israel.[1] It should be noted that the refineries in Haifa were originally built for refining Iraqi crude oil but also suited other Middle Eastern or possibly similar light crude, albeit with reduced efficiency. Most of the alternative crude oils (such as Mexican, Colombian and Peruvian) were very heavy and thus not suitable for that operation. Furthermore, the production of refined by-products such as gas oil and kerosene could only be carried out effectively by distilling Middle Eastern crude oil. It was economically unfeasible for the refineries to operate on many types of crude oil, since such multiplicity was bound to greatly complicate the production process and to substantially increase its cost. Indeed, as noted earlier, Anglo-Iranian had inserted a clause in the Draft Agreement restricting Israel's freedom of action in that respect. Chile, Canada and Peru were ruled out because the main outlets of their oil export were on the Pacific Ocean. Export to Israel would therefore involve prohibitive transportation expenses, which would include fees for passing through the Panama Canal. The Western European countries were themselves importers of crude oil, while Indonesia and British Borneo exported their fuel mainly to Southeast Asia. And, finally, for political reasons neither Iraq nor Saudi Arabia could be considered as potential sources for Israel's independent oil purchases. Thus, from the very beginning, the list of sources was short and actually included only Venezuela, Kuwait, the USSR and Iran. Time was an additional constraint on Israel's freedom of action in the acquisition of oil. Having decided to aim for gaining access to Middle Eastern oil markets as a prime object, it was reluctant to enter into long-term alternative supply arrangements. This attitude, as noted earlier, was clearly expressed in Delek's first contract with Socony Vacuum.

Another barrier was transportation. As Israel did not have oil tankers and for economic reasons, initially refused to purchase them, it was forced to rely on foreign oil companies for importing its oil quotas. The fact that Middle Eastern oil was either denied altogether or imported through the 'Vasco de Gama' operation greatly increased freight costs and increased the effects of cost fluctuations. The Arab League boycott was another problem to be tackled. As noted earlier, the conditions under which the international oil tanker operations were conducted made it essential to try and rely on the big companies. Efforts in this direction, however, were generally unsuccessful. Initially the boycott did not affect Shell substantially since, as shown below, neither Kuwait nor Qatar were inclined to blacklist tankers visiting Israeli ports. On the other hand, relations with Socony Vacuum and Esso were a matter for concern as their vessels entering Israeli waters were blacklisted and barred from normal Middle East trade. Delek was forced, therefore, to adopt the 'catch as catch can' method, which naturally had its drawbacks – the inability to rely on long-term contracts and the resultant vulnerability to freight price fluctuations.

The severity of the constraints under which Delek was forced to operate was demonstrated in the course of its initial efforts to achieve one of its first aims – opening the Venezuelan oil market for Israel's direct purchases. The initiative stemmed from Moshe Tov, a key expert on South America at Israel's delegation to the UN. Tov established friendly relations with Dr Zuloaga, a prominent oil businessman in Caracas, whose brother was one of the directors of the Creole Petroleum Company, the largest in the country. Zuloaga who, as UN representative of his country in 1947 had been of considerable help to the Jewish Agency in securing the recommendation for the establishment of the State of Israel, advised Tov that his government wished to increase its profits from oil sales to which it had been entitled under the conditions of the concession granted to foreign companies operating in the country. It should be noted that the oil shortage caused by the Anglo-Iranian conflict had substantially increased Venezuelan production during the first months of 1952. According to Zuloaga, the Government was highly interested in moving into new markets so that it was not unlikely that it would extend credit for that purpose. This information came as a surprise to Israel, as all big companies at the time refrained systematically from extending credit in foreign currency to sovereign states, and all its efforts in the past to accumulate revolving credits had therefore failed. This explains why Sharett, Horowitz and Kaplan greatly favoured the idea of trading with Venezuela, notwithstanding its demand for a price above the official international one. Moreover, by buying on credit and thereby replacing American oil, they could release sums from the Grant-in-Aid allocation for other purposes, and also improve Israel's precarious relationship with the British oil companies. This advantage more than compensated for the symbolic premium above official prices which Israel was considering paying for Venezuelan oil. The anticipated unfavourable reaction of the oil companies was – on the other hand – a clear disadvantage, particularly in the case of the Creole Company which had in fact been a subsidiary of Standard Oil Company, one of Israel's suppliers paid by means of American Aid dollars. Despite these reservations and doubts as to the possibility of securing credit for purchases of oil from the Venezuelan Government, Tov was given a 'green light' during the first week of May to open negotiations for the purchase of three million barrels per year. He apparently tried to cast the net wider than authorized and the result was that four weeks later – before the establishment of contacts in Venezuela – Israel received a formal offer of Mexican oil by Senator Antonio Bermudez, Director General of Pemex (Petroleos Mexicanos). The reaction was understandably cool. The specifications of the proposed oil were 'substandard'. The Israeli diplomat was advised therefore that he had 'laid his hands on something which is of questionable value for us' but none the less was asked to obtain samples from oil produced at a certain field in Mexico (Poza Rica) and to make inquiries concerning extension of credit.[2] By mid-July Pemex had consented to provide 2000 barrels a day from the Poza Rica field, with an option of up to 5000 from October. The fact that the current Government in Mexico was approaching the end of its term of office was seen as a barrier for any credit discussions. Israel was nevertheless presented with an alternative to Government financial aid in the form of private credit granted by wealthy Mexican Jews.

The ensuing negotiations in Mexico and Venezuela were cut short by Israel in mid-November. The decision resulted in part from the sharp decrease in oil freight during the last months of 1952, which made it cheaper for Israel to import crude from the Persian Gulf via the Cape. However, the decision was mainly due to Israel's success early in November in persuading British oil companies to sell Delek Middle Eastern crude. Anglo-Iranian expressed its readiness to sell the Israeli company 50 000 tons of 'enriched' Kuwaiti crude at a special advantageous price, its resistance having been overcome by the offer to pay for the purchase in dollars. The fact (illustrated in Table 8.1) that in the period between 1950 and 1952 more than one-third of the crude imported to Haifa by the two British oil companies, and no less than two-thirds of AIOC's oil import, originated

Table 8.1 Crude Oil Supplies to Haifa Refinery by British Companies, 1950–2 (in tons)

	Shell		*AIOC*		*Total*
Year	*Source*		*Source*		
1950	Qatar	30 000	Qatar	86 000	116 000
	Venezuela	59 000			59 000
					175 000
1951	Qatar		Qatar	90 000	90 000
	Venezuela	236 000	Venezuela	100 000	336 000
			Kuwait	71 000	71 000
					497 000
1952	Venezuela	239 000	Venezuela	76 000	315 000
	Kuwait	28 000	Kuwait	240 000	268 000
					583 000
1953 (expected)	Kuwait 600 000 (Shell and AIOC)				

Source: Logan's minutes, 12 March 1953, FO 371/10441, EA 15324/1.

at the Persian Gulf, and the large-scale Kuwaiti crude production which began in 1949, must have facilitated that move by the British company. Another factor was Fraser's admission to an Israeli official of his company's ambition to 'recoup losses they made in the refineries'.[3] The fact that for two years they had not encountered real political opposition to the concealed import of Persian Gulf oil to Israel may also explain AIOC's decision. Israel, for its part, hoped that the 50 000 tons of Kuwaiti oil would complete Delek's quota for the year. In order to implement the transaction, the company secured a 16 000-ton tanker scheduled to leave Haifa for Kuwait to load its cargo in the first week of March. In addition to Kuwaiti oil, the agreement between Israel and Anglo-Iranian signed on 28 January 1953 provided for additional crude supply of up to 85 000 tons of crude oil to Delek in the first six months of 1953. It should be noted that Israel was at that time trying to cast its net wider, and making strenuous efforts to persuade Socony Vacuum, Esso and Shell to switch to Middle Eastern crude. The former two relied exclusively until then on Caribbean sources for crude imported to Israel and the third found it advisable to restrict this source to less than one-tenth of its overall imports.

The deal with Anglo-Iranian was considered of special potential importance since it raised the hope that eventually American companies might

Table 8.2 Crude Oil Prices in Haifa, 1952 (in US Dollars)

	Price per ton	*Freight per ton*	*Total*
From Abadan	13.7	7.35	21.05
From Kuwait	13.27	7.15	20.42
From Bahrain	13.27	6.65	19.92
From the Caribbean	19.71	9.50	29.21

Source: Lewin's dispatch to Goitein, 5 June 1952, ISA 361/15.

accept payment in sterling, which for Israel at that time was easier to afford than dollars. The price quoted for oil and freight per ton from Persian Gulf centres via the Suez Canal was lower than that for crude shipped from the Caribbean, as Table 8.2 demonstrates. Although it was not relevant for Israel at the time, it was still seen as a good to be attained in the future.

Since the difference per ton was thus approximately $10.00 – due partly to higher fob prices, and partly from higher freight charges – the total saving under the 'best case' scenario on Israel's one million tons crude consumption at that time would be approximately $10–12 million per annum. Operation Vasco de Gama was, however, definitely not such a case and consequently the saving was much less. Israel had another immediate goal in mind in its efforts to effect a comprehensive switch to Middle Eastern oil. Israeli officials hoped that once all companies were importing Middle Eastern oil, Israel would somehow succeed in altering the current method of computing foreign exchange settlement on account of Platt prices plus transportation from the Gulf of Mexico. Instead the basis would be Kuwaiti crude (fob) plus time charter Vasco de Gama. On the basis of a million tons per annum oil consumption, the new system would involve a cost of $28 million instead of the current $34 million, saving $6 million. Although Israeli experts were well aware that 'nobody outmaneuvered the oil industry out of "Gulf plus"' the switch to Middle Eastern oil – as noted above – would have other substantial advantages. The saving would be even greater – between $6 and 8 million per annum – if most of Israel's requirements of finished products could be covered by local refining.

Israel was soon to learn yet another lesson in how the harsh political reality affected the oil business in the Middle East. In mid-February 1953, before it could finalize the import deal, the British Foreign Office gained knowledge of the agreement between Delek and AIOC and intervened to prevent its implementation. The Foreign Office was convinced that inevitable disclosure of the transaction would greatly damage relations with the Arab world. It is unlikely that the Ruler of Kuwait was then cognizant of the oil deal with Israel. He told the Managing Director of the Kuwait Oil Company that he had no interest in Arab League politics, nor was he concerned as to the destination of oil produced in his country. Hence the Foreign Office step was definitely taken before any actual Arab pressure was put on him and was primarily based on grave doubts concerning the wisdom of direct sales of Persian Gulf oil to Israel in the current 'political climate'. 'Even if the Ruler ... is at the moment indifferent to the attitude of the Arab League', a Foreign Office official explained, 'he will certainly be subjected to considerable pressure from it once shipments of oil from Kuwait to Israel become known'.[4] According to the Foreign Office the deal had already been publicized outside the British–Israeli circle. This probably occurred when the movement of Delek's chartered tankers from Kuwait to the Cape was reported in such official lists as *Platt's Oilgrams* and *Lloyd's Register*, and when one of its empty tankers returned back via the Suez Canal. Be that as it may, in the first week of March, Esso and Socony Vacuum officials visited Israel and expressed to the American Consul 'grave doubts about the wisdom of any company selling Israel Persian Gulf crude oil' in view of the expected 'violent Arab reaction when the news finally leaks out'.[5] The same arguments were voiced by these officials at their meetings with Israeli experts. AIOC was therefore duly summoned on 3 March by the Foreign Office to 'warn them seriously against this trade' which entailed 'an extravagant risk'. A day later, Israel was informed by Fraser that AIOC had found it 'impossible ... at this moment [to] commit ourselves [to] provide further supply during [the] second six months'. The message aroused great concern in the Israeli Foreign Ministry, particularly since assessments in Jerusalem indicated the high probability that AIOC's move had been coordinated with and even instigated by American oil companies. Such an eventuality could have signified a significant victory to the Arab boycott especially if the oil companies were to eventually cease all deliveries of Persian Gulf crude to Haifa. Fraser was subsequently advised that Jerusalem viewed the company's decision as 'a breach' of the agreement, to which he responded that 'if things took a serious turn, they might even consider abandonment [of the refineries]'.[6]

This extreme reaction was apparently connected more to the ongoing debates between AIOC and the Foreign Office surrounding the broad issue of overall Persian Gulf crude exports to Haifa than to the possible Israeli reaction to AIOC's decision. The controversy related to much larger issues than those raised by AIOC's deal with Delek. It began when, after being urged early in March to cancel the deal with Delek, British oil companies informed the Foreign Office of their plans for 1953. They were planning to supply no less than 65 per cent of Haifa's crude requirements (around 600 000 tons) from Kuwaiti oil wells, largely due to the grave difficulties of providing a comparable quantity of crude of suitable specifications from sources outside the Persian Gulf.[7] Shell, for example, faced with a declining yield of light crude in Venezuela and seeing no prospect of improvement for some time, was hard put to maintain its existing commitments. The Haifa refinery, it should be recalled, could not handle heavy crude (indeed, even light Venezuelan crude needed some admixture of Persian Gulf crude to enable it to be processed). To alter the Haifa plant – according to the AIOC assessment – would have meant setting up an additional plant and yet more investment – a prospect which the company was not prepared to face. Again, it should be noted that the shut-off of Iranian oil in the summer of 1951 had intensified development activity by British companies in Kuwait, effecting a substantial increase in crude production there which British companies were naturally anxious to exploit. The expanding Israeli market provided AIOC with an outlet through which some Kuwaiti oil could be channelled without interfering with existing marketing arrangements among international oil companies. The gravity of the problems was reflected in AIOC's conclusion that if Persian Gulf oil was not supplied to Israel, they might have 'to abandon their attempts to keep [the] Haifa refinery running'. Furthermore, the company pointed out to British officials that their contractual arrangements with Israel had been such that they would not be able to justify failure to supply unless they could plead *force majeure*, that is, unless Kuwait's Ruler made direct representations to them to stop exports to Israel – which he declined at that time to do.

The situation was, therefore, rather complicated – and not only for Israel. AIOC held a consultation on the subject, where it was decided that the best that could be done was to 'play the whole thing down' and to 'let it disappear quietly into the background'.[8] Israeli diplomats in London were asked 'not to let [their people in Jerusalem] get loose on the subject' and 'to play it down'. The company apparently reached the conclusion that – however problematic a cancellation of the deal with Delek would be – it would ease the pressures exerted by the Foreign Office to change their large-scale plans for independent provision of Kuwaiti oil to Haifa. Accordingly, it devised a scheme to complete the deal by obtaining a sub-charter for the balance of 28 000 tons of Kuwaiti oil, loading it in its own vessels and transferring the oil to Haifa. Israeli diplomats in London were further advised that the planting of false information in ***Platt's Oilgram*** to the effect that 'some Venezuela crude was being sent to Haifa' might help 'to kill off... this nonsense', so that in a few months' time they would again be in a position to supply. Although Israel's initial reaction to AIOC's decision was definitely uncompromising, it later accepted the advice of its representatives in London who had been in direct contact with the British Company and agreed to consider the latter scheme, while at the same time authorizing negotiations with the French holders in IPC for the purchase of 50 000 tons of Qatari crude as an alternative to Kuwaiti oil. Jerusalem was definitely wary of 'falling foul of AIOC'. Its acquiescence stemmed from several factors, including the fact that most of the Kuwaiti crude had already been lifted, and that legal advice had indicated that Delek could gain financially from AIOC's reluctance to honour the rest of the contract. Moreover, there was not much else that it could do; to adopt an aggressive stand, involving for example, threats to retaliate by turning to Iranian oil seemed counterproductive in view of the uncertain outcome and the definite detrimental effects on relations with AIOC. Thus on 26 March, an agreement replacing the previous contract was signed with AIOC whereby the balance of 28 000 tons of crude would be provided from Shell's stocks in Haifa, entailing a small financial gain for Delek. Several weeks later Israel was advised by Fraser that AIOC would be unable to load Delek's boats in Kuwait 'for some time'.

While the tactical problem had thus been partially solved by late March, the strategic issue was not confronted in the three weeks it took Anglo-Iranian to settle the dispute with Israel. Still looming over the horizon were AIOC's and Shell's aforementioned plans to target Kuwait as the almost exclusive source of their direct crude imports to Haifa in 1953. It will be recalled that the quantity involved was more than ten times greater than specified in the contract between the British company and Delek. The Foreign Office learned in February that Israel had published import statistics showing that 1.8 million barrels of oil had been imported by AIOC and Shell 'via the Cape', and that these figures had been reported in the Arab press which assumed that the oil came from the Gulf. Fraser later advised an Israeli diplomat that the Arabs had been very well-informed from lists of oil shipping to Haifa which they had seen, and there had undoubtedly been Arab spies in Haifa making their own lists and passing them on to the Arab League. The Foreign Office also learned, from secret sources, that the Petroleum Committee of the Arab League had recommended that a commission of inquiry should visit Kuwait to investigate the destination of oil shipped from there.

This information was of great concern to the Foreign Office, as the anticipated Arab League agitation to stop Gulf trade with Israel could lead to a direct attack on British positions in the area. The concerns extended beyond that limited part of the Middle East. British officials considered a serious breach in Anglo-Egyptian relations to be highly probable and in that event Egypt was expected to try to rally the other Arab states against British interests. In order to preserve these interests, it was reasoned, it would be wise to ensure *a priori* that the oil companies' position *vis-à-vis* the other Arab states was 'as firm as possible'. This could not be achieved if the Arab League learned at its forthcoming meeting in late April of the plan to double the amount of Kuwaiti oil going to Haifa. The fact that the Ruler seemed 'unsympathetic to the Arab League' did not carry much weight with Foreign Office officials, since, in Kuwait 'we are responsible for conducting the State's foreign relations and will therefore inevitably be drawn into any controversy between Kuwait and the Arab League'.[9] The Office was of the opinion that as long as the oil companies changed their sources of supply voluntarily, the important principle of freedom of destination would not be prejudiced. If, however, they altered their programme at the prompting of an oil country, this would not only aggravate their relations with that country, but would almost certainly become public knowledge and encourage other oil-producing countries to impose their own conditions as regards the destination of their oil. In short, the Foreign Office definitely favoured a preemptive action, though implementation was no simple matter. Merely to warn the oil companies of the political dangers involved and urge them to find alternative sources as soon as practical seemed to miss the point altogether. To direct them to break their contract to supply Haifa with Kuwaiti oil was also discounted, since it would cause substantial damage to the British oil companies, to Israel and to Britain's balance of payments. The probable subsequent closure of the Haifa refinery might induce Israel to turn to Persian oil. And finally, it would also be presented as a public demonstration of acquiescence with the Arab boycott.

There seemed to be only two practical means of cutting what seemed a Gordian knot. The first was indirect sales and the use of intermediaries. By making transshipment arrangements (such as shipment to Marseilles, transfer to some other entity and eventual shipment to Haifa) the Ruler could evade complications with his Arab neighbours and with the Arab League. However, AIOC for its part, strongly objected to this *modus operandi.* They claimed that it would be very difficult to operate, cost more and effect no improvement, as the stratagem would be only too transparent. The Foreign Office was advised that Socony Vacuum had tried this method with Basra oil and were soon in trouble with the Iraqis. It should be noted that, for similar reasons, AIOC itself had declined during 1951 to adopt a similar plan proposed by Israel. The last remaining possibility was for AIOC and Shell to purchase oil of suitable quality from US sources – American companies operating in Venezuela. The switch to these sources would involve dollar expenditure and loss to Britain's balance of payments, raising potential obstacles on two fronts. First, the British Treasury held strong views against any additional outlay. And, second, even had the Treasury been willing to spare the money, Israel – which had been given access to their reparations from Germany in sterling and reserved it for purchases of fuel – might make difficulties about paying for oil in dollars. AIOC officials were convinced that to switch the source of supplies from the Persian Gulf elsewhere would be regarded by Israel 'in a serious light' and that they would undoubtedly 'have the heat turned on' and could expect retaliatory action of direct purchases of Iranian oil by Israel.[10]

Despite these reservations which were shared by the Ministry of Fuel, the Foreign Office decided to convene a meeting with the oil companies to find ways to overcome the difficulties and persuade them to cancel their plans for import of Kuwaiti oil to Haifa. The hope was that – upon realizing what serious political risks were involved – the companies would 'exercise their ingenuity' to find alternative sterling sources. Likewise, the Treasury would probably not rule out dollar outlay if it transpired that this was the price which had to be paid to avoid far more serious loss to Britain's balance of payments as a result of a major dispute between the companies and the Middle Eastern oil countries. Consequently, it would decide to meet the oil companies half-way by putting up some dollars to cover whatever dollar element was entailed in changing their source of supplies. Finally, if no other satisfactory solution was perceived, the Office considered transshipment to be at least 'a precaution worth taking'. The high-level meeting took place on 24 June. After discussions of the various alternative devices, it was decided to initiate a thorough investigation to find alternative methods of supplying the Haifa refinery. Among them was an exchange, whereby the refinery at Curaçao would be supplied in part from Kuwait and an equal amount of Venezuelan oil would be sent to Haifa. The same arrangement could be applied for crude from Trinidad. AIOC and Shell undertook to study the possibilities, and to supply the Treasury with a statement of the total cost in dollars if Haifa were entirely supplied from dollar sources. It was further agreed that it would be necessary to allow the companies 'certain sums of dollars' if they were to cease bringing supplies from Kuwait. Four weeks later the oil companies presented their findings. Shell's representative indicated that while an occasional cargo might be worked out of taking Kuwaiti crude into Cardon or Curaçao in Venezuela thereby releasing Venezuelan crude for Haifa, any attempt at regular supply to Venezuela would involve capital expenditure and other costs which would be prohibitive. The only viable alternative, as far as they were concerned, was the purchase of Venezuelan or US crude for dollars. AIOC, however, agreed after discussion with Trinidadian leaseholders, to arrange for two trial cargoes of Kuwaiti oil to be sent to Trinidad to test the refinery as large amounts of Venezuelan crude were at that time being run there. The results of the trial were expected in early September and if it proved successful, oil refined in Trinidad could be a 'fairly good' substitute for Kuwaiti crude at Haifa. The switch would involve 'some extra cost, some of which might be passed on to the Israelis'. The discussants were informed that Venezuelan crude would cost some 80 cents per barrel more than Kuwaiti crude, even allowing for shipment of the latter via the Cape. The Israelis were likely to protest since an increase in the price of oil would cause the available sterling allocated under the German Reparations agreement to run out sooner than planned, raising the need for further tricky negotiations between Israel and Germany. Fraser, however, subsequently advised the Foreign Office that a decision by AIOC and Shell to change their source of supply would not lead to any increase in the price of refined products for the Israelis, since these had been fixed under the terms of their agreements. From the point of view of the Israeli consumer, there would be no difference in cost between supplies from Kuwait or from Venezuela since the difference would be borne by AIOC and Shell. As far as Jerusalem was concerned, the almost inevitable reduction in profit (or, to be more precise the increase in loss) of the British companies would mean a loss of income from tax. Far more important, however, it would further increase their reluctance to increase the through-put of the refinery or to invest money in its renovation. Even assuming that sterling would be available there still remained the problem of dollar liability, if purchase of oil for dollars proved the only solution to the supply problem. These reservations notwithstanding, the operative decision was based on the Foreign Office line.[11]

The date for ending supplies of crude from Kuwait to Haifa was set as the end of September 1953. In addition, it was agreed that the Treasury would obtain approval in principle for an expenditure of up to $9 million a year for the purchase of the necessary crude to replace supplies from Kuwait, although it was hoped that a large proportion of requirements could in fact be obtained from Venezuela or Trinidad. Although the Treasury representative at the meeting gave it to be understood that approval would be forthcoming within a few days, it was held up, apparently because of second thoughts on that matter. The companies for their part, believing that a precipitate and complete switch in source of supply would be inadvisable, took advantage of the delay to reopen the whole question. What they had in mind was not a phased or gradual switch until Kuwaiti crude was finally eliminated, but a half-way house arrangement whereby Kuwaiti supplies would be reduced substantially but not terminated. In early August they suggested an arrangement whereby Haifa would be supplied with 50 per cent from Kuwait and 50 per cent from Western Hemisphere sources. The reasons which prompted them to make that suggestion were political and financial. Thus they felt that the Israelis were already 'vexed' with them and greatly feared an outburst on their part if Kuwaiti supplies were phased out over a matter of months. Adopting a half-way policy, it was argued, would reduce their pretext for complaint. The proposed arrangement had the financial advantage of making it easier for the Treasury to sanction the dollar outlay involved. Finally, it might also be advantageous to the Kuwaitis. Since it was by no means clear how the Ruler would react if it were brought to his attention that Kuwaiti oil was going to Israel, the oil companies felt that the half-way house arrangement could make further reductions without too much loss of face either for the Ruler or for themselves.

The Foreign Office strongly objected to this suggestion and urged that the original decision be adhered to. The basic point they made was that – as the principal reason for change in source of supply had been political – the half-way house proposal had little to recommend it, since it would solve no political problems, nor would it absolve the British Government, the supplying companies and the Ruler from the embarrassment which would ensue if it was discovered that Kuwaiti oil had in fact been going to Haifa. They agreed, however, to facilitate an orderly changeover which would cause less of a political uproar in Israel, and save dollars by allowing the supplies to taper off up to the end of 1953 rather than end abruptly at the end of September. To serve the same purposes, they consented to the stocking up of four extra cargoes which would not be noticed among the 190-odd cargoes leaving Kuwait, thus effecting a potential saving of $300 000. As for the probable Israeli reaction, the Foreign Office doubted whether there would be 'any serious attack on the refinery' as it had been 'too dependent on foreign investment to risk this'. In any case, it felt bound to offer the companies 'unreserved' diplomatic support following a 'frank and obdurate' presentation of the case to Israel.

By early September the Ministry of Fuel, the Treasury and the companies consented and came out in favour of the 'whole hog' notion of ceasing Kuwaiti supplies entirely. However, they made it clear that the entire plan still depended on imponderables such as the results of the trial cargo at Trinidad and the securing of the right type of oil in sufficient quantities in the Western Hemisphere to replace the Kuwaiti crude supply. Moreover, the Treasury only agreed to a commitment by Shell and AIOC to purchase dollar crude to supply their Israeli market for a period not exceeding six months. In contrast to the Foreign Office, which was reluctant to analyse the consequences of a 'worst case' scenario, both the Ministry of Fuel and the Treasury favoured planning for this eventuality. The plan involved import of Persian crude which admittedly seemed highly unfeasible in late 1953, but seemed possible in the not too distant future. Not only would it meet the technical specifications of the Haifa refinery – which had originally been built to take such oil – but it was assumed that the Arab League would not raise the same objections in the case of Persian supply as in the case of Kuwaiti supply. The Treasury translated these considerations into an operative prognosis, which was subsequently accepted by all concerned. It indicated that no further financial commitments would be provided beyond the six-month period, unless they were satisfied that it had proved impossible to swap Kuwaiti oil for Venezuelan oil with Trinidadian leaseholds or, in the event that Persian oil began to flow again, that it had been impossible to supply Haifa with that oil.

The Foreign Office thus had its way. It should be noted that the decision it initiated concerning Kuwaiti oil was accompanied by three other related moves which reflected its basic diagnosis and prognosis. The first move was already made in May when the Lebanese Government denied facilities to certain tankers on the black list, and proposed to issue a decree regularizing this action. The situation was complicated for Britain by the fact that these tankers, though operating in some cases on behalf of British oil companies, were not British vessels, and what is more, had been carrying oil from Kuwait to Haifa. The British Government nevertheless followed the advice of the Foreign Office and decided to 'give way to the [Arab boycott]' rather than bringing the issue to a head. This line was adopted to forestall a situation whereby the other Arab countries rallied to Lebanon's support, thereby bringing the Kuwait–Haifa traffic into the open. The decision to stop oil imports to Israel from Kuwait followed suit. Shortly afterwards, the Foreign Office advised other oil companies concerned (especially IPC) that shipments of crude from any Persian Gulf State would involve exposing valuable oil assets to 'unnecessary risk' besides adding to the 'existing political tension in the area'. The specific aim – which would seem to have been consequently achieved – was to forestall negotiations between Delek and the Compagnie Française de Pétrole on supply of oil to Israel from Iraq or Qatar.[12] The decision made in September 1953 to stop oil imports to Israel from Kuwait was thus not an isolated act, but reflected the adoption by Britain of a clear and uncompromising strategic stand in the second half of 1953.

British diplomats in Kuwait were advised on 11 September that – if the Ruler or local officials inquired about Kuwaiti oil going to Haifa – they should be informed that 'for a period some oil... did go there, but this arrangement is now being terminated'. Israeli representatives in London were expected to learn about the change ten days later, but had in fact been given hints about the general gist of the above developments two months previously. Fraser had confided to one of them on 21 July that AIOC did not want to lose the Israeli market for Kuwaiti supplies. However, as Israel took only about one per cent of Kuwaiti supplies, the company 'had made arrangements' that – if the Sheikh of Kuwait demanded the total stoppage of Kuwaiti supplies to Israel – oil would be brought from some other source involving a 'most complicated arrangement'.

On 28 September Fraser formally advised Kosloff in London of the decision to cease the supply of Kuwaiti oil altogether. The Israeli oil expert, as anticipated, emphasized that this decision not only involved Israel in $2–3 million extra cost, but – far more important – would encourage the Arab League to intensify its hostile economic steps, thereby delaying the eventual solution of Israel's oil problem. The matter seemed serious enough for the Israeli Ambassador, Eliahu Elath, to lodge an oral protest two days later. He raised the same points in a meeting with Anthony Nutting, the British Under-Secretary of State, who held out 'little hope of reversal'.[13] Elath considered Britain's stand to be a clear case of 'yielding to [the] Arabs' which the British politician chose not to contradict. In fact this stand had been defined in exactly the same terms in a thorough analysis of Britain's attitude towards the Arab League boycott of Israel prepared at that time by the Foreign Office. Elath cited Germany's adamant stand against Arab pressures to cancel the Reparation Agreement as an example which the British would do well to follow. It was clear to him, however, that the ball was now in Jerusalem's court. This being so, Israel's attention now focused on alternative means of promoting her interests in view of the decision taken by AIOC and Shell.

The detrimental effects of these decisions had been realized in Jerusalem from very early on. Although from the point of view of the Israeli consumer there was no immediate difference in the cost of supplies from Kuwait or Venezuela since the difference was temporarily absorbed by the British companies, Delek was forced to buy more expensive crude oil ($3 per ton) in the Western Hemisphere. Second, it was anticipated that the refining and marketing activities of the British oil companies would be conducted at a very small profit or indeed at a loss. Not only would the Israeli Treasury consequently be deprived of both income tax revenue in local currency and foreign exchange, but the decreasing economic significance of the Haifa refinery to British oil companies could further minimize the prospects of full-scale operation of the plant and the eventual use of Middle Eastern crude. Under these circumstances, the chances of successful negotiations with Arab countries concerning the reopening of the Suez Canal for crude bound for Israel seemed even slimmer than before. Then again, the switch to Western Hemisphere supplies, it was feared in Jerusalem, might encourage the Arab League countries to adopt various new economic sanctions. It should be noted that, although the impact of the boycott had naturally been inflated by Israeli diplomats, the actual damage had been much smaller. With the admittedly painful exception of tanker movement in the Suez Canal, the overall effects had been defined late in 1953 in internal correspondence as 'negligible'. Arab attempts after the Reparations Agreement, to blackmail British firms (like ICI), the international airlines and particularly Germany, had failed completely. Now, however, Israel feared that the not insignificant and well-publicized Arab League success in forcing British companies to suspend crude supplies from Kuwait would encourage it to redouble its threats against the international air companies, large British and American undertakings participating in Israeli ventures and all other large enterprises trading with both Israel and her neighbours. On the other hand the direct implications of the decision of AIOC and especially Shell for Delek activities were very grave. Since its inception the company had been forced to face the fact that – due to the Arab boycott – they were paying higher freight rates than others for the 13 vessels chartered until mid-1954 notwithstanding the steady decline in freight rates and the inclination of many owners to disregard Arab threats just to keep their tankers running. Delek found it impossible to charter tankers for one or two trips even if compensation for publication in the Arab League black list had been secured.[14]

The situation deteriorated considerably at the end of 1953 when Shell sent a circular letter to owners with whom they negotiated charter arrangements, demanding of them a guarantee that 'the vessel is not black-listed by the countries of the Arab League by reason of her having traded to Israel since 1950'. Israeli officials were well aware of the implications of that demand coupled with the company's decision to cancel crude oil shipment from Kuwait to Haifa. Moreover, the switch decided upon by British oil companies seemed likely to have an adverse effect on payment for oil through the German Reparations Agreement. After the cessation of supply of Kuwaiti oil to Haifa, the supplying companies succeeded in making provisional arrangements with an American company for the exchange of Kuwaiti crude oil for Venezuelan oil, the latter to be supplied to Haifa. This enabled these companies to supply Israel for the time being without having to purchase dollar crude oil. In December 1953, however, negotiations were still pending between United Kingdom companies and the Americans on future arrangements. Failure to reach agreement was liable to force AIOC and Shell eventually to buy dollar crude to supply all or part of Israel's needs. It could also raise the need for delicate discussions with the Israelis and the Germans on the possibilities of payment in dollars instead of sterling for oil delivered to Haifa.

Moreover, for reasons unrelated to the above, relations between Israel and the foreign oil companies were rather strained by the end of 1953 and early 1954. This was certainly due in part to the expansion of Delek's activities in the first two years of its existence which decreased the relative and the absolute quantities supplied by the other companies. The companies maintained that Delek's rapid growth could only have been accomplished as a result of flagrant favouritism by the Israeli Government and unfair competition for customers. They also speculated at length as to what policies Delek or the Israeli Government would adopt when the Israeli oil company began to approach its maximum share of the market as stipulated in the CRL–Israel Government Heads of Agreement contract initialled in 1951. By late 1953, the foreign companies had begun to suspect that the Government intended to try to circumvent the spirit of the agreement and increase the Israeli company's share of the local petroleum market by encouraging important local consumers, with their own facilities for handling petroleum – such as the Palestine Electric Corporation and the Shoham Shipping Company – to import petroleum products in their own name without going through one of the marketing companies. In addition, owing to changes in circumstances AIOC was increasingly dissatisfied with certain features of the provisional 1951 Heads of Agreement and the 1953 Draft Agreement. Operational costs had risen steeply because of wage increases which had reduced the economic advantages of the Agreements for the British company. Because of what CRL's director defined as the 'low effectiveness' of Jewish workers, a labour force 75 per cent larger than that employed in their other plants was required.[15] And finally, the refining fees set by these Agreements for the companies (representing the difference between the Gulf of Mexico value of products produced and the value of the appropriate crude) had been found to be lower than actual costs, while at the same time the agreements forced them to 'subsidize' Delek, which enjoyed favourable refining fees. It was against this background that Israel took several decisions which roused the British oil companies and generated an acute crisis which threatened to demolish the supply system created by the 1953 Draft Agreement. The first such decision – as the following chapter demonstrates – was to take up Soviet offers of oil.

9 Entrée to Moscow

This chapter will deal with the implications of Israel's achieving oil-supply agreements with the Soviet Union, from late 1953 to late 1954, in terms of the state's progress toward increasing its independence in this area on the one hand and the resultant aggravation of its relations with the British oil companies on the other. This situation emerged from events described earlier and from others that will be discussed below.

To understand the problems involved in Israel's establishment of 'an oil connection' with Moscow and to put them in a broader perspective, one must first elucidate the Soviet and British points of view concerning export of Russian oil. It should be noted that before the Second World War, Soviet exports of oil totalled about six million tons a year at maximum but dwindled and ceased altogether in the 1930s, when the level of domestic demand overtook supply. After the war, its control of Rumanian oil sources enabled the USSR to renew oil exports, albeit in very small quantities, as Table 9.1 on the early 1950s illustrates:

Table 9.1 Russian and Rumanian Oil Exports, 1951–3* (thousands of tons)

	1951		*1952*		*1953*	
	Products	*Crude*	*Products*	*Crude*	*Products*	*Crude*
Belgium	8	—	24	—	75	—
Finland	170	—	342	—	634	—
Germany	2	—	10	—	25	—
Italy	74	29	238	188	182	130
UK	48	—	—	—	—	—
Egypt	156	—	—	—	—	—
Norway	—	—	20	—	116	—
Sweden	—	—	47	—	240	—
Netherlands	—	—	11	—	120	—
Denmark	—	—	—	—	9	10
Iceland	—	—	—	—	55	—
Greece	—	—	—	—	16	—
India	—	—	—	—	5	—
France	—	—	—	—	28	—
Total	458	29	692	188	1505	140

Note: *Excluding Eastern European countries and China.
Source: 'Imports of Oil from the Soviet Bloc', 2 November 1953, POWE 33/1867.

Table 9.2 Estimated Russian Export of Crude Oil and Petroleum Products, 1954 (in tons)

Argentina		1 000 000
Brazil		500 000
Finland		360 000
France		400 000
Iceland		250 000
India		35 000
Israel	(contract)	100 000
	(option)	100 000
Italy		450 000
Sweden		600 000
		212
Egypt		250 000
Total		4 045 000

Source: *The Oil Forum*, April 1954, cited in ISA 2953/3/C and 'Russian Petroleum Exports to Western Europe', 28 May 1954, SDR 861.2553/5-2854.

By 1953 the situation had changed substantially and Russia had tripled its oil exports, as can be seen in Table 9.2.

The British and American assessments at that time were that the prime motive of the USSR for increasing oil exports was economic.[1] Since the first half of 1953, when East–West trade registered a new low, the Soviet Bloc had sought to increase imports from the West. The reluctance of the USSR to export grain had constituted a major obstacle to the expansion of these imports, a fact which accounted for the sizeable sales of Soviet gold in late 1953. Petroleum appeared to be one of the few acceptable commodities which could be spared for export. It was further estimated in London that the oil offered by the Bloc consisted basically of temporary surpluses stemming from the lag in Russia's industrialization programme. Western assessment indicated that this development did not portend abandonment of the long-term Soviet goal of economic self-sufficiency but was rather one of the aspects of the short-run plan to permit some improvement in living standards. Neither Washington nor London uncovered evidence that the Soviet Bloc was trying to gain special political capital from petroleum exports. Contracts involving oil had apparently been determined on the basis of market considerations. The possibility could not be ruled out that the Soviet Union would preempt a major share of a particular market and attempt to exploit its position to exact political or other advantages. Such a move, however, could easily be countered, since Russian exports for 1954 were expected to amount to a mere one per cent of the total oil consumed in the free world, excluding the United States. The West, therefore, was easily capable of supplanting any foreseeable scope of Soviet petroleum exports.

Whatever the USSR's motives, the policy adopted by the British Government from autumn 1951 was to ban all oil imports from the Soviet Bloc.[2] This policy, which was also adopted by the Americans, was directly connected to the 1947 expropriation without compensation of British and American oil interests in Rumania. This oil had since been considered as 'stolen'. The issue gained substantial momentum following Iran's nationalization of its oil industry in 1951. British companies then felt very strongly that their legal position on Persian oil would be gravely prejudiced if British interests were to deal in Rumanian oil. Efforts to ban purchases of 'stolen oil' from Persia seemed at variance with consent to British imports of 'stolen oil' from the Soviet Bloc. As time went by and deliberations to settle the conflict with Iran were expedited, British companies sensed that their claim for compensation from Iran would lack validity, especially with the US Government (who were bound to exert a considerable influence on any settlement), if British interests were seen to be purchasing Rumanian oil without compelling reasons. It was difficult to draw a clear distinction between Rumanian and Russian oil exports. Although oil of Russian origin which was traded internationally was then always shipped direct from Russian ports, a large quantity of Rumanian oil was then being refined in Russia. Hence, in practice it was impossible to state with confidence, for example, that gas oil coming from Russia was not derived from Rumanian crude oil. These arguments notwithstanding, Britain decided in late February 1954 to reverse its policy and lift the absolute ban on the import of Russian oil, whenever, for their own reasons, British importers so wished. Financial considerations clearly stood behind that decision. While purchase of Russian crude offered no commercial advantage at that time, this was not true of certain refined products. Acquisition by British companies of high quality aviation spirits, kerosene, gas oil and lubricating oil at attractive prices, could save Britain valuable foreign exchange, mainly dollars, thereby benefiting its balance of payments. Such gain seemed to outweigh the 'stolen oil' argument, and moreover, the quantities involved were insignificant in relation to Britain's total consumption. Finally, Britain continued to regard Rumanian oil – similar to Persian oil – as stolen and adhered to its policy of banning its import into the United Kingdom, placing the onus on the importer to prove that the oil had been not of Rumanian origin. At the same time, the February 1954 decision was in no way considered by the Foreign Office to invalidate Britain's objections to pressure exerted by other Governments to force British companies to depart from the traditional trading pattern and distribute Russian oil, which would displace their own production.

This proved to be very difficult to implement, as Britain was not alone in deciding to import Soviet oil. Indeed, the desire of several countries to buy Russian oil for balance of payments reasons caused British oil companies considerable trouble – notably in Norway, Denmark, Egypt, Finland and Iceland. The methods chosen to tackle these difficulties provide a useful perspective on the companies' policies concerning Israel's purchases of oil from the Soviet Union. In Finland, for example, companies owned by British and American interests were distributing Russian oil, but in view of Finland's economic dependence upon Russia, this was treated as a 'special case'. Iceland was also regarded as unique, as the major American and British oil companies had never owned a controlling share of the local distributing companies. Norway and Denmark were, however, different cases, where British diplomatic representations resulted in removal of the pressures on Western companies to handle Russian oil. The British Government interceded on the grounds that their companies should not be forced to distribute oil which displaced their own production. If they did so this would mean, in fact, that Russian oil was being distributed through facilities paid for by British companies. The only place where these efforts failed was Egypt. Shell and some American companies were there forced to handle Soviet products as a result of pressures to facilitate purchase of crude in barter for cotton. Britain viewed this deal as 'exceptional'. The decision to lift the ban on the import of Soviet Bloc oil into the United Kingdom thus certainly made it difficult for British oil companies to maintain their positions outside the British Isles. It also naturally encouraged local initiatives in several countries, Israel included, to undermine these companies, by taking advantage of the availability of Russian oil.

The first Israeli bid for Soviet petroleum following the hectic negotiations between the two sides in 1948/9 occurred in 1952. Russian officials approached Israeli representatives in Moscow early in May with an offer to sell 600 tons of high-quality paraffin. Israel's consent to purchase half of that quantity was reported in an interview with Zeev Argaman, Counsellor at Israel's Moscow Embassy, which was published in the *Jerusalem Post* on 21 May. The Israeli diplomat was quoted as saying that an investigation was being conducted concerning the possibilities of purchasing oil from the Soviet Union. Argaman was subsequently reprimanded for issuing that statement, since it certainly did not serve Israel's interests, and doubts had been expressed privately and officially about the political wisdom of what could be interpreted as a shift of allegiance from West to East. It was not easy, therefore, to place the minuscule purchase in proper perspective and play down the matter. Argaman's hints concerning possibly more significant deals that were possible in the future did indeed reflect at least Soviet aspirations. During the brief negotiations on the small-scale 'paraffin deal', the Director of Sojuzneftexport, the Russian oil company, expressed readiness to sell Israel a large variety of petroleum products including crude oil, which could be partly paid for by Israeli citrus exports. Argaman was urged by the Russians to make inquiries in Jerusalem and to forward required specifications and quantities of required oil products. The offer was made twice and was accompanied with inquiries concerning Delek's oil import plans. This certainly reflected unusual interest on the part of Russian officials and most probably conformed to the Soviet Union's general economic initiative in that area. Israel did not reject the offer outright since it seemed to open opportunities for its fledgling oil company and at the same time did not appear to contradict the agreement with CRL concerning the Haifa refinery. However, Jerusalem declined to expedite the negotiations process and reciprocated with a demand for crude samples, to be checked before any decision could be made. No evidence has been traced as to whether such samples were indeed dispatched, but there is no doubt that in the ensuing weeks, Israel decided to remove the issue from its economic agenda. Political and financial considerations must have militated at that time against an oil deal with Moscow. The Soviet Union had traditionally declined to extend commercial credit and Israel could hardly make use of Grant-in-Aid dollars for purchase of Russian crude oil. Then again, as demonstrated earlier, alternative sources of foreign currency were particularly scarce in the second half of 1952. Finally, although no evidence has been found to substantiate this theory, the opening of the Israeli oil market to Soviet products must have caused concerns in Jerusalem as to the anticipated reaction of British oil companies, which had been very inquisitive concerning Israel's plans. For whatever reason, the Soviet offer was turned down.

The matter lay dormant for nine months. However, in the summer of 1953, Delek officials on their own initiative launched negotiations on oil supply from the Eastern Bloc with the Bulgarian Minister, who represented

Soviet interests in Israel following the USSR's severing of diplomatic relations with Israel in 1953. Through these contacts, they learned of the inviting opportunities which had already been seized by others. They discovered that Greece had imported fuel oil from the USSR at a price of $12 per ton, much below the Gulf-plus price formula, and that after a hard struggle the Electric Company of Athens had forced Socony Vacuum to supply them with Russian heavy fuel at a relatively cheap price. This information was of particular importance for Delek, which immediately after completing its first import of fuel oil from Italy, informed the Israeli Government that fuel could be obtained far below Shell's fixed price ($20 per ton). That rate had been based on the fiction that the oil had been refined in Haifa, notwithstanding the fact that the British company produced it in their own refineries abroad. Delek's management pointed out that the higher price had brought Shell disproportionately high marketing profits, which should be reduced in the interest of the local economy. It was just at that time that the Russians conveyed several indirect offers to Israel for the sale of oil. The first was received through Stevison-Hardy, the London oil brokers, the second and third came through Israeli agents of Rumanian and then Bulgarian firms, while the last offer came from an Austrian firm through the Israeli Consulate in Vienna. The offers indicated the availability of heavy fuel oil of suitable specification at $10.5 cif at Tel-Aviv and hinted at the possibility of making payment in citrus exports. The relatively low freight costs involved meant that Israel could expect to acquire fuel oil almost $4 per ton cheaper than Shell's price. Moreover, the oil was of much better specifications than that supplied by the major companies – with lower viscosity and much less sulphur content.[3] Unsurprisingly, therefore, Israel's oil company had been extremely enthusiastic about the prospects of establishing new channels of supply, especially following the cancellation of their contract with AIOC and Shell to import Kuwaiti crude. The timing of these developments, immediately before and after the strategic decision of these companies to desist from bringing Middle Eastern crude to Haifa made it easier for the Israeli Government to accept Delek's prognosis and even to increase its scope.

Consequently, in the course of the subsequent exchange of information on the quality and quantity of the proposed petroleum products – and two weeks before receiving formal word of the AIOC and Shell decisions – Israel informed the Russians of its willingness to contemplate importing crude oil which was expected to be $5–6 per ton cheaper at Haifa than Venezuelan crude. Since the price of Russian crude was not lower than prevailing international prices, the saving resulted from highly significant lower freight costs. Any deal on such an operation required the consent of CRL, but according to the agreement between Delek and that company, the latter had no objections to the refining of crude oil for the Israeli company provided the crude was of specific gravity and of comparable quality to one of the standard Middle Eastern grades. Accordingly it was agreed to ship a single barrel of crude to Delek for testing at the refineries to start on 18 October. A week prior to that date and four days after being advised formally of the decision of Shell and AIOC to cease supplying Kuwaiti crude to Haifa, Israel decided to lose no time. It advised its mission in Moscow of its interest in buying 'immediately' one trial cargo of about 10000 tons of Russian fuel oil to be paid for in cash in either sterling or dollars. Initial estimates in Jerusalem indicated that under a 'best case' scenario, Israel could purchase up to 150000 tons of crude (15 per cent of the local consumption) and 150000 tons of fuel oil (50 per cent of total import of that product) from Russian sources.

The formal decision to open an economic window to the East, taken in the second week of October 1953, was accompanied by a potentially no less significant resolution. For the first time, Israel set for itself the aim of securing the supply of Iranian oil following the improvement of relations between AIOC and Iran which was considered to be imminent. This solution, it was argued, would indeed solve the problem of crude supplies to Haifa even if the Suez Canal remained closed to oil cargoes bound for Israel, signifying success in overcoming the Arab League boycott against Israel. That reasoning in itself certainly served to limit the scope of the future oil deals with the Soviet Union. At the same time, the Government rejected two propositions to threaten to discontinue oil purchases from British oil companies and to render progress towards ratification of the 1953 Draft Agreement conditional on a reversal of the British decision to cease importing Kuwaiti oil to Haifa. In late 1953, the Israeli authorities could not afford to jeopardize their current supply of crude until equally cheap and reliable alternative sources were available. Russian oil was definitely less expensive but could not be relied on for long-term supply. Moreover, during the first two years of its existence Israel had recognized the adverse political implications of an oil deal with the Soviet Union. As time passed and Israel's nonaligned stand of 1948–50 became an historical episode, the potential implications were significant. This explains why although the Soviet Union, as in other cases, made no political demands in return for their consent to sell petroleum products to Israel, Sharett warned his officials against dependence on Russian oil, which would imply 'putting our head into a noose'.[4] Moreover, since Israel was dependent on sterling provided by the German Reparations Agreement, a complete strategic switch to Russian oil supplies seemed pointless. Although British diplomats in Tel Aviv were possibly exaggerating when they claimed that the Agreement appeared to 'protect the position of Shell and Anglo-Iranian for the next ten years',[5] it did in fact constitute an effective barrier against such drastic action by the Israeli Government. And even had Israel then been able to offer dollars to secure an alternative source for oil supply, the prevalent assessment in Jerusalem was that it would be rash to abandon the relatively reliable suppliers. In any case, the likely prospect of retaliatory actions by the British companies served to discourage adoption of the second retaliatory course of action. This consideration explained why – without concealing their dissatisfaction with the steps taken by British oil companies – Israeli authorities felt obliged to treat them with considerable tact and respect and declined to adopt tough measures against them.

The only viable option seemed to be purchases of what was specifically defined as 'a certain quantity' of oil from the Soviet Union. This view was confirmed when a couple of weeks later an Italian firm seemed to be following AIOC's lead in bowing to Arab League pressure and cancelling an agreement to supply fuel oil to Delek. Israeli officials were also of the opinion that acceptance of Russian offers would not only solve the immediate – albeit important – supply problem but might also prove an effective bargaining card in negotiations with the British oil companies on prices and on the possibility of evading the blockade and resuming the supply of sterling oil to Israel from the Middle East. The intricacies of Israel's position were thus expressed in internal correspondence by the Director of the Foreign Ministry's Economic Section:

> Russian supply offers a partial solution to the problem of the Arab boycott as far as oil provision is concerned and enables us to renew negotiations with the British oil companies on substantial price reduction. Of course we are not declaring war against them. But the fact that we are seizing the convenient opportunity to terminate the situation where we have been skinned by exorbitant prices should be understood.[6]

Three additional components of Israel's policy should be clarified. First, for several reasons the efforts to exploit the availability of Russian oil to affect price reduction had mainly taken place on the 'British front'. The American companies controlled a relatively small fraction of the Israeli market. Furthermore, Israeli representatives had been trying their best to prevent any US Government involvement in that issue, due to their concern as to the effects of purchases from the USSR on the Grant-in-Aid

(FOA) financing of Socony Vacuum and Esso fuel sales. As Kosloff explained

> [the Americans are] extremely sensitive on the issue of excessive prices and unnecessary waste of [their] taxpayers' money. The Russian purchases magnified the grotesqueness of the present price structure in Israel. [However] ... it will be disastrous ... if in criticizing the pricing of American companies in our conversations with the American Government [we will effect a] stop of their fuel financing.[7]

Israeli emissaries in the United States were instructed accordingly to be 'exceedingly careful' in disseminating information concerning Russian deals. In addition, in early January 1954, Israel received information on Esso's plans to pull out of Israel because of pure political considerations *vis à vis* the Arabs, and of their secret negotiations with various persons, including Gelber, Director of the American Petroleum Corporation, for the disposal of their local company. For a variety of reasons, Israel was anxious to prevent this development and planned to do its utmost to retain Esso. To raise the issue of oil prices with Esso representatives seemed not only useless but even counterproductive. The main efforts on the American front were therefore directed at Socony Vacuum. Israel asserted that it was 'definitely' interested in limiting its purchases from the Russians to no more than one-quarter of its total requirement and in continuing to obtain the bulk of its supplies from major company sources, provided the 'enormous price differential' could be narrowed down. In concrete terms, Israel was ready to compromise on a price level somewhere between the Russian and the British prices. Second, Israel was extremely worried that her economic overture to the USSR might give the wrong political impression. To counter this possibility, the Israeli Ambassador to Britain took pains to emphasize that there were no political implications in the oil deals and that Israel 'would prefer not to be dependent on Soviet sources for this important factor in her economy'.[8] And, third, the decision to exploit the opening in the East was accompanied by unprecedented internal efforts to publicize the broad line of Israel's new policy and part of its rationale.

For various reasons implementation of these decisions involved lengthy negotiations with the Russian authorities and with the British oil companies. The quality of the Russian fuel oil offered to Delek was substantially higher than that of the fuel oil available from Haifa or from any refinery processing Middle Eastern crude. However, tests of the crude samples (Tuimasin type) brought from Russia indicated that the product contained a high percentage of salt which rendered it unsuitable for treatment in the Consolidated Refineries at Haifa. The only way of making use of it would be to install special equipment to remove the salt. Israel offered to provide all the foreign exchange and the local funds for the erection of a small desalination plant, which would be a very simple installation. However, the British company flatly rejected the proposal for obvious reasons on the grounds that under the Draft Agreement between CRL and the Israeli Government which had not yet been ratified, there was no provision for the company to install such a plant. It was only after the Russians became convinced that the deal would not go through unless the problem was settled that a solution was found. In late February 1954 the Soviets agreed to sell Israel a better quality crude (Khadijenskia-Aspheronskaya type) which had not been originally earmarked for export. It was nevertheless only on 30 April that the second sample of Russian crude was checked and found to have a somewhat better yield than Guico (Venezuelan) oil, the best crude that had been supplied heretofore to Haifa, and was duly approved by CRL for refining. Thus, import of Russian crude began only in June 1954. It also took time to resolve disagreements on prices, by fixing them higher than those for Middle Eastern oil but lower than those charged by British oil companies.[9]

The second problem was Israel's logistic difficulties in carrying out large-scale fuel imports. In early January 1954 the Israelis were considering the possibility of arranging for purchase of Russian oil by British companies themselves. They believed that such a move – especially by Shell and AIOC – could result in a substantial rise in the output of the Haifa refinery, increase the companies' profits, greatly relieve Delek's transportation and storing problems, and – most importantly – lead to a general price reduction for oil products. The incentive offered by Israeli officials was a revision in the Draft Agreement to the advantage of the British companies. None the less, AIOC's Board decided late in January to refuse that request, on the grounds that although Russian crude would cost $6 a ton less than Venezuelan crude and $3 a ton less than Kuwaiti crude, 'they would rather close their business in Israel than have to handle [it]'. This uncompromising attitude stemmed from a conviction that the refinery had been constructed to deal with the company's source of crude. Acceptance of Israel's proposal, they felt, would open a chink, eventually forcing them to handle large-scale imports of Russian oil, and subsequently enabling Delek to export refined products. The negative attitude stemmed also from indirect pressures on IPC exerted by the Iraqis, who were trying to prevent the handling of Russian crude by CRL. AIOC was very susceptible to such pressures since it was planning at the time to set up marketing subsidiaries in Iraq. And finally, the company objected to the idea of governments dictating to oil companies as regards their sources of supply, especially in view of similar pressures exerted in other countries concerning Russian oil.

That policy was also adopted initially by IPC, which had been approached by Jerusalem with a request, accompanied by an overt threat, to house Russian oil in some of the company's empty tanks. Israel was, in fact, trying to emulate several precedents in Europe (in Finland and Iceland, for example) and at least one in the Middle East (where Egypt was reported to be importing 350 000 tons of oil products through a British company, in return for cotton). This situation presented IPC with a thorny problem since – under their agreement with the Israelis – the company was obliged to handle any oil that might be brought in. However, the four companies which made up the Iraq Petroleum Company (AIOC, Shell-Royal Dutch, Socony Vacuum and Compagnie Française de Pétrole) had always refused to handle Russian oil and naturally refused to acquiesce with Israel's demand. Moreover, it was loth to encourage the Israeli Government to believe that it could demand and receive the use of facilities which IPC had constructed for its own use. And lastly, the Iraqis had learned of Israel's request and had written to IPC suggesting that the Haifa refinery be moved elsewhere, 'preferably Basra'.[10] IPC's prognosis therefore indicated a desire to have their cake and eat it too – namely to turn down the request but to indicate to the Israelis that if ordered to do so and faced with a threat of action under the Emergency Regulations, it would eventually comply. The British company certainly needed 'a fig leaf to cover their position', and enable them to tell the Iraqis that they had been 'acting under *force majeure*'. The problem arose again later in somewhat different form. In mid-March, Shoham entered into a contract with an Italian firm to purchase oil of Russian origin. IPC, under pressure from Shell, refused to grant storage facilities to that oil. Israel decided to invoke the Emergency Regulations requiring the British company to store the oil while taking pains to make it clear that it had no thought or intention of embarking on large-scale requisition. On both occasions the British company eventually complied with the orders.

The third and related problem proved much more difficult to resolve. The potential for a large-scale agreement with Russia had been appreciated in Jerusalem from very early on. As local consumption for 1954 was estimated to be about one million tons, Delek's agreed share of more than 23 per cent of the market entitled it to a supply of approximately 230 000 tons. The bulk of that would be crude oil to be processed through the Haifa refinery, and the remainder would be in refined products. By November 1953 Delek had already purchased 75 000 tons of crude oil for 1954 from Socony Vacuum and obtained from that company an option on another 75 000 tons good until early February 1954. Thus the remaining quota had been 80 000 tons. Any suitable Russian offer of larger quantities was bound to lead to cancellation of at least part of Delek's option if the framework of the 1953 Draft Agreement was maintained. However, having learned during negotiations conducted in Moscow in December 1953–January 1954 that Russian oil offered material advantages over other sources as far as price and eventually quality were concerned, Israel decided to cancel the Socony Vacuum option while at the same time taking advantage of what seemed its rights under the 1953 Draft Agreement to increase its import quota substantially. Consequently, in January and February 1954, Delek signed two agreements with Sojusneftexport for the purchase of 60 000 tons of fuel oil and 100 000 tons of crude oil (for $21.15 per ton cif compared to $27.76 at Guico prices) to be supplied partly against citrus. At the same time the Palestine Electric Corporation (the country's largest consumer of fuel oil) was granted by Government order an option to purchase (through the Jordan Investments Company), 90 000 tons of fuel oil. Thus, it was made possible to import 325 000 tons instead of 235 000. Half of the $3 million cost of the deal was to be covered by Israel's citrus export. Nine months later a similar contract was signed to cover requirements for 1955.

AIOC strongly contested the legality of the Israeli order. It should be noted that a vital part of the 1953 Draft Agreement related to the quantity of crude oil which the Government *or its nominee* were entitled to tender to CRL for refining. The company considered that import of fuel oil by the Palestine Electric Corporation and by Shoham should have been weighed against the rights of the Government or its nominees as defined by the Draft Agreement. Their understanding of the relevant clauses in the Agreement was that whilst no objection could be made to petroleum imports by an independent third party over which the Government had no control – which should not therefore be deductable from the amount of crude oil which the Government might require to be refined – any imported oil in which the Government had an interest, such as the Palestine Electric Corporation's import, should be deducted from the Government entitlement. The British companies objected 'most vehemently'[11] to what they considered the evasive practice of bringing in Russian supplies outside the framework of the Agreement thereby, in effect, nullifying the whole quota arrangement. As they perceived it, the Government, while enjoying all the benefits of the Draft Agreement, had failed to fulfil their part of the bargain, thereby causing considerable loss of trade to the companies.

The latter's position was that all Israeli purchases must be channelled through Delek, and that purchases by the Israel Electric Corporation and by Shoham should be 'stopped promptly'. AIOC also demanded a revision of the Draft Agreement which would reflect their own interpretation of the relevant clauses. Israel took a different view. In defining the quota, the Agreement employed the term 'the Government importing products',[12] and stipulated that imported crude oil and refined products 'of similar quality' were to be figured at prevailing world market prices (Clause 10b). As perceived by Israeli officials, it was obvious why AIOC had agreed to these clauses in late 1952. The company could hardly demand that the Government of a sovereign state refrain from issuing import licences to local importers who were *bona fide* consumers such as the Palestine Electric Corporation. On the other hand, before the Draft Agreement was initialled, AIOC had had no reason to assume that the Government would issue import licences based on 'world market prices'. It certainly considered these prices to be the Gulf-plus prices fixed by the watertight cartels and was convinced that nobody in Israel would care to import refined products at such a cost. As noted above, by late 1953 the situation had changed and Israel now chose to interpret 'prevailing world markets prices' as indicating not Gulf-plus, but, rather, prices quoted in other production and trading centres including Black Sea ports. According to this view, the Palestine Electric Corporation was entitled to import directly without a corresponding reduction in the Government quota. Israeli legal experts also claimed that CRL's demand for revision of the Draft Agreement was 'in direct conflict with the whole process and development of the Draft'.

Underlying the legal bickering was the natural conflict between Delek's wish to increase its share of the market and the companies' diametrically opposed aim, intensified by the rapid growth in electricity consumption in Israel only partially accounted for by population growth. Palestine Electric Corporation sales of power to industry expanded from 137 million kWh in 1950 to 302 million kWh four years later (an increase of 121 per cent), while sales of electricity for irrigation purposes increased in the same period from 85 million kWh to 254 million kWh (198 per cent growth). One way for Delek to meet that demand could have been to import larger quantities of crude oil to be refined at Haifa. This solution had been ruled out by Israeli experts, since the process would have yielded considerable quantities of redundant by-products such as benzine, gas oil and kerosene. The only viable alternative, therefore, was to keep import of crude oil to the minimum necessary for production of these products and to complement it by purchases of growing quantities of fuel oil. The fact that, at the time, production of fuel oil at Haifa was more expensive than its acquisition and transportation from the Black Sea added weight to that prognosis. To avoid confrontation with the oil companies, Israel suggested that they follow suit and import Russian fuel oil. Their reluctance to do so was inevitable.

British officials lost no time in analysing Israel's moves, which one of them defined as 'making a set at the British': 'The Israelis', he reported late in January 1954,

> find it convenient to arouse doubts and anxieties in our minds as to their exact intentions on oil matter; and I have detected... the same signs of irritation and frustration at our apparent complacency as have already been reported to you in the political context. In their present mood of pique they are no doubt glad to find an opportunity of demonstrating their independence of Western supplies of oil.[13]

Israeli officials, for their part, had little doubt that the British Government's own decision to allow import of Russian oil notwithstanding, Israel's similar action had brought in its wake a 'remarkable' deterioration in relations with the British oil companies. The latter would do their utmost to place obstacles in Israel's path, and would 'make us aware of it'. None the less, the reaction of the companies came as a surprise to these officials. Thus, as early as the second half of January, AIOC instructed the Manager of Haifa Refineries to inform the Israelis that CRL would not sign the 1953 Draft Agreement until 'certain amendments' were introduced to protect them in the matter of import quotas allotted to the marketing companies. Furthermore, and no less significantly, the British company took advantage of Israel's actions to launch immediate remedial action in another direction. Under the terms of the Draft Agreement – but dependent on its ratification by the end of 1953 – CRL was obliged to sell gas to the Israeli firm Chemicals and Fertilizers Limited. The contract proved onerous to the British company because production of gas was economically worthwhile only if refined products could be sold as well, and this was then unfeasible. Likewise, the Venezuelan crude which replaced Kuwaiti crude yielded a lesser amount of gas, and rationing of petrol in Israel had caused technical difficulties in gas production in the refinery. AIOC therefore decided in late January to exploit the escape clause, under which the validity of the contract was contingent on ratification of the Draft Agreement by the end of 1953, and informed the Israelis that they considered it null and void. And – last but certainly not least – AIOC and Shell flatly rejected Israel's demands for oil price cuts. The prospect of possible future purchases of Iranian oil to solve the problems of Israel and the companies was the only incentive offered to the Israelis. Before reaching these decisions, the oil companies consulted the Foreign Office. Their joint assessment at that time was that – as long as Israel did not feel that the oil companies had been sabotaging its economy – it would not react by taking drastic measures against them such as expropriation or nationalization of the refinery or by taking over the operation of the refinery under the Emergency Regulations. The British experts did not, however, discount the possibility that Jerusalem might gain control over the refinery and operate it on behalf of AIOC as they had done during the 1948 War, or that they might suggest some sort of operating agreement under which they would operate the refinery on the basis of a lease. This assessment proved indeed very perceptive.

In light of AIOC's demands for amendment of the Draft Agreement and their decision to cancel the contract with the Chemicals and Fertilizers Company – which was accompanied with frequent threats to shut down the refinery – Israeli officials had indeed considered several possible countermoves, some of which AIOC had anticipated. The Israelis were greatly concerned at this manifestation of the extent of their country's dependence on the goodwill of AIOC and Shell. The decision to cancel the contract – which put an end to plans to start an ammonia production programme, which had been scheduled to start in 1955 – came as a particular blow to the country's fledgling petro-chemical industry, which was unpalatable to the Israeli Government. The additional fact that the Soviet crude supplied to Israel had a relatively low gas content served to emphasize Israel's exclusive dependence on the goodwill of the British. The cancellation of the contract was also an ominous indication of CRL's plans for the not too distant future, and was interpreted by some Israeli officials as a sign of reluctance to enter into any obligations. Had the agreement come into force, the British companies would have been obliged to produce gas for the Israeli company at a time when (as they explicitly stated on several occasions) they would perhaps have preferred to close down the refinery. Certain other developments, unrelated to these moves by the British oil companies, were also arousing concern in Israel at that time. By early 1954, seven oil companies were prospecting for oil under the terms of a law initiated by the Government. This prospecting activity, however, brought to light several weaknesses in the 1953 Draft Agreement. For example, under the terms of the Agreement, CRL was not obliged to refine crude found in Israel beyond the scope of the local requirements, thus precluding exports even if sufficient quantities were discovered.

Under these circumstances, it is hardly surprising that the Israeli establishment was considering two contending strategies. The novel strategy was based on new initiatives, which included offering to purchase the refinery from the British companies, or to obtain certain 'granting rights' to independent refining operations. It was estimated that, for several reasons, the British oil companies had no intention of closing down their business in Israel: first, such an act would entail loss of the market which was 'after all an interesting one'; second, if the situation with regard to Mediterranean and Persian sources changed, the refinery might regain all its former attraction; and third, these companies were loth to permit the refinery to fall into the hands of rival groups 'which are so eager to step in wherever you cannot hold your own'.[14]

One of the facts cited in support of this evaluation was IPC's readiness to maintain their installations in Israel (the oil dock and pipeline terminal depot) at a cost of a half million dollars annual fee paid to the Government, with no local income whatsoever. This readiness apparently stemmed from the hope that they would once again be able to use the southern section of the Iraqi pipeline to Haifa. From Jerusalem's point of view the presence or absence of IPC was operationally 'of small moment... Psychologically, however there is a slight advantage to their presence here'.[15] Israel therefore accepted IPC's terms. According to this strategic reasoning the threats of other oil companies reflected a brinkmanship strategy designed to extract improved conditions for operations. It followed logically, according to this approach, that although there was no guarantee of a positive response to Jerusalem's demands, they would – at best – constitute a major step on the road to economic independence and – at least – set a more positive tone for further negotiations. Circumspection was essential as 'we have no [ratified] agreement at all to hand'.[16]

According to the contending strategy, it would be a grave mistake to adhere to a policy which entailed a risky showdown with the oil companies and could destroy a most important link with British interests in the Middle East. It was clearly in Israel's security interests to avoid such a showdown, especially since the threats made by the British companies had to be taken seriously, in view of the 'pressures converging on them as well as other bodies with interests both in Israel and in the Arab world to abandon the former'. It was argued that there was a better chance of making those companies responsible for the supply of oil if the Haifa refinery remained the property of the British companies, than if Israel took over the refinery and with it the responsibility for supplies. 'It may be true', wrote Elath, the Israeli Ambassador in London, to Sharett,

> that from the economic point of view, and even more from the purely psychological one, we might be happier if we rid ourselves of any last traces of 'British domination' in Israel, and I am sure that a good many people on the left as well as some others would like to see this happen, but... it would involve a risk which outweighs most of its advantages even in times of peace: while in the event of an international emergency it might result in a complete paralysis of our oil supply.

Israeli experts were well aware that oil was, as one of them defined it, a 'flood or famine' commodity – sometimes in heavy surplus and at others in acutely short supply. In the latter case, the companies could be expected to look out solely for their own interests, to provide for the need of their regular customers and leave others to fend for themselves. The danger that Israel might find itself under such circumstances in the second category could hardly be ignored nor minimized. Moreover, it was thought that the departure of the British companies would undermine the confidence of the foreign oil-prospecting companies operating in Israel, who might even abandon the enterprise as a result. It was further argued that if Israel succeeded in discovering oil, it was precisely then that it would need the aid of the companies, since 'rightly or wrongly operations are so highly concentrated and monopolized that no independent agent can expect to establish himself securely ... either as buyer or as seller'. Generally speaking, abandonment by the British companies could be expected to deter other investors, disrupt commercial relations and increase economic isolation. In operational terms, the advocates of this strategy recommended withdrawing the demands put to the oil companies to handle Russian oil, and favoured concerted efforts to finalize the legal process of ratifying all draft agreements, even if this implied certain sacrifices by Israel.[17]

Israel declined to enter on a collision course in February–March 1954 and essentially adopted the conciliatory strategy, attempting to win compromises. Thus the Minister of Finance sent a letter to the companies on 11 March stating that the Israelis 'now wish to sign [the Chemicals and Fertilizers Agreement] and the "refinery" agreement forthwith'. In the face of the oil companies' uncompromising opposition to handling Russian oil and – aware that if forced to do so – they would prefer to close down the refinery, Israel decided albeit reluctantly, not to force the issue and thus to avert a crisis. 'We left the conference [with the oil companies]', an Israeli emissary reported, 'with the extremely unpleasant feeling that we had once more yielded to threats'.[18] What Israel perceived as conciliatory moves, however, bore no fruit. AIOC and Shell denounced Israel's initiative as a 'carrot to encourage the refinery donkey to accept the Fertilizers and Chemicals agreement' and flatly rejected it.[19] Their reluctance to act in an 'undue hurry' stemmed also from their realization that Chemicals and Fertilizers would not need gas until at least early 1955.

Israel also faced considerable problems in making charter arrangements for its oil imports for two reasons. Although Delek had gained valuable experience through chartering 16 tankers since May 1952 to import almost half a million tons of oil, the transport of 100 000 tons of crude from the

USSR in ten consecutive shipments from the Black Sea to Haifa proved extremely difficult. Whenever the company was about to conclude an agreement, it was informed by its brokers that the owners were withdrawing for fear of being blacklisted. The second transportation problem related to imports from the Western Hemisphere. In May 1954, FOA had ruled that shipments in vessels of Panama registry were not eligible for grant financing. The ruling was based formally on the fact that Panama did not have a 'commodity program' under the FOA and was not therefore regarded as a 'participating country'. The real reason, however, was related to the fact that many large American companies registered their vessels under the flag of Panama in order to elude the stringent health and safety standards of the American Merchant Marine. The ruling (when added to the irksome requirement of a quota of American tankers as a precondition for fund allocation) was highly damaging to Israel, since nearly all the tankers which American companies had reserved for the Israel run happened to be of Panama registry. The freight charge involved ($150 000 for a tanker of 26 000 tons out of Venezuela) was paid for out of Grant funds. The FOA refused to consider giving Israel a specific waiver to use Panama vessels and their ruling thus added financial difficulties to the constraints already imposed by the Arab States. Moreover, AIOC advised the Israeli Government on 12 May that due to changed circumstances, it was now reluctant to ratify the Draft Agreement unless several changes were introduced. The British company also expressed 'dissatisfaction with the economics of their overall refining and marketing operations in Israel' and called for early talks with the Israeli Government 'to cover the whole ground', including possible changes in Delek's refining fees.[20] Israel was clearly aggravated by the analysis of its legal experts that while the British companies had avoided any direct declaration that they did not regard the Draft Agreement to be a final binding contract, several paragraphs in their letter had been consistent with a position that there had never been a valid contract. As one Israeli official put it,

> if our terms prove unacceptable and... [CRL] insist that there is no agreement and no contract – then where do we stand and what follows? Can we pursue the matter to arbitration at The Hague, and if so, what result can we anticipate? How should our thinking and our approach be affected by the fact that AIOC may be correct in claiming that there has been no agreement, and that the entire matter is open to negotiations?[21]

These circumstances naturally called for a reconsideration of Israel's strategy.[22] One definite indication of the perceived gravity of the situation was the appointment in early May of a high-ranking committee to investigate the Government's oil policy and to issue operative recommendations.

The second was the reemergence of radical viewpoints in the course of the internal deliberations which preceded the high-level negotiations which both Israel and the oil companies considered necessary and indeed inevitable. A plan for taking over the management of the refinery was seriously considered, since it was anticipated that the issue would be raised by the oil companies themselves when the negotiations began in London in mid-June. It was not proposed that an arrangement be forced on the British oil companies but rather that 'a friendly agreement' be made whereby Israel would operate the refinery on the basis of a lease contract and on the understanding that it would revert to AIOC as soon as they were prepared to operate again at full capacity. And finally, several economic and political counterconsiderations notwithstanding, Israel speeded up the purchase by the Zim Company of a single 12 000-ton oil tanker – the *Haifa* – financed by German reparations, to be added to the one tanker – the *Yarkon* – it had already leased. It should be noted that the former could carry, at most, one-sixth of Delek's quota. The purchase of more than a single tanker, however, was regarded as an economically dubious deal by many Israeli experts, especially since the Suez Canal had been closed for oil bound for Haifa. This view was confirmed by later calculations which revealed that an Israeli tanker carrying Venezuelan oil would suffer a loss of $0.75 per ton, while a tanker transporting Russian fuel oil could bring in a profit of $0.2 per ton. Hence the decision to purchase a tanker basically reflected a growing need for more than a token initiative with regard to that component of Israel's fuel supply system. An order for a second tanker followed two months later. Together with an additional leased vessel – the *Gaaton* – it provided Delek with the means to transport one-third of its oil needs in a period of crisis.[23]

The guidelines for Israel's delegation for the negotiations with the British oil companies which were decided upon on 20 May, called for a change of tactics. The new approach entailed a demand for either price reduction or independent operation of the refinery by the Israeli Government, making use of cheap crude supplies. In the initial stages of the negotiations, the British companies took an uncompromising stand towards the demand to lower the price of their fuel oil to the level of the Russian oil. The Israeli representatives then made it very clear that Delek would continue to exploit the 'Russian option' – which was estimated as sufficient to cover half of the country's requirements. They would do so in order to reduce oil prices by evading the Gulf-plus and 'phantom freight' formulas, and at the same time circumventing the Arab boycott. And if, as a consequence, the need arose for independent operation of the refinery, the Government 'would have to carry it through'.[24] It was thought, however, that the arrangement would be based on mutual consent, permitting AIOC to maintain the necessary technical staff for proper functioning of the plant, and preserving Shell's distributions. The British companies would also be granted the option to provide Israel with Persian crude oil in due course, if its price proved competitive. Israeli officials gained the impression – during formal and private meetings with representatives of AIOC and Shell in the second week of June – that the oil companies would not actively oppose such a course of action. The lack of British documentation makes it difficult to assess what lay behind that position. AIOC and Shell appear to have been interested in keeping all options open. Rejection of Israel's proposal was liable to endanger their position in that country, while its endorsement, on the other hand, would have been interpreted by the Arab League as capitulation to Israel. Both situations could be avoided if a decision was delayed, while the prospects of a settlement of the Iranian oil conflict held out the hope that the companies internal losses in furnishing oil to Israel might be reduced. Both sides agreed not to mention this matter in any document, but 'it was felt at the time that [following the conclusion of Anglo-Iranian negotiations] Israel could obtain Persian oil'. Finally – and this fact was not unrelated to the above – the companies' acceptance of the idea of leasing their enterprises to Israel seemed to be conditional on the option to cancel the arrangement if and when they themselves were able to operate the refineries to their fullest capacity. Be that as it may, there can be no doubt that the British companies did not reject outright Israel's main proposition. In fact, the two sides seemed to be moving towards the same approach. Thus, although initially the Israeli Government seemed to favour unhesitatingly the idea of a lease, the Finance Minister, Eshkol, advised the delegation at the height of the negotiations of 'doubts as to our capability to manage the [refinery]' and told them that 'keeping all options open' should be the preferred aim.[25]

It was accordingly decided to suspend the talks until November 1954, pending consideration by the Israelis of a proposal to lease the Haifa refinery from AIOC and Shell under certain conditions. Until that time, the oil companies would maintain regular operations, including preparations for provision of gas to Fertilizers and Chemicals. The British companies agreed to honour the terms of the Draft Agreement until the new scheme was agreed upon. At the same time, in an exchange of letters finalizing the negotiations, they avoided any commitment to the effect that the Draft Agreement of February 1953, initialled by the parties, was a binding instrument. The question of whether the Russian fuel oil should count against Delek's import quota remained unresolved. In Jerusalem's view, however, the outcome seemed a success. In the words of one official:

> For the first time ... we face the possibility of taking over the refinery without losing the friendship, help and advice of the companies concerned. Everything is now dependent on our ability to work out a sound scheme which – while securing for us the possibility of utilizing this valuable enterprise according to our own needs – will remain sufficiently attractive for the companies as well.[26]

The Israeli delegation therefore recommended the expeditious preparation of a plan based on a lease for the independent operation of the refinery which could ensure considerable financial saving. It could also facilitate the eventual purchase of the plant by the Government, should oil prospecting in Israel prove successful.

The ball was now in the Israeli court. However, opinions varied in Jerusalem as to the desirability of promoting the lease contract. The champions of the plan – mainly but not exclusively economists and oil experts at the Finance and Foreign Ministries – considered the apparent acceptance of the plan by the British companies to be a significant inducement to its promotion. They thought that the possibility of purchasing a large quantity of Russian oil in 1955 to cover no less than 45 per cent of Israel's consumption, to be paid for at least in part by Israeli fruit exports, could have far-reaching economic benefits. Not the least of these would be the fact that Israel's dependence on oil supplies would be divided between East and West. The major counterarguments were raised by Horowitz,[27] backed by Foreign Ministry's officials. They emphasized the uncertainties involved in replacing British companies by three other possible sources of oil supply. It was claimed that neither the Soviet Union, Iran or Mexico could be considered reliable. The USSR was able to provide more than half of Israel's oil requirements, but due to the blend of political and financial considerations which shaped its economic policy towards the West, the prospect of an abrupt cessation of oil exports to Israel was always possible. The fact that only certain kinds of Russian crude were adequate for refining in Haifa was an additional factor which deserved consideration. Doubts had also been expressed as to whether Iran and the British oil companies would be able to withstand anticipated Arab pressures designed to prevent oil export to Israel when it became a practical possibility. It was agreed that the Kuwait incident of 1953 should be considered an ominous precedent. In any case, much would depend on the Egyptian attitude towards allowing passage through the Suez Canal to oil destined for Israel.

In truth, Israel could at worst still rely on supplies from Venezuela, but their cost would definitely outweigh the saving achieved by leasing the refinery. Another major argument against taking over the operation of the refinery was the growing realization that Esso was finalizing its plans for closing down business in Israel. This development (which Israel had managed to postpone), it was asserted, would weaken Israel's relation with the British oil companies and was likely to confront it with a difficult choice which it had evaded till then – either to bow to their ultimatum or to break with them completely.

That scenario seemed liable to become a painful reality, unconnected to Esso's plans, when CRL informed Israel in late August 1954 that – after consultation with the oil companies – they had 'reluctantly come to the conclusion that [the lease] proposal would not be acceptable'. Accordingly, 'it would be a mistake if, upon the Government representatives' return to London in the Autumn, they were to be under the impression that this possibility was likely to be a solution'.[28] No evidence has been traced to explain the company's change of mind. It may well have been related to the progress in the settlement of the Iranian oil crisis, which was likely to have positive ramifications for the operation of the refinery. This possibility could explain references in CRL's letter to 'constructive' future negotiations concerning 'other proposals'. While a minority of Israeli policy-makers urged adherence to Israel's previous stand even at the cost of a clash with the oil companies, most – including Horowitz and especially Eshkol – tended to accept CRL's proposition. This attitude was probably reinforced by the discouraging results of internal computations of the profitability of the refinery if managed by the Israeli Government under a lease contract. These indicated that Israel would not be able to make a profit but could expect annual losses of about \$500 000. If, however, Delek imported Russian crude and the British companies started to import Persian oil it could make a profit – albeit not an impressive one – of between \$500 000 and \$1 million. The prospects of a 'best case' scenario seemed more promising. If Israel divided the purchases of its quota between the Soviet Union and Persia, and Shell and AIOC imported Iranian crude, the expected saving would be \$3 to 4 million. A conciliatory stand *vis à vis* the oil companies seemed, therefore, mandatory.

Accordingly, Israel's negotiation position was established on 17 October 1954 at a meeting chaired by Eshkol and Horowitz and attended by Treasury officials. The participants, who did not include representatives of the Foreign Ministry, decided that since Israel was then dependent exclusively on Russian and Venezuelan oil supply, there was no point in raising the idea of a lease.[29] The only possible means of exerting immediate pressures on the British oil companies to reduce their oil price had proved to be increasing purchases from Russia, which explains why Israel planned to acquire no less than 45 per cent of its total oil requirement from the USSR in 1955. This aim proved unattainable, however, as the Russians declined to increase the quantities of oil, to reduce its price, to sign a commercial agreement incorporating the oil purchase contracts, and to expand imports from Israel as a means of financing these transactions. Furthermore, whereas in their first contract with Israel they had agreed to sell fuel oil below the world price level, they now insisted on the price known as Low Quotation of *Platt's Oilgram*. The later deals were thus less attractive financially but due to the comparatively cheap freight cost, Soviet oil was still a better option. Consequently, two contracts were signed in Moscow on 31 October 1954 for the supply of 100 000 tons of fuel oil and 100 000 of crude oil in 1955, to be paid for in part by fruit exports. Israeli officials were of the opinion that commercial difficulties affecting its general export programme accounted for the change in Russia's attitude, as probably did Israel's reluctance to export to Russia by means of transit arrangements certain commodities which the West was attempting to deny the USSR. They also thought that the Soviet Union was motivated by the desire to secure for itself a position of influence in the Arab world, which substantial economic cooperation with Jerusalem could only undermine. Israel was therefore well aware of the problems involved in using the Soviet deal as a bargaining card in the forthcoming negotiations with the oil companies, even if the Russians proved more responsive.

Under these circumstances, it is clear why the only operational conclusion reached at the meeting reaffirmed previous decisions to expedite efforts to secure 'most of Israel's [crude] supply from Persia'. In the meantime, the committee which had spent several months analysing Israel's oil problems had submitted its report. This document greatly reinforced the already recommended course of action, by urging the Government: to remove the lease proposal from their agenda; to continue to rely on the British and American companies operating in Israel for most of the country's oil supply (between 60 and 70 per cent); to attempt, accordingly, to ratify the 1953 Draft Agreement even if it entailed concessions on Delek's quota; and finally to focus on Persia as the main source of oil imports. Postponement of the negotiations with the oil companies to November would be to Israel's advantage, as by that time the supply of Iranian crude might become possible. And, indeed, the final settlement of the Anglo-Iranian oil dispute, achieved in August, did in fact transform the 'Iranian oil option' from the theoretical economic option to a practical opportunity, which was to revolutionize Israel's petroleum supply system.

This chapter has explained Israel's decision to create an oil-supply relationship with the Soviet Union as a direct result of Delek's and the British companies' difficulties in renewing oil supply to the state from Middle Eastern sources. The crucial nature of this decision was manifested by Israel's readiness to confront the British companies that were harmed and felt threatened by it. Furthermore, the latter reliance on supply of South American crude oil to be refined in Haifa made preserving their commercial relations with Israel less attractive. The cumulative result was a severe crisis that induced second thoughts in both sides about the need to preserve the *status quo* created in the early 1950s. However, it did not ultimately result in a break of the Israeli oil-supply system, mainly because the oil companies were able, from late 1954, to secure the supply of Iranian oil to Israel. The explanation of this development will constitute the focus of the next chapter.

10 At the Gates of Tehran

The possibility that – by purchasing Iranian crude – Israel could some day evade the grip of the Arab blockade and still take advantage of its proximity to the largest source of Middle Eastern oil, had long been entertained by Israeli policy-makers. In early 1950, Israel and Iran established unofficial political relations based on *de facto* recognition which enabled both sides to engage in economic diplomacy. A year later the possibility of Israeli purchases of Persian crude oil was first mentioned by Iranian officials.[1] 1951 was a starting point for two reasons. First, in March of that year the Majlis in Tehran passed a law nationalizing Iran's oil industry.[2] The ensuing crisis in relations between Britain and Iran culminated in the expulsion of British oil experts late in September and the consequent interruption of petroleum production. This explains Iran's frantic efforts to export its oil despite the determined attempts by British Petroleum to prevent it.[3] Second, as shown earlier, it was just then that Israel established its own oil importing and distributing company, thus a convergence of interests emerged.

Nevertheless, in May 1951, Israel adopted a stand towards the Anglo-Iranian oil dispute which constituted a decision to refrain from engaging in oil diplomacy with Tehran. The essence of this approach was 'benevolent neutrality' towards Britain, based on both political and economic considerations.[4] Israel was well aware that extraction by a sovereign state of political and economic concessions by forcible means was a dangerous precedent, and it had therefore exhorted the Western Powers from very early on to resist the Arab boycott. For Israel, the Iranian decision of early 1951 to close its consulate in Jerusalem, despite its previous de facto recognition of the Jewish state, was an indication of Iranian susceptibility to Arab pressures. To this should be added the fact that Iranian oil could not be paid for in sterling and Israel had no dollars to spare. There were other factors unfavourable to the importation of Iranian oil – such as the immense transportation problems and the likely reaction of the British oil companies to such a deal at a time when they were in what Israeli intelligence labelled 'a life and death struggle with Tehran'. And last but not least, the closure of the Abadan refinery, so the Israelis believed, could only enhance the importance of the Haifa refinery and might induce Britain to exert pressures on the Iraqis to reopen the Kirkuk–Haifa pipeline. For all these reasons, Israel found it convenient, for once, to side with the British. At the same time, it cautiously avoided formal declarations specifying its position.

Thus, the first move designed to initiate negotiations came from Iran. In late September 1951, Israel's defence mission in Paris was approached by a Persian representative offering crude oil at a much lower price than charged by AIOC. The proposal offered two measures to make it more likely that the shipment would be safe: the cargo was to be shipped through the Suez Canal under a neutral flag with an ostensible South American destination. 'If Egypt [made] difficulties,' promised the Iranian official, 'Persia would threaten to stop [oil] supplies'. Israeli officials initially considered trying to exploit the offer to make 'underhand' arrangements with AIOC, or to exercise pressure on the company concerning terms of oil supply. Still, no reply to the Iranian offer and no comment on a similar plan raised several months later have been traced by the author at the Israel State Archive. It appears, therefore, that the idea was discarded, for two probable reasons. First and foremost, there was virtually no possibility of transporting Iranian crude at that time, since AIOC threats to sue any tanker owner who handled 'stolen property' had proved very effective and virtually no customer challenged the British company. And second, because of the closure of the Suez Canal to oil bound to Haifa, the Vasco de Gama route was the only alternative for transporting Persian crude. The high freight costs involved at that time would have raised its Haifa price more or less to the level of Venezuelan crude, greatly minimizing the economic attraction of the plan.

The issue was raised again six months later by the Iranian Minister in Brussels and in unofficial talks conducted in Tehran by a representative of the Jewish Agency there. Israel's initial reaction was unequivocally negative. In internal deliberations the failure to secure *de jure* recognition from Iran was recalled, and grave doubts were raised as to the sincerity of the Persian authorities and their ability, and indeed willingness, to deliver the oil even if persuaded by bribes, as had been the case in late 1949. Moreover, the launching of negotiations for purchase of Iranian oil would probably be considered by the British as a 'hostile action'. Still, the Israeli representative, without being authorized to do so, had fostered strong Iranian expectations that negotiations were imminent, and the Israelis were faced with a tricky diplomatic situation. A blank refusal would, it was feared, adversely affect the prospects of full diplomatic relations, in which Israel was very interested. On the other hand, readiness to buy Persian oil could yield political dividends in its relations with Iran and thereby strengthen Israel's position in the Middle East. The negative considerations appeared to be weightier. It was decided to take advantage of the Iranian initiative, but at the same time to mitigate the anticipated impact of a negative reply by sending a special emissary to Tehran. He would be authorized to negotiate a payment agreement between Israel's Bank Leumi and Bank Melli, which – it was hoped – would facilitate commercial relations between the two states.[5] The tactical move achieved its aim. An Israeli emissary, Joseph Voet (who had taken an active part in the process leading to establishment of diplomatic relations with Iran), spent three weeks in Tehran in November which included an interview with Musaddiq. Voet managed somehow to evade the issue of oil and succeeded in laying the foundations for the eventual establishment of an Iranian Israeli Trading Company called IRIS, which began operating in Tehran in June 1953.

Israel's basic policy of avoiding alienation of the British oil companies by declining to negotiate the purchase of Iranian oil continued well beyond 1952, but it attempted from late in that year to secure the companies' consent to reserving that option for the future. The issue cropped up during the negotiations with the companies in connection with the proposed *ad hoc* arrangement (the 'Option Clause') between CRL and Delek. As noted earlier, it had then been agreed that the Israeli company had the right to tender – for refining at the Haifa refineries – crude oil of a major Middle Eastern type, or a type not inferior to the average Middle Eastern crude quality, which would not prejudice the 'normal commercial operations' of the refinery. Under these terms Delek could bring Persian oil to Haifa for refining and still be within its rights. This arrangement, however, was clearly undesirable to AIOC at the time. To avoid it, the British company proposed to insert into the agreement a special clause prohibiting Delek altogether – or alternatively until the Anglo-Iranian dispute was settled – from tendering Persian oil for refining. Israeli officials objected to the clause, which at least theoretically, would preclude such a course of action for the coming 50 years. The stock argument employed by Israeli officials was that the Israeli public and the Knesset would react strongly against such a commitment. The Foreign Ministry feared that such a document would give rise to charges that Israel was actively discriminating against Persia. On the other hand, AIOC claimed that it could not be expected to refine crude oil which was 'stolen property'. The protracted negotiations between the two sides eventually terminated in agreement to omit the issue from the text of the general agreement. Israel was to be given a document (which it was not required to acknowledge) making it clear that the company was not disposed to accept any Persian crude oil for refining in the refinery owing to the dispute between AIOC and the Government of Iran. The document also specified, however, that if that dispute was not resolved 'satisfactorily' within two years of the date of the signing of the Agreement, CRL would be prepared to reconsider and rediscuss the matter with the Israeli Government. Thus, although the Draft Agreement did not prohibit Israel's acquisition of Iranian crude, it was tacitly understood between Israel and CRL by early 1953 that such acquisition would not take place for quite a while. In March 1953, when Israel's Economic Attaché in Washington inquired of the Foreign Ministry about the prospects of buying Persian crude following newspaper reports about a Venice Court Judgement establishing some legal basis for the purchase of oil from the nationalized Iranian fields, he was promptly advised that Jerusalem 'did not consider it wise' to act 'at the present time'.[6] Likewise, when Voet was about to visit Tehran again in early May to finalize the payment agreement, Israeli officials advised the British Ambassador in Tel Aviv that despite the formal inclusion of petroleum products in Israel's 'shopping list', in fact, no oil transaction was about to be discussed.

Until the Iranian option became real, Israel had bowed to AIOC's demands while trying, albeit unsuccessfully – to extract concessions in other areas. From early 1953, it was argued that the British companies had no right to deny Israel access to Persian oil while at the same time refusing to supply her with crude oil from countries unaffiliated with the Arab League, such as Kuwait or Qatar. AIOC and Shell, however, adhered to their decision of mid-1953 to refrain from exporting Kuwaiti oil to Haifa. Israeli hints that they would utilize the Iranian oil options also seemed likely to prove counterproductive. When, for example, an Israeli official mentioned that Persian oil was being offered at a 45 per cent discount, AIOC Director Fraser, stated flatly that if this oil were brought to Israel 'they and all the oil companies would pack up' and 'none of them would ever resume supply to Israel'. The Israeli's reaction was not recorded.[7] Notwithstanding, the Israelis continued to make diplomatic enquiries in mid-1954. In July, AIOC was asked to clarify its position relating to possible purchases by Delek of Iranian refined oil products. While they had no illusions as to the British reaction, Israeli officials believed that it could do no harm and might even be beneficial to ask and be refused. In the words of one official: 'We want AIOC to realize that very often we are willing to forego financial advantages, and at times even important political gains, for the sake of normal relations with Great Britain'.[8] At the same time, these failures, the deterioration of relations with the oil companies in early 1954, and the lack of any available means of inducing the companies to reduce prices and grant other concessions made it clear for Israel that, in the long run, only the 'Iranian oil connection' could solve most of the country's oil supply problems, even if the Suez Canal remained barred.

There were several valid economic and political reasons why from very early on – the availability of Soviet crude and fuel oil notwithstanding – Iran rather than Russia was preferred as the future source of the country's fuel supplies. First of all, as noted earlier, the quality of Iranian crude met the refining standards and qualifications of the Haifa refinery. It should be recalled that no less than one-quarter of Haifa's intake prior to 1948 had come from Abadan. It was thought that there were better prospects of British oil companies cooperating in handling Iranian crude after the settlement of the dispute with Iran than of their dealing with Russian oil. Israeli officials believed that only use of Persian crude could reactivate the Haifa refinery for export. A second consideration was that gases for use by Fertilizers and Chemicals could be extracted from Iranian oil; Russian crude was poor in chemical content and its fuel was inferior to the Venezuelan. Third, political considerations definitely favoured Iranian oil, rather than the Soviet. An oil-purchasing agreement would further the proclaimed Israeli aim of developing diplomatic relations with Iran. On the other hand, Israel explicitly refused to establish a connection between its oil deals with the USSR and diplomatic relations between the two states, since one of its fundamental goals was to establish a strategic connection with the West. Thus, for example, the proposal to raise the level of oil negotiations with the Russians from the technical-economic to the political-strategic level in order to achieve a better response to Israel's requirements seems to have been broached only once in internal deliberations at the Foreign Ministry, and unanimously rejected for political reasons.[9] It will be recalled that – for the very same reason – Israel had declined to export to the USSR via transit arrangements certain commodities which the Western bloc wanted to block and which the USSR presented as essential preconditions for better oil deals. A proposal by the Head of the Economic Section of the Foreign Ministry that Israel support the Russian objection to the partial US embargo against it was also rejected. An indirect Soviet proposition for the establishment of a lubricating oil refinery was likewise discarded in late 1955 due to similar political considerations, despite difficulties in interesting American companies in the project and despite its acknowledged defence importance. And finally, for political reasons Israel discounted the possibility of ordering tankers in Soviet shipyards and kept to a minimum the chartering of Russian tankers to import crude and fuel oil from the Black Sea despite their well-noted 'faultless' operation. The Israelis knew that political factors apart, Russian delivery was at best uncertain and limited. The USSR's national consumption at that time amounted to nearly 90 per cent of its production capacity, and any increase in consumption would eliminate supplies for export. The experience of negotiating a second oil deal with the Russians late in 1954 confirmed that assessment and brought to light some other factors which reinforced it. Thus in early 1955, the Israelis reckoned that the Soviets could not be expected under 'normal circumstances' to provide more than 15 per cent of their local needs for crude oil. Iranian production, on the other hand, was 50 times greater than that country's internal consumption needs, and no operational problems were involved in providing the required amounts. Additionally, in view of the limited quantities which the Russians had at their disposal and the widespread international interest in exporting to Russia, there was a certain risk (which the Israelis clearly noted in negotiating with Soviet officials) that other countries might be willing to pay more than Israel only to maintain exports to Russia. Israeli experts were convinced that the price of Iranian oil, on the other hand, would be linked to the international oil market and would therefore be more or less constant, and in these years one of the lowest in the world. Furthermore, Israel's barter agreement with Russia admittedly enabled it to pay part of the oil bill in citrus but since the Soviets classified citrus as a non-essential commodity, they might at any time terminate its import. And finally, Israeli interests in Iranian oil were linked to the important objective of breaking the blockade of the Suez Canal. If purchase of Persian crude proved feasible, it would be easier to exert pressure to open the waterway. Israel would then be able to buy oil which would be even cheaper than the Russian oil. The conclusion was that – under the best circumstances – total oil purchases from Russia should not exceed between one-third and one-quarter of Israel's total consumption – a quantity which would suffice to diversify Israel's sources of oil supply and at the same time provide it with a bargaining card in negotiations with the Iranians. The bulk of the supply should thus come from Iran, a fact which could be exploited to extract concessions from both the British and American companies, as well as from the Russians.

Two interrelated factors remained unknown: first, the position of the oil companies and, second, the attitude of the Iranian Government. The settlement of the Anglo-Iranian oil dispute created a complex and volatile situation, which raised the need for a lengthy process of examination of both these questions. The settlement involved two agreements. The first related to payment of compensation to British Petroleum (BP) for its assets which had been expropriated by the Iranian National Oil Company (hereafter NIOC). The second was signed between the Iranian Government and an International Consortium which had been set up to regulate the production and refining of oil in Iran.[10] Formally speaking the latter agreement transferred control over Iran's oil industry from BP to NIOC, the Consortium serving as an agent. In practice, however, the Consortium was awarded far-reaching responsibilities and rights which preserved foreign control over that industry, while increasing American influence within it. At the same time, NIOC was granted the option to receive its royalties – which amounted to 12.5 per cent – in kind, which translated into daily oil production of approximately 50 000 barrels. From Jerusalem's point of view, these circumstances offered two new opportunities, the first of these *vis à vis* the Persian National Oil Company. This company's interest in embarking on independent export and its readiness to explore any possible means of promoting it had been obvious from very early on. The quantity and quality of crude at NIOC's disposal could well provide for Israel's needs. The second opportunity related to the International Consortium. Although British companies still exerted substantial influence over production and export of Iranian oil, from August 1954 they were no longer the only players on that ground. The subsequent proliferation of national and economic interests involved in export of Iranian oil naturally presented Israel with new options.

Several weeks before the beginning of the negotiations with the British oil companies, Israel took the first steps towards implementing the decision made in October 1954. FOA officials were approached to clarify their positions concerning Israeli acquisition of Iranian oil, which had just become legally available. The Americans indicated not only that they would have no objections to dollar financing these purchases from AIOC, Shell, Compagnie Française de Pétrole, or directly from the Iranian Government, but that Israel would in fact be obliged to try to import Iranian crude to qualify for US support. As FOA regulations required the recipients of Grant-in-Aid to purchase the cheapest available oil – which as noted above was not Venezuelan – Israeli officials were urged to speed up negotiations for the import of Persian oil. Concurrent contacts with Esso indicated that the company would have no objection to selling that oil to Israel. These positive developments still left a major strategic question unanswered; as Shell and AIOC held dominant positions in the International Consortium, their decision concerning the supply of Persian oil to Israel was of prime importance. The reluctance of the two companies to take upon themselves political and economic risks due to the Arab boycott was understandable. Nor is it difficult to explain their position – as transmitted to Israel before the November negotiations with the British oil companies, namely that they would have no objection to discreet purchases of oil by Delek from the Iranian Government, preferably with FOA's financing. Failure on Israel's part would make it easier for AIOC to withstand Israeli pressures on the British company to import Iranian oil, while success could hold out new opportunities to the British company, which still held a large part of the Iranian oil industry. General acquiescence to Israel's initiative also seemed natural in view of the support it had received from FOA and Esso and the prospects of receiving dollars for sterling oil. Israel's assessment had indeed proved accurate. The issue of its independent oil purchases in Persia was discussed in London on 26 November 1954 by the Middle East Oil Committee. British officials argued that it was a bad precedent for a member of the Consortium to raise any questions with the Iranian Government about its own business affairs, thereby possibly compromising the freedom of all members to dispose of their oil. They also seemed anxious to avoid any implication that the Arab blockade might be extended to a denial of Persian oil to Israel. The Committee's consideration was that Persian crude should be supplied to Israel 'with the utmost discretion' and that this supply should do nothing to injure relations with the Consortium associates of the British companies or lead to any action against IPC. Thus Israel was allowed to face the Iranian oil arena.

In order to implement its decision to take the plunge Israel attempted to clarify several options simultaneously. The first of these was the Italian firm, Supor, which was owned by the Italian Government. Since it had supply contracts with NIOC, the company was greatly disappointed at not being incorporated in the Consortium and was inclined to embark on an independent course of economic activity. This fact, combined with Israel's view of 'Italian adventurism',[11] and the fact that an Anglo-Jewish oil expert who was also a consultant to the Israeli Government had cooperated with Supor in securing these contracts, made the Italian company a natural first target for Israel. The efforts were crowned with success on 28 November 1954, when a contract was signed for the purchase of 30000 tons of Abadan crude oil (Aghajari type) from Supor's stores in Italy to be carried through the intermediary of Manchester Oil Refinery and paid for in German Reparations sterling. The deal was considered a significant precedent that could pave the way for similar deals with oil companies operating in Iran, especially American and British companies, and with NIOC itself.

This explains why, British companies' reluctance to initiate Iranian oil supply to Israel notwithstanding, Israel took advantage of the resumption of the negotiations on 29 November 1954 to try and change their attitude. A cautious modification was indeed discerned in the first stage of the ensuing discussions. The British companies clarified the political implications of oil supply from Persia in the face of Arab objections but agreed, initially, to conduct the proceedings 'on the assumption that such supplies were possible'. Israeli representatives stipulated – as a condition for their agreement to the local market price structure – that a rebate of £1 be paid to the Government for every ton of Persian crude so imported and refined, since it could be laid down at Haifa more cheaply than crude from Venezuela. The condition appears to have been accepted reluctantly as a 'provisional means of helping Israel', although it was 'contrary to normal practice in the oil trade'.[12] Furthermore, both sides tended to agree on a formula which – under these terms – would assign to Israel responsibility for transportation and provide for a price system under which Israel, AIOC and Shell would benefit from the $3.5 per ton difference between Iranian and Venezuelan crude oil.[13] However, during the latter phase of the discussions it became clear that Israel's hopes had been misplaced. The British reaffirmed their reluctance to commit themselves to the supply of Iranian oil, declined to assume responsibility for transporting the crude from Abadan to Haifa for the Israelis, and even resorted to threats to leave the country and let Jerusalem 'rely entirely on Russian supplies'. In a private conversation with Bridgeman, the Israelis learned that the change of tone was the outcome of a meeting the British representatives had attended at the Foreign Office, in which they had been warned of the possible repercussions of supplies from Persia to Israel by the major companies. The Foreign Office had warned them explicitly against 'an explosive situation' which might ensue. In practical terms it cautioned BP and Shell that they might expose themselves to retaliation in Iraq if they supplied Persian oil to Israel. They were also asked to 'consider carefully' the danger that the Egyptians might change their practice and interfere with the empty tankers returning through the Canal after making their way to Haifa via the Cape of Good Hope. The Director General of the Israeli Foreign Ministry understated Israel's reaction when he described the possibility that Britain might isolate his country from non-Arab Middle Eastern oil sources as 'a strange situation', while his staff, less reserved, defined it as 'outrageous'.[14] This reaction was not softened by their awareness that Israel's oil imports were of marginal importance for AIOC, Shell and Socony Vacuum, amounting to only half of one per cent of the oil produced by these companies in the Middle East.

The ensuing tough negotiations culminated unexpectedly, however, in Shell's consent to send a trial cargo of Iranian oil in January 1955 and the two companies' readiness to reconsider further activity in light of the ramifications of the cargo. They also agreed to a reduction of £1 per ton of crude oil coming into the Haifa refinery irrespective of country of origin. This figure represented the approximate reduction which could be offered if Persian oil was imported and was to apply to the first 200 000 tons of oil brought into Haifa in 1955. A similar reduction would thereafter be granted on the remaining 200 000 tons imported in that year but only if these came from Iran. While the reasons for the modification of Shell's stand are hard to gauge, as far as Jerusalem was concerned the apparent lack of consensus on the British side had some positive aspects. Israeli officials had been given to understand that, since it did business mainly in the Middle East, AIOC was more susceptible to Arab pressures than Shell, which had oil fields worldwide. While the former, which tended to 'play safe', led the first round of the negotiations, the latter seemed to carry more weight during their final stages. Shell seemed more eager than AIOC to effect a switch from the more expensive Venezuelan crude to Persian. Israel's success in securing Iranian oil via Supor may have had some effect. In internal correspondence State Department officials offered other explanations, such as: the need of the companies to dispose of Iranian production; the prospects of improving their competitive position in relation to the American companies (who were no longer receiving FOA financing); the desire to keep Soviet oil out of the market; and – perhaps above all – the conviction that the shipments (which were to be made from Bandar Mash'ur) could be kept secret from the Arabs. For his part, Shell's Managing Director, Platt emphasized to Foreign Office officials that his company's most weighty consideration was that if the Arab States succeeded in preventing supplies from Persia, there seemed no reason why they should not go on and put pressure on the oil companies not to supply from Venezuela. Whatever the reasons, the British companies' consent made it easier for Israeli representatives to secure a similar agreement with Socony Vacuum for the supply of 120 000 tons of Iranian crude oil. This amount had in fact been approved in principle by the State Department in late November and was reaffirmed in the first week of 1955 in order to create 'at least the possibility that the impact of [the Arab] boycott will be lessened'.[15] The British were therefore informed early in January that the State Department considered the companies' proposals for supplying Iranian oil to Israel 'reasonable' and that no action should be taken to dissuade them. Israel was then advised by Socony that it would programme its future supplies of crude oil to Israel from Iran unless forced to change plans. Esso, which had not been approached on the matter by Israeli officials due to pending discussions concerning its future activities in the country, was nevertheless expected by Jerusalem to follow suit at a later stage. Israel thus succeeded in guaranteeing that at least half of the oil companies' quota for 1955 would be either brought from Iran or charged the price of Iranian oil. The saving effected thereby and by Delek's purchases of crude oil in Russia amounted to more than $3 million, almost 1 per cent of Israel's total import in 1955. The positive developments in

London encouraged Israeli officials to approach the Compagnie Française de Pétrole in Paris in December with what turned out to be an unsuccessful bid to purchase more Persian oil.

The strategic implications of these favourable developments were conditional upon successful despatch of the first trial cargoes by Supor in late January 1955, by Shell a month later, and by Socony Vacuum in mid-March.[16] Success would indeed greatly improve Israel's overall position, but failure would turn the clock back, since no assurances had been made by the oil companies as to the conditions for supply in the second half of 1955. Their basic attitude was frankly and unequivocally formulated in a conversation between the Israeli Economic Attaché in London and one of AIOC's high-ranking officials in late December. In response to the imputation that the British company would bow to a possible Arab prohibition on the supply of Persian oil, the latter replied: 'I would be happy if it could be otherwise, but I am afraid that this is not possible'.[17] Israeli officials also noted with great concern indications that AIOC was not basing its plans for 1955 on the assumption of importing Iranian oil to Israel. Doubts were also expressed in Jerusalem as to Shell's sincerity and the same scepticism was manifested towards Socony Vacuum. It should also be noted that neither the problem of Delek's quota, nor the issue of gases for Chemicals and Fertilizers had been resolved at the December 1954 negotiations in London. Their solution seemed to both sides to depend on the consequences of the Iranian oil deals. The high gas content of that fuel was expected to enable the operation of the latter project in which IL 22 million had been invested, most of it by the Government. In the face of so many imponderables, it is no wonder that several Israeli officials warned against overoptimism, and urged that preparations be made for 'deadlock' and 'crisis' in case the 'best case' scenario failed to materialize. Most of them, however, ruled out the possibility of reverting to the scheme of taking over the refinery under a lease contract, even if British companies eventually failed to deliver Iranian crude oil. A confrontation with the British was still considered as being insupportable. These concerns and certain prejudices as to the business climate in Italy were reinforced by reports from Rome in the last week of December 1954 indicating that the local authorities were hesitant to carry out the contract for fear of Iraqi reprisals and due to pressures applied by the Iranian Consortium to prevent Persian oil from being distributed outside Italy.

The above circumstances made it important for Delek's emissaries to find another opening in Tehran itself as soon as possible. The first step in that direction had been taken in late November 1954 when an Israeli diplomat in London approached the Second Secretary at the Iranian Embassy and 'carefully' broached the possibility of oil purchases from NIOC's quota. The Persian diplomat Sanandaji replied that his country's policy was to 'sell oil to all' and that Arab pressures would not have an adverse effect on that policy. The positive reply was accompanied by a promise to ascertain Tehran's formal response. Three weeks later, similar responses from the Vice Chairman of NIOC and the Iranian Ambassador in Washington were reported. Before Tehran could react formally, Jerusalem decided to send two emissaries to the Iranian capital, Voet who had been deeply involved in the establishment of IRIS (the Iranian–Israeli Trade Company) in 1953 and in its subsequent activities, and Perlman (Principal Assistant to the Israel Petroleum Commissioner). Their mission was to negotiate the purchase of 100 000 tons of crude oil from NIOC.[18] The chances of success seemed small and although the aim of the negotiations – in which IRIS was expected to take an active part – was to achieve a direct agreement between the two sides, the Israelis had been authorized to implement the agreement via a third party if necessary, with a delivery address in Italy or Switzerland. The two men left Israel for Tehran via Istanbul on 4 January 1955 and, six days later, submitted a formal bid to NIOC. The first reports from the Iranian capital indicated 'good reception' of Israel's proposals, especially on the part of NIOC's management, and 'a certain willingness' to 'try and overcome ... political difficulties'.[19] However, Voet and Perlman soon discovered that the Iranian Government 'wanted to take time before the final decision'. They soon grasped the fact that in Israel's oil diplomacy in Tehran a substantial gap had to be bridged, and an extended period of time was required before the positive response of some high-ranking officials could be translated into a binding contract. Under these circumstances, it was decided to send Voet back to Israel and leave Perlman to take advantage of possible openings. These were slow to appear. On the one hand it became apparent to Perlman during his stay in Tehran that, from an economic point of view NIOC was eager to sign a contract with Israel. The company engaged him in negotiations which paved the way for channelling the prospective sale through a Swiss company (Compagnie Pétrole et Transport Maritime, Geneve, hereafter CPTM). It was apparently unknown to the Iranians that CPTM had been owned by Israel and originally set up to arrange for a purchase of Esso installations. The two sides also agreed to conceal the destination of the cargo, and use the tried technique of 'Cape Town for further instructions'.[20] Perlman's superiors had in fact been devising a far more ambitious scheme, namely for a South American tanker to carry the crude oil through the Suez Canal, ostensibly to Italy. They had also been cooperating with Supor in an attempt to make use of the 20 000 tons of Iranian crude oil option to be shipped in the same way. All these plans were further delayed due to the impending reorganization of NIOC's management with a new status, which had just been approved. In any case, political considerations made it impossible to finalize an agreement. It seemed that no conclusion would be reached on Israel's request until a decision was taken concerning a major issue in Iran's future foreign policy – 'opting for the West, i.e. joining the Turkey-Iraq-Pakistan Defense Pact, or remaining neutral with Yugoslavia, Egypt and India'. Such a decision was impossible prior to the Shah's return from an overseas' visit in mid March 1955.

Because of apparent progress in the negotiations before that date, it was thought advisable to send Voet back to Tehran. These hopes, however, proved premature. Voet and Perlman tried in vain to force a decision citing two main arguments: first, that all the oil companies – Esso, Shell, Socony and even Supor – had apparently been supplying Israel with Agha Jari crude oil and only NIOC had been hesitating to do so, and second, that Israel's consent to channel the sale through CPTM was 'a considerable concession on our part'. Israel's emissaries reported in late February that they preferred to hold in reserve their ultimate inducements – a bigger and/or longer contract and bribes for NIOC's manager, Bayat (termed 'Baruch' in cyphered correspondence), who apparently expected some kickback if and when the deal materialized. A long stay in Iran, they opined, would be a tactical mistake as it would be interpreted by the Iranians as overeagerness which might make them even more reluctant to conclude a deal. The two returned to Israel in early March and left the matter to be followed up by the manager of IRIS. No progress was however expected before the Persian New Year in early April.

It is clear that the Iranians had been hesitant and that their major concern had been the impact which an oil deal with Israel was likely to have on their relations with the Arab world. It also stands to reason that – not unlike BP – NIOC preferred to 'play safe', and wait for reactions in the Middle East to despatches of Iranian crude oil to Haifa by Shell and Socony Vacuum. The reluctance of the Iranians had been admittedly a major concern for the Israelis but by no means the only one. It should be recalled that the problem of FOA's regulations on use of tankers had greatly complicated Israel's fuel import arrangements in 1954. The fact that the problem remained unresolved in early 1955 threatened to hamper the oil deal with Iran. Socony Vacuum had been using tankers flying Panamanian flags and Delek – having failed to hire vessels of the 'participating country' – was liable to be forced to use the same means of transportation. Israel, for its part, was very concerned at BP's refusal to import Persian crude oil and especially about the company's probable attempts to convince other companies to adopt a course of action similar to British Petroleum. The message which Israeli officials submitted to British diplomats in both Tel Aviv and London in the fourth week of January was that Israel hoped that Britain would encourage the Shell transaction, thereby demonstrating its opposition to any extension of the Arab boycott. A policy of non-intervention, it was argued, would indicate the opposite approach. Moreover, Britain was urged to use its good offices to 'soften' BP's attitude. It is doubtful whether Israeli officials entertained high hopes that this move would bear fruit. In any case the formal response of the Foreign Office reflected unwillingness to interfere if the company decided that the risk of supplying Iranian oil was too great and that it assigned ultimate responsibility to the Persian Government.

However, Israel's anxiety as to Britain's position extended beyond the question of BP's policy the towards the sale of Persian oil by other companies. Voet and Perlman had reported from Tehran that 'if the English are against [our purchase from NIOC] it will not be accepted; they still rule the country'.[21] Yet – contrary to the deep-rooted suspicions of Jerusalem – the British voiced no objection to the direct sale of Iranian oil to Israel. In addition, it was assumed in London that on economic grounds there was some reason to hope that the deal would materialize, as it was not expected to damage the Israeli market of major British oil companies. If, however, the Persians succumbed to Arab pressures, the Arabs were expected to intervene to try and prevent BP and Shell selling part of their quota of Persian oil to the Israelis. In that event, Jerusalem would rely increasingly for supplies on the Russians and their satellites who would be the only ones to gain. Politically speaking, it had been argued by British Foreign Office officials, the question basically related to Persian–Arab relations, which were at that time of 'no very great concern for us'.[22] Still diplomatic circumspection naturally dictated extreme prudence in making that delicate position known to both Israel and the Arabs. A discreet Iranian query late in February about the British attitude on that issue enabled the Foreign Office to make its stand known in Tehran. The Persians were therefore pointedly advised that they must look to their own interests. Iran would 'be well advised not to restrict the markets for her oil merely because of a dispute to which she is not a party' since 'one such concession might easily lead her into others equally or more damaging'.[23] It is no wonder that Voet and Perlman reported in the same week that the initial information that 'the English had advised against our proposal had not been confirmed'.

By March it was clear to Jerusalem that while the deal with NIOC could not be completed, the proposed agreement had not been rejected outright. It was decided to raise the level of contacts outside Iran. Israel's Ambassador in Washington was instructed to urge his Iranian colleague in the US capital to send a 'strong recommendation' to his brother, Entezem (who happened to be the Foreign Minister) to facilitate the oil agreement. It was hoped that the Iranian diplomat would be impressed by the common interests his country shared with Israel, namely 'to free themselves from the total dependence upon the international oil companies' and by the considerable scope of Israel's total fuel consumption, which reached about 1 300 000 tons in 1955. There is no way of ascertaining if that tactic was effective or whether the Foreign Office stand carried special weight.[24] In any case, after the New Year's vacations the Iranians finally reached a positive decision and informed CPTM, the Swiss subsidiary of Delek, of their consent to supply its requirement of crude oil. Perlman was duly sent back to Tehran to finalize the deal.

The prolonged contacts designed to bring the affair to an end lasted more than five weeks and greatly strained Perlman's patience. NIOC refused to accede on several points such as payment of commission to IRIS, but there appeared to be additional reasons to account for the length of time required to finalize the discussions. After observing the oil business in Tehran, Perlman offered two explanations: 'NIOC as a whole is trying in the local slow and muddling style, to do its duty, especially in view of the nationalistic sector of what public opinion there is, which is particularly sensitive on oil matters [and] is also exercising some pressure'. Moreover, local bargaining techniques simply made it impossible to reach quick results. As Perlman put it,

> NIOC may be prompted by an oriental bargaining mentality, according to which no deal should be concluded as long as the other party has not actually made it understood (and believed) that he has reached the limits of his concessions, and that he will withdraw if no agreement is reached on his conditions... It should be remembered that we are greatly handicapped by our instructions which forbid us to bring matters to a show down.[25]

The possibility that NIOC was playing for time seemed a dangerous one as it left the field open for other potential buyers. The unavoidable decision in Jerusalem was to concede on certain points, including the payment of commission to IRIS' intermediaries. Consequently, a contract was signed on 12 June for the purchase of 75 000 tons of crude oil, with an option to buy 50 000 tons later that year. The period of implementation commenced formally in early October 1955 and ended in late September 1956, which meant that during the year the Soviet Union – with contracts for the provision of almost 370 000 tons of oil – was still Delek's main supplier. The Israeli company undertook to pay in dollars and planned to make use of FOA's funds for that. The destination of the oil cargoes was disguised by the formula – 'Gibraltar for orders'. Israeli officials experienced a particular sense of achievement as the agreement was apparently the first of its kind to be signed by NIOC, notwithstanding the problematic reorganization the Iranian company was undergoing at that time, which had made it impossible for Japanese and Italian oil-purchasing missions to reach agreements. When transportation options were discussed, Israeli officials once again opted for caution and discarded all plans to despatch even a single cargo through the Suez Canal. Although transit through Suez would promise an annual saving of $6 million it was accepted that any steps which made the Canal issue the centre of attention might imperil the Persian source itself. It was further agreed that the focus should not be on principle but on utility – to obtain the oil at the cheapest price by whatever means, provided the source of supply was not endangered. Another consideration which militated against the idea was the need to seek American cooperation in the matter which – under the circumstances of the conflict between the two countries over the Johnson Plan for the Jordan – seemed highly unlikely.

The completion of the oil contract with Iran was a significant turning-point in the history of its oil supply which Israeli policy-makers did not fail to appreciate despite their awareness of the imponderable questions involved. The problems were illustrated by the fact that due to the considerable damage caused to *Amada*, the single tanker chartered by Israel to carry out the deal, only 11 700 tons of the 75 000 had been imported by early May 1956. Politically speaking, however, the deal opened up the Iranian political-economic arena for Israeli representatives. This happened as the result of a decision to despatch a special emissary to Tehran, who under the coverage of managing IRIS affairs would be charged with the task of preparing the ground for establishing regular diplomatic and economic relations with Iran. An integral part of his task was necessarily to gather intelligence. That decision was also a response to a request by the Iranians. One of the main points raised by NIOC following the conclusion of the contract, had been the demand that a representative be appointed in Tehran, with whom the company could communicate in matters affecting the oil agreement.[26] The Iranian company's request can partly be explained by the fact that there were then no direct telephone and telegraph communications with Israel. The only means of sending a rapid message from Tehran to Jerusalem and vice versa was by a roundabout route through Switzerland. Mail was sent by Air France flight to Istanbul, and transferred there to the flight stopping at Tehran on its way to the Far East. Regular correspondence between Jerusalem and Tehran thus took no less than three weeks. NIOC's specific wish for a local address where documents could be delivered or which they could telephone at a moment's notice is also understandable in view of local conditions. In Tehran, it usually took several days to prepare an official letter or document from the time it was signed by the responsible official until all procedures were completed and it was finally mailed. The same applied to cables. However, while Iranian bureaucratic efficiency left something to be desired, Israel too was tardy in nominating its emissary in Tehran. Immediately following the signing of the agreement, the manager of IRIS left for Israel and the post remained vacant for seven months. When faced late in November with a semi-official invitation by an Iranian diplomat to send a representative to promote Israel's political interests, Jerusalem finally decided to send Zvi Doriel to Tehran. It was not until late February 1956, however, that the funds became available for that purpose. Doriel left for Tehran on 6 March 1956.

Meanwhile the shipments of Iranian oil to Israel by the oil companies seemed to be proceeding according to plan. Supor's first consignment sailed 'for Malta' on 23 January 1955 and was due in Haifa on the 28th. However, following a legal ruling early in March obliging BP to pay compensation to Supor, the Consortium brought pressure to bear on the Iranian Government to desist from supplying oil to the Italian company, and consequently no further cargoes could be despatched to Israel. When that matter was resolved several weeks later, the Italians raised other objections to the deal. Israeli officials considered that a breach of contract and weighed the option of asking for arbitration. However, the condemnation of what an Israeli official termed 'the valiant... [and] mischievous Romans' proved hasty.[27] Not only did the Italians eventually fulfil the terms of the agreement, but also apparently cooperated with the Israelis to arrange for the last shipment aboard the tanker *Esmeralda* to pass through the Suez Canal to Haifa in mid-July without hindrance from the Egyptians, as it was flying the Italian flag and was destined 'for East Mediterranean ports on orders'. While NIOC officials were not consulted the Egyptians were either taken in by the subterfuge, or deliberately let her pass to check where she was headed. This apparent success led to negotiations for a second charter which the *Esmeralda* was ready to undertake. However, according to Israeli officials, the Italian owners had 'the bright idea of killing two birds with one stone' – namely bringing oil to Israel from Persia, proceeding to the Black Sea and bringing back Russian oil to Egypt. They apparently briefed the Egyptians who induced them to abandon the second voyage on Israel's behalf. The Egyptians certainly now learned of the first voyage, if they had previously been unaware of it. Reports to the Foreign Office from Cairo indicated unequivocally that – in the current state of Egyptian–Israeli relations – the Egyptians were unlikely to allow further cargoes through to Israel.[28]

The new strategic reality had therefore become apparent only when Shell's first consignment of Iranian crude was unloaded at Haifa early in February 1955, and the tanker made its way back to the Persian Gulf through the Suez Canal without interruption. The second freight followed suit on 26 February. By early April, 30 000 tons of Shell's 105 000 tons of Iranian crude shipments and 25 000 tons out of Socony Vacuum's 80 000 tons had been unloaded at Haifa. A month later, six cargoes totalling over 140 000 tons of oil had already gone to Israel from Iran. All these activities met with a calm response in the region. BP's director advised Foreign Office officials in early May that there had been neither adverse comments in Persian circles nor indeed repercussions on the Arab side regarding the shipments already made, and that they did not anticipate any trouble. Under these circumstances, since his company had been losing money through having to buy oil for Israel in Venezuela and in light of the imminent termination of their Venezuelan contract, BP proposed to 'follow the example of the other companies'. The Foreign Office's official response was 'no comment', which in fact meant an endorsement of the company's decision. The implementation of the contracts of the other companies to import Iranian oil continued smoothly. By mid-July 1955, additional cargoes of 127 000 tons had been unloaded at Haifa and a further 137 000 tons were due four weeks later. Under these promising conditions Israel's failure to induce Esso's affiliated company Medstan to follow suit and supply Iranian crude oil seemed insignificant. The positive swing reached a peak in late June when representatives of Shell and BP (and Socony Vacuum as 'observers') agreed to continue the provision of oil from Iran until the end of 1955, under the financial arrangements made in early December 1954. In an exchange of letters a year later, they consented 'if possible and convenient' to supply up to half a million tons of Iranian crude to Israel in 1956/7 to be sold at a discount of £1 per ton.

The strategic change in Israel's oil imports could not escape the attention of British and American officials in Tel Aviv who advised their superiors in London and Washington that in 1955 Iran had become the major source (about 70 per cent) of all crude import. Imports of Venezuelan crude had declined correspondingly, from 880 000 tons to 195 000. At the same time, crude oil from Soviet sources had not materialized in the expected quantity although it represented an increase over the preceding year of nearly 400 000 barrels. More significantly – while declining for political reasons to sign a general commercial agreement – the USSR signed an unprecedented two-year contract with Israel in July 1956 for the delivery of 220 000 tons of crude oil and 300 000 tons of fuel oil in 1957 and 270 000 of crude oil and 350 000 of fuel oil the following year. This was the peak of Israel's oil trade with the USSR (see Appendix 4), as demonstrated symbolically in the negotiations in July 1956 (which the Government made no effort to conceal) for the purchase of new turbine-type oil drills manufactured in Russia. These were well suited to Israel's subsoil conditions and the deal involved instruction by four Soviet technicians, due to arrive in Israel between December 1956 and March 1957.[29] The reason for the inclusion of Soviet advisers in the agreement was solely technical. According to an Israeli official: '[the turbo drill] is a new gadget, nobody else has any experience in its use, and ... [the Russians] too are anxious to ensure that the first experiments with it outside of the [Iron] Curtain do not flop'.[30] Israel certainly had no hidden political agenda in that matter but was aware that the 'Americans, with their tendency to "thriller" mentality wherever the Russians are concerned will turn it into a sensation'.[31] Still the wide publicity given to the Soviet advisers (who much to Israel's regret never arrived due to the Russian reluctance to provide the contracted equipment) was prompted by the Government's chagrin at Socony Vacuum's plan to liquidate its business in Israel. It also wanted to highlight the contrast between the attitude of the Soviet Union during the July oil negotiations and the stand of the American oil companies and the US Government on the Arab boycott question.[32]

All these factors help explain the distinct abatement of the tension between Israel and the British oil companies which, as noted earlier, had reached a climax by early 1955. Faced with Israel's uncompromising attitude towards imports from the USSR the companies eventually preferred to reduce the level of their activities in Israel rather than the prices of the products involved. This was facilitated by the opening of the Iranian oil markets which increased their profits. Thus, for example, the availability of Persian crude provided Shell with the opportunity to raise its operative profits from deals with Israel considerably to about 35 shillings per ton. This naturally enhanced its interest in continued operations in the country, thereby serving a basic Israeli interest. The competition between the British company and the Israeli distributing company also diminished somewhat due to the later decisions of the American companies to liquidate their business in Israel which held out the promise of greater commercial opportunities for both Delek and Shell (see Appendix 6). Hence the distinct mellowing of the tone of the dialogues between Israeli representatives and CRL, British Petroleum and Shell officials from mid-1955, some unresolved disputes notwithstanding. As in 1953 these disputes focused on the Draft Agreement which consequently remained unratified when Shell decided to shut down its business in Israel. They also related to the concession of £1 per ton of Iranian crude oil which the oil companies granted Israel in 1955 and grudgingly agreed to extend for a year in early July 1956; Delek's refining fees which were nevertheless reaffirmed at that time; and the Israel Electricity Corporation's right to purchase fuel oil outside Delek's quota (see Appendix 6a).

A major occurrence in oil exploration in Israel was also helpful in reducing the tension between the oil companies and the Israeli Government, while scarcely contributing to real diversification of its oil supply. On 23 September 1955 oil was discovered in the Heletz (former Huleikat) field not far from the Gaza strip. After two years of deep drilling and prospecting by eight separate companies in various parts of the country, the first oil was struck in a hole which IPC had abandoned halfway down at the outbreak of hostilities in 1948. The Minister of Development, Dov Joseph, who was in charge of oil prospecting, informed Sharett that 'this is the real thing!'.[33] Israeli experts calculated that had IPC continued operations for another 50 days it would probably have reached oil. They speculated that – had the British authorities been informed about that discovery at that time – they 'would probably not have been so eager to leave [Palestine]'.[34] Seven years later, the oil strike in Heletz inspired Foreign Office officials to define it initially as 'the most important event that has happened in Palestine since May 15, 1948'.[35] They lost no time in assessing the consequences for Israel of a confirmed adequate quantity of oil. Not only would Israel be able to effect a considerable saving of the foreign exchange allocated for financing almost one-tenth of its imports at that time, it would greatly increase the country's military potential. Israel would thus become – to a large extent – impervious to the sort of economic sanctions that might be imposed upon her if she were ever again involved in war with the Arab States. Likewise, in peacetime, the Arab boycott would lose the greater part of its impact. British oil experts reassured the Foreign Office even before the quantity and quality of Israel's oil were tested that the geological formation was more akin to the Egyptian fields in Sinai than to the Persian Gulf. Hence there was little chance of it becoming a 'second Kuwait'. Still, one immediate effect might be a demand by Israel to take over the refinery. Systematic production tests which began in early November 1955 indicated that – although the crude oil was of good Middle East quality – the quantity produced at the single well hardly justified the addition of Israel to the list of real oil-producing countries (see Appendix 9). The output of Heletz 1 in early 1956 was just 265 barrels daily (for the sake of perspective, it should be noted that Haifa refinery's current throughput was 25 000 barrels per day). However, in March 1956, Israeli experts still had no indication as to whether the Heletz field would have sufficient reserves to supply the country's requirements. Both Israel and the oil companies declined therefore to make new commitments in the negotiations concerning renewal of the supply agreements before the potential of Heletz had been fully assessed and decided to delay them to mid-1956.

Israel's success in solving at least temporarily, some basic problems concerning supply of crude oil, still left the problem of provision of fuel oil. It should be recalled that Delek relied heavily during 1954–5 on supplies from Russia of that product – which though lower in quality than the fuel oil produced at the Haifa refinery – was the cheapest available. The terms of Israel's purchases of fuel oil from the USSR were worsened constantly as the Russians were apparently fully aware of Israel's weak bargaining position. Israel, therefore, considered it highly desirable to have at its disposal an alternative source of fuel oil which would reduce its dependence on the Russians and the major oil companies. Such a source could be used as a bargaining card to gain price reductions in the negotiations with the British companies scheduled for late 1955. Delek therefore contemplated the possibility of turning to Mexico for Pemex's fuel oil, which was sold at that time below the posted price. This low price could cover the difference in freight between the Black Sea and Mexican ports. The intention was not to purchase small quantities merely as a means of forcing down Russian prices but to effect a large-scale transaction for 1956 and even pay cash if necessary. To promote this possibility Pinchas Sapir, the Director General of the Ministry of Finance, and Kosloff paid a visit to Mexico in mid-July. The Israelis faced two problems in their negotiations: the price and the viscosity of the fuel oil offered by Pemex. The latter issue created serious technical complications in transportation by pipeline from the tankers to the Reading Electrical Plant in Tel Aviv, where most of that fuel product in Israel was consumed. Sapir and Kosloff, who were convinced that purchases of fuel oil in Mexico 'would soften Shell and

Socony [Vacuum] more than the acquisition in Russia', did not give up easily. While unable to extract lower prices from the Mexican company, they engaged Jerusalem in a frantic transatlantic exchange concerning a technical device for preventing the oil's coagulation and the installation of a larger pipe to carry it. These deliberations stretched out, and by the time Israeli officials notified Pemex on 3 August that – on the strength of the newly formulated technical arrangements – they were requesting a contract for the purchase of 80 000 tons of fuel oil (far less than the planned acquisition) from April 1956, the Mexican company had already given an American company a firm option for that product. Due to Pemex's insistence on their proposed new price the deal forfeited its attraction to Israel, was left to 'simmer' for several weeks and was finally dropped by the Mexicans. When they reiterated the offer six months later, it was Israel's turn to reject the proposal, mainly due to the quality and the price of Pemex's fuel oil. Thus until late 1956 Israel continued to rely almost exclusively on the USSR for provision of its fuel oil.

One major benefit accruing from oil imports from the Soviet Union and from Iran in 1954–6 was the diversification of supply (see Appendix 5) which – in the case of the former – definitely undermined the position of Shell, BP, and Socony Vacuum *vis à vis* the Israeli Government. No wonder that their officials were greatly concerned that in the negotiations, Israel was effectively brandishing the 'Russia bogey – the [claim] that [it] could get as much as [it] wants from the Soviets and at substantially lower prices'.[36] Furthermore, and definitely as a direct result of the above a $6.5 million saving had been achieved out of the approximately $40 million total cost of oil imports. The oil imports from the USSR facilitated the expansion of Delek's activities and provided Israel with invaluable experience in the purchase and transportation of oil.

This chapter has shown the completion of the process, which began in late 1953, of creating a new system of oil supply to Israel. The system was based mainly on the import of Iranian crude oil by the foreign companies and on the import of Russian crude oil and fuel oil by Delek. This division of labour prevented a clash between Israel and the British companies, preserved the important role of the latter, and appeared to promise good conditions for supply and for continuation of the gradual growth in absolute size and relative weight of Israel's oil company. These benefits proved, however, to be short-lived. As analysed in the next chapter, within two years, the import structure which had served Israel so well crumbled completely due to political-economic considerations which affected both the operations of the foreign oil companies in Israel and the sale of Russian oil. Policy-makers in Jerusalem were forced, as a result, to build up a new and totally different set-up which was marked by the absence of the former suppliers. This set-up actually gave Israel control of the source of its total oil imports, laid the ground for the restoration of Palestine's standing as an exporter of oil products, and was to remain basically unchanged for years to come. It is to the circumstances underlying that metamorphosis that the next chapter is devoted.

11 The Departure of the Oil Companies

It will be recalled that from the very beginning, and in spite of the mood of the times, Israel rejected the option of nationalizing the Haifa refineries, and had preferred, for various reasons, to move into the oil sector gradually. This policy enabled it to acquire invaluable know-how of the oil business while still benefiting from the presence in the country of the foreign oil companies. The success in making independent oil deals with the USSR, in purchasing Iranian crude oil, in expanding the activities of Delek without running the risks of antagonizing the oil companies attested to the soundness of the basic strategy devised in Jerusalem shortly after independence.[1] However, decisions taken by the oil companies in 1954, 1956 and 1957 and by the USSR in 1956 changed altogether the rules of the game and forced Israeli policy-makers to enter the international oil labyrinth alone much earlier than had been envisaged. This chapter will describe the factors that underlay this process during these years.

The first company to withdraw from the Israeli scene was Esso. It will be recalled that in 1949 the company had purchased the Mantacheff company, whose activity on the Palestine market dated back to about 1920. On the eve of Israel's independence Mantacheff's quota of the market was rather small: 2.1 per cent for benzine, 10.5 per cent for kerosene and about 10 per cent for gas and fuel oil. Shortly afterwards Shell tried to induce Esso to acknowledge and accept Mantacheff's quota and to reach a gentleman's agreement on this basis. Esso, however, categorically refused to accept these percentages, as they wanted to increase their share of the Israeli market. Consequently they concluded an agreement with CRL which enabled them to refine more substantial quantities. The guarded optimism which characterized the company's activities during the first year of operation, however, was quickly replaced by growing pessimism especially in view of the establishment of an Israeli importing and distributing company. The latter, it was claimed in Esso's internal correspondence, would undoubtedly be favoured to such an extent that operations of the three distributing companies would be curtailed by economic forces. The entry of a fourth company into the restricted field would naturally reduce the business of the three established companies and the smallest of them was bound to be hit hardest. This proved to be an accurate prediction. Esso was indeed to face continuous difficulties in operating successfully due to rapid monetary inflation, low profits, fluctuating exchange rates, the difficulty in remitting profits back to the United States, and the necessity of paying compulsory loans to the Israeli Government. Above all it was exposed to the threat that – as the smallest distributing company – it would be eliminated from the local market by the competitive programme of the Israeli Fuel Corporation, after the latter started providing Russian fuel oil to Israel's Electric Corporation. By early 1953 Esso viewed the Israeli market as one of 'negligible profits filled with innumerable difficulties' but it gave no indications at that time of serious plans to withdraw.[2] Still, Esso officials indicated then that if their company's concessions in the Arab States were in any way jeopardized by continued activities in Israel, 'it would get out of the local market immediately'. That frame of mind caused the company's management to contemplate favourably the prospect of being able to withdraw from Israel without losing too much on the sale, even in the absence of any overt pressure on the Arab side. While the decision to leave was reached in a couple of months, the opportunity to carry it out materialized only a year later.

On 1 September 1954, after negotiations which had started in January of that year, Esso granted to Emile Gelber – a United States citizen and president of the American Petroleum Corporation, Esso's largest single distributor in the United States – a sixty-day option to purchase the company's assets in Israel for approximately one million dollars. According to State Department information, Gelber was interested in entering the Israeli market partly because he was a philanthropic Zionist 'of thirty years standing', partly because he 'has many relatives in Israel whom he is looking forward to helping by employing them in his new company' and partly because he was convinced that he would be able to realize a profit.[3] A prerequisite for financial success had been a secured source of oil supply. That was denied to him initially by Anglo-Iranian and Shell, who refused to allow Esso to transfer to Gelber its rights to use 11.7 per cent of CRL's refining capacity for fear that he might become a party to Delek's efforts to increase its share of the Israeli market beyond the agreed 30 per cent. The fears were indeed well grounded. Full documentation relating to Israel's contacts with Gelber is not available. However, the evidence suggests that Esso's decision to sell its assets in Israel did not come as a surprise to Israeli officials. They not only took an active – albeit indirect – part in Gelber's subsequent negotiations with the company but were made privy, through intelligence channels to at least part of Esso's correspondence with its Haifa branch and to Gelber's exchange of letters with his business partner in Tel Aviv. This information, however, did not make it easier for them to formulate a coherent policy until mid-October as Esso's plans seemed liable to have highly negative implications for Israel's oil supply system while at the same time providing tempting opportunities.

The Israelis soon realized what risks were involved. Although Esso's action had very little to do with direct Arab pressures it was feared that the accompanying misleading publicity would make it difficult for Shell and Socony Vacuum to withstand such pressures in the future. Moreover, Esso's withdrawal would reduce Israel's manoeuvrability *vis à vis* these companies and would deter potential investors in oil exploration and in other ventures. This being so, the obvious conclusion was to do everything possible – including resorting to economic incentives – to induce Esso to cancel its decision. However, other officials submitted a diametrically-opposed recommendation. Their argument was based on Esso's obvious determination to carry out its decision and the presumed ineffectiveness of Israel's countermeasures, whose failure would only serve to enhance the worldwide impression of an Arab victory. In addition, secret intelligence indicated that the company's management intended to dispose only of its marketing set-up and to continue the provision of oil to Israel. Under these circumstances, it was thought that Israel should seize the opportunity and arrange for indirect purchase of the company's installations and distributing rights thereby greatly strengthening Delek's position in the local market. The contending approaches explain the inconsistency of Israel's actions until November. Having been advised early in 1954 on Esso's secret decision, Israeli officials tried – discreetly at first – to see whether an independent United States organization would be prepared to take over the Esso interest. They soon learnt that it was quite unrealistic to hope that anyone would invest large sums of dollars against 'an insecure state'. They realized that the only alternative was to arrange for purchase by Delek of Esso installations and share in the local market.

What greatly complicated that course of action was Standard Oil's vehement objection to a direct agreement with the Israel Fuel Corporation granting the Israeli Government a clear advantage in competition with other oil companies. On the other hand, the American company was prepared to do business with a different buyer and asserted at that time that 'how [he] handles the matter is not their business'. This helps explain Gelber's appearance on the scene and his receipt from Esso of the purchase option in early September. Before this happened, however, doubts were expressed in Jerusalem as to the wisdom of giving in to the company's decision without attempting to change it or somehow modify it to Israel's advantage. To Gelber's astonishment a decision was taken in mid-October to halt the purchase proceeding and probe the chance of reversing Esso's plan before final negotiations on the sale were launched. It soon became clear that Esso's decision was irrevocable and that the company had no objection to the disposal of its distributing business in

Israel to Gelber. However, Israeli representatives managed to extract one important concession: namely a firm undertaking by Standard Oil Company that the distributing company which was to replace Esso would be supplied by them in 1955. Standard's affiliate, Medstan, would therefore refine during that period between 60 000 and 70 000 tons in Haifa and import fuel to the extent of approximately 50 000 tons. Moreover it had been agreed that after one year, Medstan would have an option to continue supplying oil. Furthermore, the American company consented to the sale of its three depots in Israel to Delek. To finalize the circular transaction, Israel established a distributing company entitled Petrol which undertook to supply Esso's clientele and in which Gelber owned just 20 per cent, the rest being held by Delek and other local interests.

While these arrangements were generally satisfactory to Israel, they left open an issue which from very early on had an adverse effect on its relations with Shell. From the outset Shell considered Petrol's sales as part of Delek's quota, even though the products were supplied by Medstan. Israel opposed that point of view 'most energetically', claiming that there was no reason why Shell should profit from Esso's quota, while Petrol, which had paid a substantial amount in order to become Esso's successor, would not be able to maintain its own activity as importer, refiner and distributor and would be reduced to the status of an agent for Delek. None of the alternatives which Israel proposed in order to solve the controversy – including a plan to divide Esso's quota between Petrol on the one hand and Shell and Socony Vacuum on the other – were accepted by the British company. Its stand remained unchanged even after Medstan advised CRL late in May 1955 that it intended to terminate the processing rights by the end of the year. The controversy remained unresolved over the next two years. During this period Petrol's fuel oil imports equalled Esso's share and thus Shell's protests notwithstanding actually increased Delek's share by almost 10 per cent.

While Esso determined to close down its business in Israel mainly for economic reasons, Socony Vacuum – as a subsidiary of Socony Mobil – faced heavy political pressures from Aramco from late 1955 to do the same. As a 10 per cent shareholder of Aramco and the only partner with interests in Israel, Socony Mobil encountered growing Saudi demands from June 1955 via Aramco that it either withdraw its interests from Israel or leave Saudi Arabia. The company's interests in Israel were regarded as of marginal significance and if faced with such a clear-cut choice the company would probably have chosen to withdraw from Israel. On the other hand, such an act posed 'serious' dangers for Socony; it feared 'a [retaliatory] Zionist campaign' in the United States.[4] The company consulted the State Department on that problem, and was given ambivalent advice.

On the one hand, the State Department considered Saudi Arabia's demands 'unreasonable', and certainly objected to any succumbing to Arab pressures, which could establish a precedent for a successful secondary boycott against Israel. They also argued that Socony – as a minor stockholder in Aramco – did not itself do business in Saudi Arabia. At the same time, they took the position that Socony's choice on whether or not to withdraw should be strictly a business decision. If the company wished to continue its operations in Israel, the Department said the US Government would provide such protection as might be possible. However, that would not mean 'sending in the Marines'. The company seemed undecided at that time and apparently adopted a 'wait-and-see' posture. This did not last long, since it soon became obvious that the Saudis meant business. They managed to force a decision by Socony to retain its share in Aramco but to dispose of its operations in Israel. On 15 September the Chairman of the Executive Committee of Socony informed the State Department of that decision indicating at the same time the company's wish to revoke the Saudi request in order to prepare the way for 'voluntary' disposal, which will require 'reasonable time, perhaps a year or more'. An 'unavailing' conversation between the company's representative and King Saud on 27 September reinforced the company's decision to quit Israel but at the same time seemed to allow it up to two years to complete its withdrawal. Consequently the General Manager of Socony's Trade Department was sent to discuss the matter with the Israelis. He was instructed not to inform them of the reason for the company's action 'unless it is absolutely necessary'. In order to placate them he was to suggest exploring the possibility that Standard Oil Company of Ohio (hereafter SOHIO), which was operating outside the Arab world but owned a minute fraction of the Persian Consortium, should replace Socony in Israel.[5]

By then, however, Israeli intelligence had gained more than a general idea of the matter. The forceful consequent strong and well-prepared reaction of Israeli officials at the ensuing meetings with Socony's representatives 'took [the latter] aback'. While agreeing that the eventuality of replacing Socony with Standard was preferable to a complete break with American oil companies, they still considered it 'unsatisfactory' as the latter lacked the standing of the former. The Israelis believed that to yield to a demand to discontinue operations in their country would almost certainly lead to a Saudi demand that Socony cease selling crude on a fob basis to Israeli firms. Such a move would hurt Israel much more than the mere discontinuation of marketing. They also claimed that – once Socony Vacuum withdrew from Israel – all Arab pressures would be concentrated on 'the sole survivors' – Shell and BP – who would consequently be forced to follow suit. Israel would thus be cut off completely from Middle Eastern and especially from Venezuelan oil. Although alternative sources of supply had always existed, the financial consequences of resorting to them would be considerable. It was doubtful, the Israelis argued, whether NIOC would be willing to continue oil supplies to Israel if the major oil companies left the country. Another likely repercussion – which Israeli officials kept to themselves – was the absence of effective competition, which would be bound to 'jack up' the price of Russian oil to the level of Gulf-plus. In short, 'if the oil landslide continues unabated, we may find ourselves either completely reliant on Russian suppliers and/or purchasing crude oil from the US Gulf which is the most expensive in the world'.[6] While trying to exert pressures to revoke Socony's decision the Israelis pleaded for time. They claimed that if their country became self-sufficient in crude oil, it could dispense with the direct operations of major oil companies. But, unless that happened, they were convinced of the absolute necessity of keeping these companies in Israel. Socony's representatives were urged to alter their company's decision which was unfair, bad for both Israel and Socony (since it created a dangerous precedent) and inconsonant with US policy in the Middle East as Israel was asked to understand it. On a tactical level the Israelis claimed that it was unfair of Socony to take far-reaching decisions concerning 'a whole territory' without prior consultation with the Government of Israel. Israel's desperate mood was clearly reflected in the nature of threats which were held temporarily in reserve. Thus American representatives should have been advised that it would be 'folly to push Israel into desperate action in the sphere of oil'. The major oil companies, according to this Israeli argument, might find it embarrassing if four million tons of oil were imported from the Soviet Union for reexporting and dumping on the European markets. Furthermore, 'it is inconceivable that Israel would be left without oil while Tapline or the ports of Sidon, Tripoli and Banias operate normally'. And finally, 'if the true role which Socony plays in the Middle East became known to the American public, many Jews and non-Jews would cease to patronize the company, and many of its dealers and agents would prefer to represent other oil interests'.[7] Faced with Socony's determination to carry through its decision, Israeli representatives later aired a milder version of some of these arguments in talks with American officials.

The appeal to the State Department in fact involved the discarding of other alternatives, such as buying out Socony's interest discreetly, making a public issue of the matter or doing nothing and thus leaving Socony in the position of being unable to dispose of its holdings in Israel. This Israeli effort, however, was bound to fail as the United States indicated that the decision to withdraw was 'a commercial determination by the company', and that – while the American Government considered the Arab blockade 'unwarranted and without validity' – the ultimate answer to that and other problems was the 'basic solution of the Arab–Israeli conflict itself'.[8] No wonder therefore that the Israeli Ambassador, Abba Eban, was unsuccessful when he put the Israeli case at a meeting held on 26 January 1956 at the State Department. For its part, Socony had tried initially to persuade SOHIO to supply Persian crude to Israel and purchase all Socony's assets in Israel. Standard hesitated in face of the discovery of oil in Israel, because they felt that their investment might prove useless if Israel became self-sufficient in oil. In early January Socony started negotiations with other potential buyers. At the same time they took pains to advise Israeli representatives that they had 'purposely' avoided any discussions with the Saudis about the possibility of Arab boycott of oil shipments out of other countries pursuant to fob sales.

The time for action was imminent for Israel as Socony planned to start the liquidation of its assets in the country in October–November 1956, but having given no obligation to observe this date 'it could run away earlier if war starts'. Moreover, in May it was brought to the attention of the Israelis that Socony was already deeply engaged in negotiations with Rudolph Sonneborn, an American-Jewish oil man, and a Zionist who was already a shareholder in Delek, to purchase their business in Israel. The plan definitely reflected the company's wish to make its departure easier for the Israelis. Sonneborn was to buy Socony's assets and introduce his own brand within a year, but to begin to pay only after five years, when he would have the option of returning the assets to the company. Through a crude oil contract with SOHIO Sonneborn would have an agreement for supply of Iranian crude oil during that period with a clause that would make Venezuelan crude oil available should Iranian supplies become unavailable. Furthermore, he would be assured of tanker tonnage to transport the purchased oil. The efforts to soften Israeli opposition included notification that BP, for their part, had been informed about the plan and consented to grant Sonneborn Socony's refining rights at Haifa. The advantages of the proposal were obvious. In effect it consisted of an assurance by the company to continue its provision of crude oil for five years under cover. However, to the evident drawbacks of Socony's departure (*inter alia*, it left Shell as the single large British oil company operating in the country) was added the fact that it represented an admission by Israel of the clout of the Arab boycott. Likewise, the Israelis were well aware that

'Sonneborn is not Socony', namely that he lacked independent sources of crude oil, refineries and worldwide experience. However, the alternative of early liquidation with no future arrangement, which Socony's representatives took pains to emphasize, seemed even worse in view of Israel's dubious plan of appealing to American public opinion, and its unwillingness to increase its dependence on Russian supplies. The other schemes aired in internal deliberations and designed to involve Israel as a major partner in the 'Sonneborn deal' or to actually keep Socony in the CRL set-up looked equally unpromising. One such plan, for example, allowed for Socony to suspend all direct marketing operations in Israel under the Mobil Oil trade name, and instead market through jobbers and distributor organizations which, for the time being, would not use the Socony brand. On the other hand, according to that proposition, Socony would continue to import crude oil into Israel and would maintain their contract with CRL for processing crude. As the contract with CRL for refining had been drawn up in London and the wholesale contracts for distribution could be signed in New York the company would be able to maintain the fiction that it was not doing any business in Israel. On the other hand, thus went the argument, should it wish to return to Israel in the future, Socony would have its refining position secured, and could probably make easy arrangements for the reintroduction of its brand name. The various arguments seemed equally balanced, and the issue appeared important enough to be submitted in mid-June to the Cabinet, which was called upon to decide whether to accept Socony's terms or to confront the company publicly in the United States. A compromise resolution was adopted. The Israeli Government rejected Socony's proposal and resolved to open a new round of negotiations with the company and the State Department, aimed at convincing both of the inadvisability of withdrawal 'at present'. This was to be done without resorting to a public confrontation in the United States with the company. The arguments against the confrontation were, first, Israel's readiness to maintain open options for compromise and further talks, and second, reports from Israeli emissaries in Washington that propaganda efforts by Jewish organizations were likely to have scant effect, and thus to give a boost to the Arab boycott.

Although Socony's management appeared unimpressed by the Israeli decision, and steadfast as to its own plans, it agreed to send one of its directors to Jerusalem in late July for consultations. In view of the company's determination on the matter, the Israelis decided to accept its proposal and devote the forthcoming consultations (which were delayed, for technical reasons, until September) to ameliorating the terms – among other things by incorporating other Jewish oil interests in the scheme. None the less, the implications of Socony's withdrawal without selling its assets could not be discounted. Several weeks before the deadline for its formal response to the American company's proposal, Israel was advised that neither Socony nor SOHIO were ready to undertake upon themselves to supply oil unconditionally. It was obliged, therefore, to reconsider the option of a public clash with Socony. A 'worst case' scenario would force the Israeli Government to rely – aside from its own purchases – exclusively on Shell. 'To put all their eggs in one basket', as one Israeli official put it, would be highly hazardous, especially in view of the protracted and difficult negotiations between Israel and the British companies which took place in June and appeared to reach a deadlock.

For all these reasons, the Government was now anxious to look to the USSR for increased amounts of oil, which would involve a saving of about $4–5 per ton in transportation costs. The contracts for the purchase of crude and fuel oil signed in Moscow in July 1956 represented a 27 per cent increase in volume over previous contracts, and for the first time covered a period of two years. Citrus exports would continue to serve as partial payment for the oil. The new contract, unlike previous oil contracts which had been handled through a clearing agreement, did not stipulate cash settlement in dollars or sterling at the end of the year but allowed 'unlimited swing'. The agreement was definitely negotiated with one Israeli eye turned to Socony's plans to liquidate its business in the country and the other to Shell's and AIOC's reluctance to accommodate the Government. Soviet willingness to provide the oil almost certainly reflected commercial interests above all. According to Israeli experts, the reason the USSR had agreed to increase oil sales to Israel was that supplies of petroleum in Russia were higher than the anticipated local demand. However, in addition to the unusual 'prompt manner and congenial atmosphere' in which the contract was concluded in Moscow, Russian officials made unprecedented comments concerning oil supply. At the farewell party, they declared that 'if Israel's exploitation by the monopolistic foreign oil companies becomes intolerable and its Government decides consequently to expel them, Nafta will come to the rescue and provide all its needs to fill the gap'.[9] The Russians' eagerness to provide oil to Israel thus supplied Jerusalem with a potential political weapon in their encounters with the State Department concerning Socony's plans. As Kosloff put it:

> Despite their willingness to please the Arabs, the Russians are clinging to the principle that no one can dictate how they should conduct their

economic activity in a third country. The State Department should be made aware of the prospect that politics could cause what commerce has failed to do – viz make the [USSR] our only [oil] supplier.[10]

Faced with an apparent reversal in Socony's stand (concerning the obligation to supply oil following the liquidation of its business in the country), Eban cited this argument in a request to the State Department to render help if neither Iranian nor Venezuelan oil became available as a result of the Arab boycott. Probably recalling the cancellation of the drilling-turbine contract by the USSR, the Israeli diplomat emphasized to Dulles the fact that Socony's withdrawal would make his country 'alarmingly dependent on the commercial integrity and good faith of Russia' as a supplier of crude oil and fuel oil.[11] The figures quoted illustrated the momentum created by the Arab blockade well before 1956. In 1954 Soviet sales of crude oil to Israel constituted merely 10 per cent of the total imports of that product, yet two years later purchases from that source accounted for 19 per cent of the country's import of crude oil and as much as 33 per cent of Israel's combined imports of crude oil and fuel oil. Dulles, however, failed to provide a favourable response. The most that the American Government agreed to offer was an oral assurance that if Israel had difficulties in obtaining supplies, the United States Government 'would see if there were something which they could do to help'. This explains why – when Israel requested US help after the Suez Crisis – it did not cite any prior obligation on the part of the State Department.

The negotiations which Levi Eshkol, the Minister of Finance, conducted in the USA in late September with Socony's representatives, did, however, produce some positive results. The company was then prepared to guarantee to SOHIO that if it was unable to supply Sonneborn with crude from Iran Socony would offer Venezuelan oil instead. While this undertaking protected Israel from an emergency whereby Iranian oil was unavailable worldwide, it did not offer protection against specific discrimination by Iran against fob loading on ships destined for Israel. Socony refused to go further than that, since that would constitute a commitment to supply crude oil to Israel. As one of its managers declared: 'Socony intends to tell the whole truth to both parties; if upon withdrawal from Israel it reveals to Saudi Arabia that it has a commitment to supply crude ... to Israel [this] might stir up a hornet's nest and bring to the fore the issue of f.o.b sales which it of course wants to avoid'.[12] Israel found this undertaking unsatisfactory. If the 'worst case' scenario occurred, namely if Iran discriminated against Israel, and SOHIO yielded to Arab pressure and stopped providing Venezuelan crude, Israel would not be content with 'collecting damages', but would need the oil itself. Eshkol's insistence on a written commitment by Socony to Sonneborn was therefore understandable. However, the only arrangement acceptable to Socony was to receive a letter from Sonneborn without acknowledging it. Having no viable alternative, the Israeli representatives decided that due to insecurity concerning oil supply it was not possible 'to fight Socony'. They therefore agreed to the proposed arrangement which was to be implemented on 1 January 1957, following ratification by the Israeli Cabinet. Government approval was given 'very reluctantly against a background of bitter disappointment that, after decades of service in our country, Socony could yield to Arab pressure to cease operation in Israel'.[13] Sonneborn's new company, which started operating in early January, was named Sonol. Thus, Israel replaced Socony's management with a Jewish businessman who was by no means a figurehead. Sonneborn strongly believed that his company should be conducted on strict business lines, but his pro-Israeli sentiments were clear. In 1945–7 he had rendered invaluable help to the Jewish Agency in its efforts to bypass the American arms embargo illegally, and he had invested money in Delek in 1952. Given this background, it was not surprising that Eshkol would urge him, in times of disagreement, 'to cooperate with us [against Socony]' since

> like many of us you wear 'two hats' and you are familiar with our inescapable need to finance our operations from large scale borrowing and charitable funds. Therefore, a foreign oil supplier who is loyal to the State of Israel [sic] must seek a modus whereby his operations will be conducted on strict business lines, but at the same time should enable the economy of the State of Israel to obtain cheap energy supplies.[14]

Therefore, the decisions of Esso and Socony Vacuum to suspend operations in Israel were eventually implemented in ways which made it possible for Israel to adjust gradually to the new situation. They even involved some acknowledged advantages, which included the opportunity of expanding Delek's activities and commitments for future oil supply from Iran. Although both decisions reflected acquiescence with the Arab boycott, the direct and immediate material consequences of both did not confront policy-makers in Jerusalem with an acute crisis. The same could not be said of a similar Russian decision taken in early November 1956, not long after the finalization of Socony's plans and shortly following the outbreak of the Suez–Sinai War.

On 29 October 1956, an Israeli battalion was parachuted into the central Sinai peninsula, 45 miles from the Suez Canal, thus launching a campaign which culminated in the invasion of Egypt by an Anglo-French expeditionary force. Four days later, an Israeli oil tanker reached Odessa and its communications with Haifa were abruptly severed. A second tanker was ordered not to enter Russian territorial waters in the Black Sea. Two days later, the Israeli Foreign Ministry received a cable from Moscow which solved the mystery. It informed the Israeli Government in dry language that the Soviet Ministry of Foreign Trade had cancelled export licences for the delivery of crude oil as per the contracts of 1 November 1955 and of 29 May 1956. Furthermore, export licences would not be granted for deliveries of crude oil in 1957 and 1958 as per the contract of 17 July 1956. The reason for these actions was defined as *force majeure*.[15] The decision was but a minor component of the USSR's strategic involvement in the ongoing war. On the very same day that the cable arrived the Soviet Union issued a rare ultimatum in the form of five letters – one each to Britain and France threatening a missile attack, one to the Security Council setting a twelve-hour deadline for cessation of hostilities, one to the United States proposing a joint intervention force including the American Sixth Fleet, and an unprecedented (and apparently effective) one to Jerusalem, indicating the possibility of placing the existence of the State of Israel in question if it did not withdraw from the Sinai peninsula. While the implementation of the military threat was conditional, the economic decision was an unanticipated *fait accompli*. Its significance could hardly be exaggerated, as it implied an immediate cut of 520 000 tons of oil – 34 per cent of Israel's oil needs – which could not be covered in time from any other sources. In the words of Israel's Minister of Finance, this decision 'threatened to partly paralyze [the country's] economy'.[16] This indeed occurred since, even had it been possible to replace the Russian contracts swiftly by agreements to purchase Venezuelan oil, it was virtually impossible to charter foreign oil tankers immediately due to a steep rise in demand in early November. Israel's own vessels could not deliver the fuel in time in view of the 50-day round trip involved. The situation reached full crisis dimensions due to diversion orders issued to tankers chartered by Shell and Socony Vacuum. The eventual revoking of these orders did not solve Israel's problems, as the blocking of the Suez Canal and the Iraqi pipeline to Lebanon coupled with the drastic diminution of oil production in Kuwait and Qatar caused substantial cuts in the entire supply system of the oil companies. Thus in late November 1956 the Shell group had immediate commitments to supply five million tons of petroleum worldwide, though only $2\frac{1}{2}$ million tons were available or in sight. In the same period, Britain introduced rationing measures to cope with the anticipated 25 per cent shortfall of oil supply. Hence, it was virtually impossible for Israel to gain favourable responses to its requests for oil supply to replace the orders from Russia.[17] The shortage was so severe that the Israeli oil tanker *Haifa*, for example, was forced to carry a considerable amount of bunker oil during its voyage from the Mexican Gulf to Haifa because of difficulties in acquiring it *en route*, thereby obliging it to decrease its regular load substantially. It was estimated that the Haifa refinery stocks would be exhausted by late November or early December and electricity in the Tel Aviv area would be cut off by the end of that month. The situation was not expected to improve in the following months, as the anticipated oil stocks for 1 April 1957 sufficed for 18 days' consumption of crude oil, 58 days' of benzine, 40 days' of kerosene, 20 days' of gas oil, and – most significantly – only five days' of fuel oil.

Although these estimates proved to be somewhat exaggerated, they still explain the panic of the Israeli Finance Minister who, when informed of the State Department's refusal to extend assistance, sent desperate calls for help to American-Jewish oil businessmen who eventually declined to provide it.[18] Extant evidence suggests that policy-makers in Jerusalem, who had been engaged in military planning long before October, failed to forecast correctly the American and Russian reaction to the military strike against Egypt. Still, being naturally well aware of the serious implications of their dependence on foreign oil, they decided in early 1956 to build up six months' oil stocks. Yet, for reasons that are unclear, when war broke out, they discovered to their dismay that they could count on only one-third of the planned reserves. No wonder, therefore, that the fuel crisis which was defined by Delek's director as the 'bitter fruits of the Sinai Campaign',[19] seems to have come as a great surprise to them and explains the doubling of Israeli fuel stocks in 1957. At the end of that year, these stocks amounted to almost 700 000 tons, which would suffice for four months' consumption.

While Israel eventually managed to recover $13 million in immediate costs from Russia's cancellation of the oil contracts (which was added to almost $15 million of extra charges made by Shell and Socony in the wake of the war), there was very little it could do directly to force the Soviets to reverse their decision. Still, one month after being notified of it, a decision was taken to lodge a formal request with the Russian Government to carry out the contracts and pay compensation and damages. It was thought that the Soviet rejection of the request would facilitate putting the case to a legal test, which had to take place in Moscow. The decision was prompted by the cautious hope that the publicity surrounding arbitration would raise doubts as to the reliability of Soviet commercial undertakings, which in turn might convince the Russian authorities to come to a financial arrangement with the Israeli Government. In the 'worst case' scenario, failure in the Soviet courts would demonstrate the dubious legal foundations of Russian international commerce, raising the question 'whether it is in fact possible to do business with equal opportunity, with Soviet Trade Concerns'.[20] The hopes proved misplaced when – on 19 June 1958 – after months of litigation, the Soviet Foreign Trade Arbitration Commission ruled against Israel. It based its judgement on the *force majeure* argument, and on the Soviet law which specified that Soviet foreign trade monopolies were not agencies of the Soviet Government, even though Israel's emissaries claimed they had been completely controlled by the Government and had in fact served as its instruments. Moscow was thus sealed to Israel for oil purchases for decades to come.

Shell's decision to suspend operations in Israel, which followed seven months after the Russian decision, also came as a surprise to policymakers in Jerusalem. Due to the 1956 War, the company had initially stopped supplying the Haifa refinery with Iranian oil brought around the Cape, but it had later resumed supplies at a reduced rate and gave no indication that it was contemplating this move.[21] Moreover, in March 1957, Shell's managers started planning negotiations with the Israeli Government in view of the fact that the noncontractual 'arrangement' was due to end on 30 June 1957, and bearing in mind the possibility of resuming regular supplies of Iranian crude oil to Israel 'one way or another'. This appeared to be a logical economic step, as the Gulf of Mexico oil price had increased substantially in the wake of the Suez Crisis, while Iranian crude oil had hardly been affected. This situation created a considerable potential profit for the British company. An internal memorandum written by one of its managers reflected more than grudging acceptance of the prevailing conditions of operation:

> Because of the uncertainties in the Middle East, this does not seem the time to seek an overall new deal which would have to involve the whole future of the refinery. I consider we should continue on the 'Draft Agreement' for the time being and try to come to an agreement with [the Israeli] Government for our operations for one year from 1st July .... We have always questioned whether there is any good will in Israel but however short memories may be, these recent events should strengthen our position at the next negotiations. With all the present uncertainties, the Government would not wish to do anything which would lead to our departure from Israel. This would certainly seem to be

> the time to get our operation in Israel put on a reasonably profitable basis and to adopt a tough line to any requests for price reductions'.[22]

However, behind the scenes the situation was changing drastically. The British military operation against Egypt was bound to undermine its position in the Arab world, and the British oil company operations in Israel were therefore – more than ever before – viewed unfavourably in the Arab Middle East. What is perhaps even more relevant to our subject is that – at the Foreign Office and at Shell's headquarters in London – serious concern had been voiced as to the commercial-political risks involved in the continuation of supplying crude oil to Israel. This view was certainly reinforced by Israel's efforts to import Iranian oil to Eilat and to build an oil pipeline from the Gulf of Aqaba to the Mediterranean. What greatly troubled British officials and oil men was the possibility that such action would draw the attention of Persian Gulf rulers to '[British] shipments of uncontrolled oil to Haifa'. These fears must have motivated the unprecedentedly harsh criticism of Israel in early May 1957, when it failed to conceal the arrival at Eilat of Delek's first chartered tanker carrying such oil. They certainly explain the recommendation of the British diplomatic representative in Bahrain who warned that 'any supplies of oil to Israel by a British company or in British ships is ... likely to provide additional and widely accepted grounds for local criticism of British oil companies operating in these States'. He also urged these companies to 'weigh very carefully the short term commercial advantages of supplying oil to Israel against their long term prospects in Kuwait and elsewhere'.[23] Other regional considerations added weight to that diagnosis. The Levant Department of the Foreign Office expressed the view that the beginning of the 'somewhat tricky negotiations' about a projected Middle East pipeline

> would be prejudiced from the outset by any hint of a pro-Israel policy on the part of the British Oil companies. These companies already risk their position in the Arab world by continuing to operate in Israel, while the American company, Socony, withdrew rapidly from Israel at the first hint of Arab displeasure.[24]

The apparent absence of such 'hints' at that time made Shell's decision in early May to suspend only 'temporarily' shipments of Iranian crude to Haifa seem only natural. The decision, which meant that Israel would have to pay an extra £1 per ton for Venezuelan crude oil delivered at Haifa must have prepared the ground for a strategic choice made by the company when it eventually confronted such pressures. The Israeli Government was cognizant of some of these developments and had sufficient indications as to the probable main source of such pressure. In late May Bridgeman warned Kosloff of an impending 'second round' of Saudi Arabian efforts to force the oil companies to stop supplying oil to Israel and the Israeli Cabinet was advised shortly afterwards of Saudi attempts to disrupt naval transportation to Eilat. This information prompted a meeting between Eban and Dulles, designed to enlist American support for Israel's case. Still it appeared that – although in the forthcoming negotiations between the British companies and Israel the former were expected to make determined efforts to annul the one pound sterling concession fee – the 'worst case' scenario was definitely not anticipated. The Israeli emissaries were therefore instructed on 21 June 1957 to adopt a tough line in the negotiations.

Although the negotiations, held in the second week of July 1957, progressed initially as expected by both parties, these instructions soon became totally irrelevant. Three months earlier, Shell's representative in Saudi Arabia had been advised by a high-ranking official in that country that the company's activities in Israel 'were not compatible with the continued presence of Shell in Saudi Arabia'.[25] The move was apparently urged by the Economic Council of the Arab League, which in June reached unequivocal resolutions concerning the need to issue 'a final warning' to Shell to close down its business in Israel. The Saudis delivered a blunt ultimatum on 19 June, which left Shell little time to make up its mind. Although Shell's business in that country had been on a small scale, the company was concerned that if it withdrew from Saudi Arabia in response to that threat, other countries where it had greater interests, such as Iraq, might also exert pressure. The decision to cease operating in Israel was taken on 16 July. It should be noted that the decision was taken at the height of the negotiations with Israeli officials in London, and it is clear that the company's representatives were unaware of their management's deliberations.

Less than a day before that decision Shell advised the Foreign Office of the 'possibility' that they and BP would withdraw from Israel. Shell officials confessed that they were anxious 'to give the impression that if they left Israel, it was not because of Arab pressure but because there was no future for them in Israel, where they were not allowed to make reasonable profits'.[26] Twenty-four hours later, the British Ministry of Power was informed of the decision to 'pull down Shell['s] flag in Israel', and of the company's wish to find someone to take over their interests 'as Socony did at the end of last year'. The Foreign Office predicted that 'the next step' would be that the British companies would withdraw from the refinery and decided not to put pressure on Shell to revise their decision. The British

Cabinet discussed the issue four days later and decided that it would not be desirable for HM Government to intervene. There is no doubt that Shell's decision was gratifying to the Foreign Office. It certainly conformed to its profound reservations concerning the continued activity of the British companies in Israel following the 1948 War. The basic attitude had been stated unequivocally a year previously. In March 1956, the company was seeking guidance as to what would happen to their operation in the Eastern Mediterranean in the likely event of war between Israel and the Arabs. Their real concern was in fact to find out whether Britain would impose an oil embargo (acting through the United Nations or the Tripartite Declaration) in the event of such a military conflict. In internal deliberations in the Foreign Office, weighty arguments were raised against such a sanction against both sides, which would be 'unfair to Israel, ineffective on the Arabs and would seriously prejudice the future of Western oil interests in the area'.[27] The prevailing view was that if the Arabs were the aggressors, an oil embargo 'might not be considered the most effective action to take' and normal supplies might be allowed to continue. If Israel was the aggressor on the other hand, 'an oil embargo might well be ordered against her'.

Hence, it is plausible to assume that the Foreign Secretary was not particularly troubled when advised a year later by the directors of Shell and BP that although 'they had not been under pressure' from the Arabs to pull out, they had been in the past 'chiselled and squeezed' to such an extent by the Israelis that there was now no incentive to remain. Although the evidence strongly suggests that Saudi pressure strongly influenced Shell's decision, the Israelis knew that the company was also swayed by the commercial disadvantages of remaining in Israel, stemming mainly by losses incurred by refining operations. In 1956, the profit of the Shell Company after tax had been about £70 000, which represented a return of only 1.5 per cent on the capital of about £4.5 million employed in that year. On the other hand, the cost to Shell and BP of keeping the Haifa refinery operating under the terms of their arrangements with the Israeli Government was about £190 000. Thus, they suffered an annual loss of about £120 000. The losses were caused, *inter alia*, by the partial operation of the refinery and by the need to subsidize Delek's refining operations. Still, the profits accruing from marketing and imports certainly explain why – following its decision to cease marketing in Israel – the company took pains to emphasize that it wished to continue importing crude and also attempted to secure an agreement which would enable it to resume marketing operations in five years' time.

Shortly after the decision was taken, the company informed the Foreign Office that it hoped to close down the marketing company within six months.

In the meantime, it was looking for 'some Zionist organization' which might take over the company. If such an organization could not be found, the Israelis might themselves take it over. Such a course of action was probably dictated by the reluctance to be associated formally and directly in the Arabs' eyes with the sale of an economic asset to Israel. Although no formal decision had been made at that time concerning the Haifa refinery, its fate seemed obvious. As noted earlier, the losses involved in operating it were a significant consideration for Shell. Continued operations would become an even less attractive option when the profits of the distributing organization could no longer be set against its losses. Still, liquidation required 'very careful handling', since as the British Ambassador in Israel put it, 'the drubbing we took over Shell will be mild in comparison to what we should go through if we just walked out of the Refinery, and the Foreign Office will be even more in the firing line because of H.M.G.'s holdings in BP'.[28] British Petroleum intended, therefore, to wait until the marketing company's position was settled and then to give the Israeli Government a year's notice in accordance with the terms of BP's convention with the former Palestine Government. Under its terms, BP was not entitled to assign the refinery to anyone else; it was, therefore, incumbent upon the Israelis to find a third party to take over or else to pay BP compensation if, instead of removing it, they left the refinery in Israel.

Both the substance of Shell's decision and the way they were informed of it greatly troubled the Israeli authorities. The company provided approximately one-half of Israel's oil requirements. Its departure would not only endanger these supplies but also threatened to sabotage the country's efforts to solve most of its oil supply problems by establishing contacts with Iran. The Israelis had also been greatly concerned about being faced with a *fait accompli*, which seemed to minimize the prospects of successful negotiations for mutually agreed alternative supply arrangements such as those which had preceded Socony's withdrawal. No wonder, therefore, that the reaction of Government officials was particularly vehement and that they treated British diplomats and politicians to 'furious tirade[s]'.[29] This included a bitter protest by the Foreign Minister, Golda Meir, who asked her British counterpart whether 'Israel was to die at the hands of friends'. While Jerusalem declined initially to provoke a public confrontation with Britain for fear of drawing attention to the Arab boycott's success, its unconcealed rancour threatened to spark a Parliamentary row in London. Israel's supporters in London alleged that Shell's decision had in fact been 'reparation for Suez' and that the presence of two directors representing the British Government on the board of BP made 'a grotesque' of the insinuation that it had been a sleeping shareholder in the company. According to a close associate of the Prime Minister: 'During the Abadan [Oil] crisis the Government did not hesitate to identify itself with BP in order to establish our right of appeal to the Hague Court. We cannot have it both ways – either in fact or in the eyes of the world'. No wonder, therefore, that the Foreign Office took the very unusual step of telling the oil companies that Britain 'attached great importance to the survival of Israel' and did not wish 'to see her denuded of foreign exchange through paying high prices for Venezuelan oil'. Thus, they expected the companies to continue making oil available 'at reasonable prices from other sources'. For the same reasons, the Foreign Secretary reassured the Israeli Ambassador in London that 'we did not wish to see Israel throttled'. Shell advised Israel that its decision to withdraw was limited to distributing facilities and accepted the Foreign Office recommendation to secure 'satisfactory alternative arrangements'. These included continuation of sale of Venezuelan crude oil or consent to Israel's proposal for import of 200 000 tons of Iranian crude oil by Delek in 1957 and the sale of the finished products to the British company at a reduced price. It was clear to Shell, however, that, strategically, it was not really able to offer viable alternatives which would satisfy Jerusalem.[30]

That was so partly due to the fact that BP, a member of the Iranian Consortium, did not wish to take risks by shipping Iranian oil; all that it could do to help Israel if she ran short of crude would be to buy Venezuelan oil for release. Shell's position was not dissimilar. When the Foreign Office tried – for political reasons – to approach the State Department formally in an apparent effort 'not to grasp [that] nettle alone', it had no illusion as to the consequences. The formal response of the Americans justified that pessimism, since it urged the British to take a line analogous to the one they had adopted in 1956 towards Israel's demand for a commitment of oil supply following Socony's decision to withdraw from the country. A central element in State Department thinking on the subject was the conviction – which was to become common wisdom in Israel only a couple of years later – that 'the presence of international oil companies in Israel is not an absolute necessity' for meeting its petroleum requirements:

> 'In practice ... the Israelis have been well able to look after themselves in making arrangements with the trade. They have some tankers of their own and there is enough oil in the world controlled by companies not

> involved in Arab oil, to fill their needs ... Price is ... another matter. But this has nothing immediate to do with marketing in Israel and is not a new problem, since the Israelis have been buying some Venezuelan oil for years ... Until [Israel is left without adequate supplies] ... there are obvious disadvantages in the United States and British Governments intervening with the avowed object of 'standing up to the Arabs'.[31]

On the domestic front, the British Prime Minister took pains to pass on the message to a Parliamentary delegation that the supply of crude oil to Israel was not in jeopardy and that 'provided the Israeli Government did not kickup too much of a fuss, the ... present under-the-counter arrangements might well continue indefinitely'.[32]

The publication of Shell's decision in the British press, however, left Israel no real option but to instigate a public campaign against Britain. It was launched in a *Jerusalem Post* editorial of 25 July 1957, which declared that 'The Shell cat is out of the bag: Britain has once more succumbed to Arab blackmail.' Since the Israelis had no illusions as to their ability to bring pressure on the oil companies to reverse their decision, the criticism of Shell and the British Government was aimed at exposing the so-called immorality and hypocrisy involved in Britain's appeasement of the Arabs. The Israelis took great care to avoid any reference to the consolidation of their arrangements to import Iranian crude oil through Eilat. Likewise, they adhered to the tradition of not attacking the oil companies themselves directly. Indeed, that policy seemed mandatory in view of their discreet efforts to find some arrangements which – as in the case of Socony – would involve the British companies indirectly in supplying Iranian oil. Neither aim was achieved, but the results did not seem to come as a great disappointment to the Israelis, who decided in early August to wind up Shell's and BP's interests with as little damage, both political and economic, as possible. This aim, which was integrated into a larger scheme designed to facilitate the transformation of Israel's oil supply system, was eventually realized in part.

On 3 March 1958, Israel, acting through its nominees the Banque Suisse Israelienne, concluded a 'most secret' agreement with the British Zionist chain-store owner Isaac Wolfson, granting each 50 per cent of the yet-to-be purchased Shell company in Israel and the right to resell the entire new organization to an overseas company having 'adequate sources' of oil supply. One month later, on 1 April, Shell terminated its 32 years' of activity in the country with an agreement handing over its marketing facilities to the Paz Company, the name chosen for the successor organization owned by Iwol Investment. The latter was owned equally by Wolfson and the

Banque Suisse Israelienne.[33] Until the new company took over, Shell's quota of imported crude was supplied and sold by the Government, which arranged for Delek to bring 125 000 tons and Sonol 75 000 tons of the total amount, in addition to meeting their own respective needs.

While all this was happening, the future of the Haifa refinery was being decided by BP. Its officials had come to the definite conclusion that not only would no Arab oil be available for Israel within the foreseeable future, but that Persian oil could not be considered an assured alternative source and that Eilat presented grave 'political problems'. The British companies could therefore only offer supplies from more distant sources. As regards the local market, BP faced the prospect – following the liquidation of Shell's business – of an isolated and unremunerative refining operation at one-third capacity with crude oil which did not belong to them. Thus, at best, it could hope for a net return of about 2 per cent on the historical cost of the refinery. Although the surplus capacity after the local market had been satisfied could be made available for export, the company anticipated severe difficulties. These included the need to use crude from costly sources, the shrinking export markets due to the buildup of refineries in Turkey and Greece and the supplying of other Mediterranean countries from domestic refineries operating on Middle Eastern crude oil. As for Britain itself, by 1958 its needs were being met more securely and economically elsewhere. Thus, if CRL remained, the British companies would be faced on the local market, with the prospect of recovering little more than the cost of refining without any crude outlet or marketing profit. On the export side, CRL was expected to come under strong pressure from the Israeli Government to operate either with Shell crude – from Arab or other more costly sources – or with Persian crude belonging to the Government. It would also be faced with the alternative of either incurring large capital expenditure, a risk it was not prepared to take under the 'uncertain' conditions of Israel, or allowing the Israeli Government to install its own plant and equipment within the CRL boundary. And last but certainly not least, it would be engaged in operations which would invite Arab criticism. Hence the inevitable conclusion: 'The refinery has ... now become by force of events an isolated operation divorced from the integrated activities of Shell/BP and no longer justifiable on commercial grounds, quite irrespective of political difficulties'. On 20 March 1958, BP had duly advised the Israeli Government of its intention to dispose of their interests in CRL. The negotiations between the two sides, which – as in the case of Shell – involved Wolfson as an agent for Israel, ended in the last week of December with an agreement which transferred the management of the refinery to Israel. On 1 January 1960, Israel became the legal owner of the plant.

That year thus witnessed the completion of a long process which terminated the effective foreign control of a central economic and strategic field in Israel. The State then assumed responsibility, through Delek and Paz, for importing and distributing almost 70 per cent of the local requirement. The balance was distributed by Sonol. The oil marketing business in Israel was based thereafter on a strictly competitive basis whereby Delek lost its privileged position.

Within four years, from late 1954 through 1958, all British and American companies which had constituted the backbone of Israel's oil supply system, ceased operations in the country. The Soviet Union, which had been a major provider of crude and fuel oil from 1954 to 1956, followed suit. While commercial considerations certainly played a part in the companies' decisions to suspend the supply of oil, the overriding one was undoubtedly political. While the British and American companies made strenuous efforts to conceal this fact for political reasons, the Russians declined to openly use the political argument, apparently due to the impending legal proceedings over the Israeli demand for compensation. There is no doubt, however, that by late 1958 the Arab League had in fact accomplished one of its main objectives – to force the foreign oil companies out of Israel. The evidence suggests that Jerusalem could neither have prevented this development nor reversed it. Still, as the following chapter illustrates, Israel was not a passive observer of events; on the contrary, it invested considerable efforts in improving its position. The drive towards independence in the sphere of oil supply and refining had indeed been initiated by foreigners – yet the form which that independence took was undoubtedly determined exclusively by the Israelis themselves. The last chapter will thus describe and analyse Israel's activities in this area, which focused on making Iran the main source of crude oil. These activities, which began a short time after the Sinai Campaign and arrived at an advanced stage with the signing in May 1963 of a strategic agreement on oil supply that NIOC would actually produce from its own sources, will constitute the focus of the following chapter.

12 The Eilat Connection

The developments analysed in the previous chapter necessitated a new look at Israel's oil supply. The long-term solution to that problem obviously lay in the development by Israel of sufficient crude oil production in its own territory, and the reinstating of the normal supply line from Iraq. As that was impossible to achieve, the main objective of Israel's oil policy for the time being was to have admission to crude oil markets with maximum flexibility in normal times to buy at the lowest possible price, and in times of crisis to have access to reliable sources of supply.[1] This meant, in practice, that oil supplies should not be dependent on any one country or area, however advantageous such supply might appear in normal times, for reasons of price, but that the alternative options should be maintained. Israeli policy-makers well understood that the overriding problem was to assure safe sources of supply. Still, when pressing for that assurance, they were equally aware that in 'normal' times all oil companies were interested in selling oil and when negotiating with them should not be allowed to assume the stance of benefactors. On the other hand, in order to gain their cooperation in a crisis situation, it was essential, especially in the case of Israel, to grant the companies equitable terms in normal times. The inevitable operational consequences of such reasoning were the efforts to obtain a substantial fraction of Israel's oil supplies either directly or indirectly from a number of international major oil companies who were the only bodies with sufficient flexibility of oil sources. The attempts to diversify sources through purchases from Russia and through Iranian crude imported by these companies complemented these objectives. Taken together, they created for Jerusalem an almost ideal set-up under prevailing circumstances, notwithstanding the often strained relations with the companies and the considerable dependence on them. In mid-1957, however, the set-up crumbled and with it the notion that it was essential to have permanent access to crude produced and supplied by the major oil companies. As shown in this chapter, it was replaced by a new framework which greatly reduced the number of supply alternatives, but offered substantial advantages which seemed to offset the disadvantages. The crux of the new set-up was primarily the reinstatement of Iran as the almost exclusive source of Israel's oil supply. Whereas in 1955–6 imports of crude from that country were carried out mainly by the major companies, in early 1957 Israel assumed almost total control of crude purchases. Second, whereas the direct pipe and shipping lines connecting Israel to Middle

Eastern oil fields were cut off by the early 1950s, the second half of that era witnessed the establishment of an alternative entry point for crude in Eilat. Third, the combination of the first two factors facilitated the initial moves designed to transform the Haifa refinery from a domestic plant to an exporting one and the reinstatement of Israel itself as an international land conduit for Middle Eastern crude oil. The efforts to establish such a system lasted for years, and the objective was finally achieved, though long after the end of the period covered by this study.

The Egyptian nationalization of the Suez Canal in the last week of July 1956 and the consequent potential threat to oil transportation acknowledged worldwide provided the initial impetus for the new Israeli approach. In consultations at the Foreign Ministry it was proposed that Israel seize the opportunity and revitalize the plan for the construction of an oil pipeline connecting the Gulf of Aqaba to the Mediterranean, as the Israeli Ambassador in London had proposed five years previously. The conflict between IPC and the Lebanese Government concerning transport fees which culminated in June 1956 in a decision by the latter to impose income tax on the company was another factor underlying the proposition. On 30 July, Eban included the issue on the agenda of talks at the State Department, and five days later Ben Gurion noted in his diary that an estimated budget 'must be prepared' for such a pipeline. What ensued was a concerted Israeli diplomatic campaign which lasted almost nine months.

According to Israeli reasoning, the Western Powers would in several significant ways benefit from the pipeline. First, it would alleviate the traffic bottleneck in the Suez Canal, which was, due to the rapid expansion of consumption, no longer sufficient for the growing transportation needs of the petroleum industry of Europe and North America. The Eilat pipeline would be a supplementary means of transportation which would enable the petroleum industry to use big tankers of up to 100 000 tons (which the Canal was unable to accommodate) on the Persian Gulf to Eilat run. Second, the linking of the movement of oil produced outside the Arab League countries (such as Persia, Kuwait, Qatar and Bahrain) to transportation means which did not traverse the former could, in the words of an Israeli expert, ensure 'freedom from Arab extortion'.[2] It was hoped that the Eilat–Mediterranean pipeline would preclude the 'exaggerated' demands for transit dues both for the other pipelines and for the Suez Canal. Third, transportation of oil through the Gulf of Aqaba and the Eilat pipeline was assumed to be, in some respect, less vulnerable in wartime. (It should be noted that the Red Sea is over 240 metres deep in the Gulf. Sunken ships would not block traffic as is the case in the Canal.) Finally, diversion of a good proportion of the traffic from the Canal to the Israeli pipeline would deprive the Egyptians of economic advantages as a result of nationalization, and 'that may be one of the best lessons which the Western countries could teach the Egyptians – that nationalization does not pay'. The project was, of course, mainly designed to promote Israel's own interests. As noted earlier, by mid-1956 Israel's oil supply system seemed capable of securing its needs (especially in view of the long-term agreements with the USSR), the dissatisfaction of the British oil companies and the impending departure of Socony notwithstanding. The nationalization of the Suez Canal by Egypt had virtually no immediate negative implications for Israel's oil supply. Yet, Israeli officials were well aware at the time of the financial, economic and political difficulties involved in the Eilat pipeline project, and had no illusions about its prospects. Still, by early August 1956 they had come to consider it a useful measure. At best, it would solve most of Israel's long-term oil supply problems (the availability of crude at low prices and full utilization of the Haifa refinery), and strengthen the economic viability and the strategic position of Eilat. In any case, it could promote additional important national aims, such as the eventual opening of the Suez Canal to Israeli shipping, the securing of passage through the Straits of Tiran, and Israeli participation in the efforts to solidify the West's position in the Middle East. It would also demonstrate that it never paid to appease aggressors.

However, while the promotion of the political objectives did not require complicated planning, the project as such required a thorough examination of old plans which had been commissioned by the Israeli Government from AIOC in 1951. Although the prospects of inducing any Arab oil-producing country to allow its crude to pass through Eilat seemed negligible, there was some hope that others, notably Iran, would favour the establishment of an alternative route to the Suez Canal even after the settlement of the nationalization crisis. Transportation of the oil through the Tiran Straits to Eilat seemed, nevertheless, to face an insurmountable obstacle. On September 1955, Egypt tightened its blockade on Eilat, which it had intermittently enforced for several years. Egypt blocked air travel to and from Israel over the Straits and all ship captains were required to submit inventories of their cargoes 72 hours before entering the Straits. Egypt was able – through its military deployment in the Sinai peninsula – to close the Straits of Tiran to oil bound to Eilat. However, in view of its highly criticized unilateral decision of July 1956 to nationalize the Canal, its legal – and especially political – positions on the Straits issue were assumed to be much weaker than its standing over the Suez Canal. Thus, it was not improbable that an international campaign to force Cairo to accept the project would prove successful. On the other hand, Israeli experts could neither deny nor minimize the claims that a 30-inch diameter pipeline (which was essential for competition with oil conveyed through the Canal) would entail a cost of about $65 million, well beyond their country's ability. Likewise, Israel lacked the technical ability to manufacture the pipelines required for the project. Political backing was also an essential condition for the firms which expressed potential interest. '[Is] it possible', asked a sceptical Israeli official, that Britain and America will summon up enough courage 'to cross ... the barrier [of] Arab phobia?'[3] In addition, the two years required for the completion of the project naturally reduced its immediate relevance to the current crisis. And lastly, the guarded hope that Iranian cooperation might be recruited was mixed with doubts as to Iran's ability and willingness to resist inevitable Arab pressures. Israeli officials soon discovered that many of their doubts had not been misplaced.

Reactions within the British Foreign Office to the renewed Israeli proposition in August were unanimously negative. Ter ming the project 'a pipe dream' and 'a white elephant', officials argued that 'rightly or wrongly' Egypt would probably block the Straits of Tiran on the way to Eilat for oil tankers as easily as it had done at the Suez Canal. Furthermore, 'the oil would be "Arab" oil, and any such project would cause a renewed clamour by the Arab League Boycott office against any Arab oil being sold to Israel at all'.[4] It was only natural to assume that BP and Shell would formally reject an Israeli offer to participate broached in early October. The American Government did not make its views formally clear to Israeli representatives, although they concurred with the British. A week after the nationalization of the Canal, President Eisenhower stated at a meeting with State Department officials that even if there were pipelines through Israel, 'the Arab oil-producing countries could always stop production'.[5] Both London and Washington favoured laying an oil pipeline through Turkey conveying Iraqi and Iranian production as a possible partial alternative to the Suez Canal rather than any other pipeline (including the one from Eilat) 'through disturbed Arab states'. Moreover, several American companies approached on the subject, with the initial exception of C.W. Murchison of Dallas, Texas, declined to cooperate in building the Eilat pipeline. Israel's friends in the oil business community were also unenthusiastic about the project. Walter Levy, who was a prominent figure among them, advised Israeli officials that the pipeline was 'an excellent and most reasonable idea' but 'totally unrealistic'.[6] Not only would the Arab States refuse to sell Israel their crude, but the members of the Iranian Consortium would adopt the same attitude for fear of retaliation by these states and loss of potential concessions. Levy pointed out that the West's dependence on the goodwill of the Arabs had been well demonstrated in the midst of the 1948 War when – despite the shortage of refining facilities – the oil companies had declined to make use of the Haifa plant. Paul Frankel, a British oilman, also belittled the proposal, commenting candidly to an Israeli official that it was 'either unnecessary (in a rational and peaceful world) or unfeasible (in a world in which there is strong pressure and counter pressure between the Arab World and Israel)'. The Eilat pipeline, he asserted, would appeal to the Western Powers and the oil companies only if they were convinced that their relationship with Egypt, the Lebanon, Syria and Jordan would continue to be 'on a cold war basis', whereas the relationship with Kuwait (and possibly Saudi Arabia) would be sufficiently solid for the latter to maintain supplies even in the teeth of the strong opposition from the former. This situation appeared highly unlikely.[7]

The only positive reaction to Israel's approaches came from several French oil and businessmen, notably the Director of the Suez Canal Company and several Government officials, who manifested keen interest in it as a useful means to prevent 'placing all eggs in a single basket' and as a 'a knife in Nasser's back'.[8] They were even ready to cooperate in conducting a thorough study of the project through Trapil, a French oil construction firm. In view of the behind-the-scenes consolidation of military cooperation with France, Israeli officials did not rule out the possibility that the French Government would consequently be willing to underwrite the political risks involved, by promising to cover the amortization and maintenance charges in case no oil flowed through the line. Israel still preferred links with American firms, which controlled a large part of the Persian production, to links with the French, who held less than 10 per cent of it. Israel decided, therefore, on 22 October 1956 to pursue both tracks but at the same time to invite Trapil to conduct the survey. At that time, the end results of the three months' efforts to promote the Eilat pipeline were infinitesimal. However, the war which broke out a week later hastened its unilateral completion by Israel within a couple of months.

Two interesting and interrelated historical questions arise: did considerations concerning oil supply affect the policy-making in Jerusalem which culminated in the Sèvres Agreement between France, Britain and Israel to launch a strike against Egypt? Was the need to secure passage through the Straits of Tiran among Israel's reasons for joining in the 'collusion'? The extant documents provide a definite positive answer to the second question. Israel certainly opted for war, among other reasons in order to open the Straits of Tiran to Israeli navigation. As to the first query, although there was no actual threat to oil supply at that time, it is plausible to assume that the preoccupation of Israeli policy-makers with the envisaged

Eilat pipeline project from early August 1956, the vital precondition of which was freedom of navigation through the Straits, increased their readiness to resort to military action designed to deny Egypt control of the Straits.[9] Be that as it may, there is little doubt that the altered conditions of oil supply after the outbreak of hostilities transformed the Eilat pipeline project from a marginal interest, whose failure would not have serious repercussions, into a central national aim.

The prime driving force in that metamorphosis was the cancellation of the Russian oil contract, which had the immediate effect of cutting in Israel's oil supply by 34 per cent. The second was the disruption of two central Middle Eastern oil supply channels immediately after the outbreak of hostilities between the Anglo-French and Egyptian forces. In the first week of November 1956 several pumping stations of the Iraqi pipeline in Syria were blown up, and at the same time, the Egyptians blocked the Suez Canal. The assessment in Jerusalem and Paris was that repair works could begin only after the military confrontation ended. Both these acts augured serious upheavals in the worldwide supply and transportation of oil, and the financial implications of the latter could hardly be minimized. The detrimental impact of these developments on Israel, which was dependent primarily on Shell and Socony Vacuum for both the purchase and delivery of fuel, was abundantly clear. Furthermore, the prospect of the Canal being closed for an extended period of time meant that tankers carrying Iranian oil via the Cape of Good Hope would not be able to make the return journey, as in the past, through that route. The Vasco de Gama operations would thus forfeit much of their economic rationale, and Israel might be forced to turn to Venezuela as the only source of its oil supply. And finally, the political implications of these developments for Israel's ability to translate its military victory in Sinai into political and economic achievements could not be disregarded. A State Department Memorandum of early July 1957 summed up the case as follows: 'Previously the Gulf had been an Arab sea, and the head of the gulf an Arab crossroads on the route to Mecca, despite Israel's technical sovereignty over Eilat since 1948 ... The new factor in the situation was that ... the Israeli port of Eilat had been opened.'[10] Two major considerations accounted for that opening. On the one hand, according to the Strategic Planning Division of the Israel Defence Forces: '[under present circumstances] our total dependence on [foreign] sources for oil supply could be used as a means to extract political concessions'.[11] Ben Gurion stated unequivocally in his diary that 'the only [international] sanctions which could defeat and break us are oil sanctions'.[12] On the other hand, the initial control of Sinai by Israeli forces and the hope that their eventual withdrawal would lead to international guarantees of free and uninterrupted passage through the Straits of Tiran (which had been denied to Israeli shipping since 1948), made the envisaged Eilat pipeline not only a significant political factor in Israel's diplomatic arsenal but now also an immediate operational target. Although receipt of a guarantee from the Americans proved highly problematic, their basic support for the claim to freedom of navigation in the Gulf of Aqaba was manifest. In view of the unexpected oil crisis in which Israel was embroiled within days of launching the attack against Egypt, Ben Gurion told his generals that the freedom to ship oil through the Straits of Tiran was 'an issue of life or death' for Israel.[13]

The immediate reaction of Israel's Finance Minister to the oil crisis signalled the general direction which the Government was eventually to pursue. In a letter to Ben Gurion, reflecting grave concern if not panic, Eshkol proposed taking control in the Sinai peninsula of the crude oil produced by an Italian company (Ente Nazionale Idrocarburi – hereafter ENI) which had been operating through its Egyptian branch, the National Egyptian Oil Company. The quantity was estimated as over two million tons per year, fully covering Israel's requirement 'until passage through Suez and the resumption of oil supply to Israel are secured'. The fuel, according to that proposition, would be transferred to Eilat by 'a small tanker' and from there by truck north. Ben Gurion eventually declined to consider the Sinai oil production as legitimate war booty.[14] But several days later, Israeli officials adopted Eshkol's other ideas and came to the conclusion that the availability of pumping equipment and oil tanks in Sinai would make it possible to lay down a small-diameter pipeline in four months without resorting to foreign aid. This would hardly provide an alternative to the Suez Canal for the provision of oil to Europe, but it would certainly offer a strategic solution to Israel's own problems in that sphere. The idea of establishing Eilat as an oil port from which fuel would be carried to Haifa was thus transformed from a long-term international project into an immediately operative national venture. It was decided to continue the diplomatic and political efforts designed to mobilize international financial and technical support for the large-diameter pipeline, but at the same time to start work immediately on the small one. The latter would contribute greatly to the fulfilment of Israel's needs and – if it proved successful – would eventually facilitate the construction of the former. In both cases, the securing of the free passage through the Straits of Tiran was of cardinal importance.

The attempts to promote the large-scale project bore no immediate fruits. Technical difficulties were involved in securing large-diameter pipes, which Israel was unable to manufacture at that time and which

Israel preferred not to finance alone. Although French officials and oil businessmen seemed to be more interested in it than in the past, especially since the sabotage of the Iraqi pipeline by the Syrian Army, they proved hesitant and slow to translate their generally positive attitude into action. Late in November 1956, Lazard Frères, which had seemed for a short time to be entertaining the possibility of financing it, decided to delay further inquiries into the matter 'until the Middle East calms down'. The British oil companies, for their part, remained strongly set against it. The French were apparently dissuaded by the Americans, who were extremely critical of the war launched against Egypt and as foreign capital was mandatory for realizing the large pipeline plans, the implications of that decision were clear. Israel thus received further proof that the expectations of economic benefit from military cooperation with the French had been misplaced. Labelling this cooperation 'a miracle', Israel's perceptive Ambassador in Paris, Yaakov Tsur, warned against the illusion that it would endure. '[French] Cabinets come and go', Tsur commented, 'but the Administration stays forever', and the latter's anti-Israeli stand had long been recognized in Jerusalem.[15] Many French officials proved indeed to be less than committed to the Israeli cause. Despite the evident political need to use the Israeli oil pipeline to win at least one victory against Nasser, French politicians were greatly concerned at the American negative reaction. They were likewise particularly reluctant to force a political showdown in the Assemblée Nationale to which any request for fund allocation for the pipeline would lead.

While still committed to the international project, Israel decided to find out more about French plans to expedite steps for the construction of an eight-inch pipeline from Eilat to Beersheba, which could carry 750 000 tons per year – thereby covering half of its crude oil needs. The costs involved in the project – estimated as IL 8.6 million – were affordable and it could be built in several months. The actions taken to operationalize the plan took little note of foreign opinion, and in fact could be perceived as blatant defiance of international codes of behaviour. Thus, shortly after occupying the Italian oil wells in Sinai, Israel took the liberty of removing from the company's stores a quarter of a million dollars worth of 'badly needed' pipelines, pumps and other equipment. As the prospect of ensuring an uninterrupted supply was naturally unclear, plans for transporting the oil from Beersheba to the north were not initially finalized. In any case, the construction of large oil tanks in Eilat to store and regulate the crude oil flow was essential. The availability of several such tanks in Sinai presented Israel with an irresistible opportunity. Nor did it hesitate to take possession of oil-drilling equipment in Sinai, which was installed in Heletz to intensify oil production at that field. As the confiscated pipes could not suffice for the entire line, a local factory which until then had manufactured only irrigation pipes, was directed to manufacture the rest. All these steps were taken before formal endorsement by the Israeli Cabinet, which occurred in the first week of December 1956. Work began several days later. Policy-makers in Jerusalem viewed the entire endeavour as nothing but an 'unorthodox ... gamble'[,] ... forcing the issue ... [by] a trial pipeline'.[16] This enterprising activity reflected hope as well as a certain scepticism. As Kosloff confided to his American father-in-law, himself a prominent oil expert:

> [the pipeline from Eilat] is primarily a political guinea pig. Being only 8" in diameter, it will carry roughly 10–12 000 barrels per day, which is half of our needs of crude. The tankage being put up at Eilat is rather limited – only 220 000 barrels. [Still] should the experiment prove that transportation of Persian oil across Israel is a political possibility, we shall undoubtedly embark on a much more ambitious scheme.[17]

Indeed, the essential prerequisite for realizing both the 'grand plan' and the eight-inch pipeline scheme was Iranian consent to sell Israel large quantities of crude and a secure maritime transportation system. Because of the suspension of Russian oil supply in the wake of the 1956 Suez Crisis – which appeared from very early to be irreversible – Iran was established as the indisputable major and virtually exclusive source for the provision of fuel to Israel. A simple comparison of the costs of crude oil in Israel at that time left little room for debate on this issue. One ton of Iranian Agha-Jari type crude oil cost $20.64 in Eilat, the same quantity from that source in Haifa (from around the Cape) $27.69, and a ton of Venezuelan crude in Haifa $31.00. And even if the major oil companies operating in Iran (BP, Shell, five American and one French) refrained from supplying Israel (as was eventually the case), 17.5 per cent of Persian crude production (that is, 5 per cent controlled by the nine small foreign companies in the Consortium – the IRICON group – plus 12.5 per cent by NIOC) could theoretically be secured for Israel (see Appendix 8). Moreover, most of the small independent participants in the Consortium were able to purchase crude oil from the major members for resale, thus possessing larger quantities of crude than their quotas. In addition, they were assumed – for obvious reasons – to be inclined to grant larger discounts than the major oil companies. The potential for crude oil acquisition through these channels was not unlimited – even for Israeli needs – at that time. In 1957, only 36 million tons of Iranian crude oil were exported, and most of that amount was earmarked east of Suez. Since most of the nine million tons destined for markets west of Suez were accounted for by major oil companies, Jerusalem estimated that not much of it was likely to reach Israel. The future, however, seemed to augur well for Israel. Even conservative estimates of the expansion of Iranian crude oil production allowed for approximately five million tons as a potential for acquisition and transportation through Eilat, an amount then more than double Israel's own requirements. That figure was of special potential significance in view of the fact that the Haifa refinery had at that time over two million tons spare capacity, which could be directed to export. As noted earlier, Israel had not yet given up hope of implementing the 'big pipeline' project, which was based, among other elements, on that capacity.

It would hardly have been realistic to make concrete plans for the oil before Shell's decision to close its business in Israel became known. Yet, despite the subsequent scepticism as to whether all of the two million tons of refined products could be marketed internationally on a satisfactory basis, expert opinion in Israel considered it sensible that a few hundred thousand tons could be channelled into the framework of Israel's trade agreement with various countries such as Yugoslavia, Iceland, Turkey and Denmark. And finally, Israel hoped that the Iranian Agha-Jari crude oil could, in due course, be replaced by a Gach-Saran type which would result in lower yields of white products and higher yields of fuel oil, thus well suiting Israel's particular needs. All these considerations together fully explain the centrality of Iran to Israeli strategic thinking and planning from early November 1956.

Following previous tentative approaches, Israeli diplomats in London were advised formally on 29 November by the First Secretary at the Persian Embassy that NIOC was ready to offer the sale of 3.6 million tons of crude oil in 1957. Two days later, Israel indicated its willingness to enter into negotiations for the purchase of one-seventh of that quantity.[18] In marked contrast to their inertia in the negotiations for an oil deal with Israel in 1955, Tehran seemed all too eager to sign a year later. Explaining the change of attitude with the benefit of hindsight, Israel's emissary in Tehran, Doriel, commented years later that

> for a long time the Iranians were undecided as to whether to consider the Arabs as competitors in the oil market or as allies against the foreign oil companies. During the Musaddiq period they hoped to rally the Arabs to their cause in the battle for the nationalization of oil, and in

> order to appease them they sacrificed us. When they were bitterly disillusioned they came to regard the Arabs as competitors. That was the background for our settling the affairs with them.[19]

In retrospect, the Iranian reaction in November 1956 seemed to provide a neat and conclusive solution to a major problem and to give the go-ahead to the construction of the eight-inch pipeline. Such, however, was not the view of Israeli officials in December 1956, and indeed for a very long time thereafter. Internal deliberations attest unmistakably to profound concern about the eventual readiness of the Iranians to finalize an agreement and to present a long-term solution for Israel's oil supply problems. At first sight – and bearing in mind their decision of June 1955 to sell crude oil to Israel – these apprehensions seem to have been misplaced. Yet they were based on several highly significant background facts which need to be noted in order to explain the mood in Jerusalem.

Doriel's first year in Tehran proved rather frustrating, as far as his prime task was concerned. The major reason was Israel's inability to fulfil the terms of the June 1955 contract. The result was particularly embarrassing, as a year later he had not yet established any contact with NIOC's officials. Indeed, to avoid 'creating a poor impression' he actually evaded them. It was only late in June 1956 that the representative of Société des Pétroles et de Transports Maritimes was formally introduced to the NIOC management. By that time Israel had managed to import only 12 000 of the 75 000 tons contracted – a fact which clearly irritated Iranian officials. One of Doriel's first subsequent missions was to try and extend the period covered by the 1955 agreement to March 1957. In September NIOC agreed to this, provided Israel bought 35 000 tons in 1957 and in addition imported the still unlifted 40 000 tons left from the 1955 contract. The formal reason behind that request was difficulty in replacing the tanker *Amada* (which had suffered severe damage in a voyage to the Black Sea in late 1955) by other tankers, mainly as a result of the Arab boycott. However, it can be better explained by the availability from mid-1955 of sufficient Iranian crude – supplied by Shell and Socony Vacuum at a discount rate – and of Russian crude oil which was cheaper than the Persian, mainly due to the reduced transportation expenses. The supplies were secured, Arab displeasure notwithstanding. The evident Israeli passivity on the Iranian oil front following the signing of the agreement with NIOC can thus be accounted for mainly by the fact that Iran was still of only secondary importance to Israel. The significance of the 1955 deal, which forced Israel to pay the posted price for NIOC's crude oil, thus lay in the establishment of the foundation for future possibilities and in the prospect of inducing oil companies to follow suit. It did not effect an actual strategic shift in Israel's independent oil imports. The focus was still on acquisitions from the Soviet Union. Under these circumstances it is understandable why the Iranians did not consider Israel's commercial undertaking to be reliable.

That approach intensified Israeli apprehensions as to NIOC's readiness to permit its crude oil to be carried directly to Eilat, or to withstand Arab pressures when the fact that relatively large amounts of oil were being transported to Haifa via a pipeline inevitably became known. Above all, Israeli officials realized that – on purely economic grounds – the Iranian company could easily do without selling crude. It should be recalled that NIOC – which lacked independent sources of oil supply until the early 1960s – still had the option under the 1954 Agreement of receiving payment on the basis of posted prices for 12.5 per cent of the Consortium's overall crude production, or engaging in direct sales of that amount. This explains why the posted price was the precondition for any contract for purchase of NIOC's crude oil. It is equally clear why, until then, only Israel had agreed to pay this price. The single economic incentive at that time for the Iranian company to plunge into actual commerce was therefore the desire to gain a certain prestige and acquire expertise. Jerusalem had no way of knowing which of these considerations was given greater weight by the Iranians. The cancellation in 1953 by the British companies of Delek's contract to import Kuwaiti oil has often been cited to justify that apprehension. Moreover, the consequences of a possible eventual withdrawal by the Iranians would have been far more serious in late 1956 than three years previously.

These uncertainties must have haunted Kosloff during his visit to Tehran in the last week of December, when he gained his first experience of conducting oil diplomacy in the Iranian capital. His partners in the negotiations reaffirmed their willingness to sell large quantities of crude oil (through the Swiss straw company which had effected the June 1955 contract) and expressed 'enthusiastic support' for the Eilat pipeline. The Shah himself confided three weeks later to a British politician, who passed the message on to Jerusalem, that his country 'would gladly' provide Israel with oil through that pipe.[20] The Iranians however, stipulated that their consent was conditional upon the crude being carried only in non-Israeli tankers. A contract was duly signed on 5 January for the provision – through CPTM in Geneva – of 335 000 tons of crude oil over two years with an option for an additional 200 000 tons at a cost of ten million dollars (the option was taken up several weeks later). Israel's refusal to accept NIOC's offer to provide the whole yearly throughput of the Eilat pipeline (700 000 tons) was due to the Iranians' insistence on a posted price for their crude oil, whilst the oil trade in the 1950s and the 1960s usually involved discounts from the posted price. Furthermore, discounts were available at that time in purchases of Persian oil from other sources. On completion of the deal, Israel managed to carry out a circular transaction involving an Italian-Jewish oil man, the Sun Douglas Company of Philadelphia, and Richfield Company of the Iricon Group, for the purchase of an additional 160 000 tons of Iranian crude oil at a 75 cent per ton discount. The oil man also rendered assistance in securing a similar contract with Signal, another member of that group. The success in securing oil supply contracts enabled the Israeli authorities to decide on 22 January 1957 – before the arrival of the first Iranian oil shipment in Eilat – to start laying a 16-inch pipeline from Beersheba to Sukreir (Ashdod) on the Mediterranean shore.

Another precondition for developing Eilat as an oil port was independent transportation, which needed to be increased greatly in view of the new import plan directed at Iran.[21] This was so since the tankers flying Israeli flags which had been used to import Russian oil could not be used to carry Iranian crude. Initially, an attempt was made to involve foreign companies in chartering oil tankers, but it failed due to their owners' reluctance to risk being blacklisted by the Arabs. A decision was taken consequently to charter (at a very high price) three old American tankers with a carrying capacity of less than half of the planned oil import. Additionally two tankers were chartered several months later, bringing the total tonnage of the tanker fleet employed by Israel on the Iran–Eilat route to 93 000 tons. The fate of the entire project depended on the success of the initial import operations. The prospects for success were uncertain despite US insistence – at the February 1957 negotiations leading to Israel's withdrawal from Sinai – on the principle of the right of innocent passage in the Gulf of Aqaba, and notwithstanding the subsequent stationing of UN forces on the Egyptian shore. While these moves removed at least temporarily the physical danger of oil transportation through that waterway, Israeli officials were still extremely worried lest the 'hardly reliable' Shah decided to cancel the oil contract at the last moment.[22] They also feared that the crew of the first (Jewish-owned) tanker, the *Kernhill*, flying the US flag and due in Eilat on 10 April, might refuse to sail north from Djibouti upon learning the real destination of the voyage, which for obvious reasons had been kept secret. Above all, they wondered if the Iranians, despite assurances given to Doriel and Kosloff and denials to Arab diplomats in Tehran of fuel sales to Israel, would be willing to resist further pressures and continue supplying Israel once the oil connection became common knowledge. The Iranian position on that matter was of particular importance, since all members of the Consortium were expected to follow suit. Failure to secure NIOC's implementation of the contract would make it virtually impossible for Iricon companies to engage in oil supply to Israel. Success, it was hoped, would overcome their hesitations.

That concern was not dispelled by the arrival of *Kernhill* in Eilat in the first week of April 1957. The Israeli authorities failed ineptly to conceal the event, which gave rise to several representations by Arab states and notably by the King of Saudi Arabia. Indeed, the Iranian conduct seemed to justify apprehensions. Their Foreign Ministry issued a statement on 17 April which did not refute the allegations, and explained that 'one of the European companies had purchased some oil to be shipped to an African port. But in violation of its undertaking, the company changed the tanker's course'. It continued ominously:

> in order to avoid any misunderstanding of an action which might be harmful to our friends, the National Iranian Oil Company has been instructed to refrain from any oil deal with Israel, as previously, and to ensure that its oil customers act according to their undertakings, and also to convey this policy to the oil Consortium.[23]

Two weeks later, the Director for Commercial Affairs at the Iranian Foreign Ministry instructed NIOC's Director of Administration and Finance that 'it should observe the policy of the Imperial Government'. The instruction was still formally valid six years later. However, Israel's fears – lest Iran had decided to go back on its pledges and thereby eventually doom the entire Eilat pipeline project – proved misguided. Reports reaching Tel Aviv indicated that the Persian Cabinet had discussed the matter in the second week of April and – although no formal decision had been taken – most of the ministers opposed foreign intervention in the commercial activities of NIOC which – if successful – could have established 'a dangerous precedent'. Furthermore, a day after the Foreign Ministry's statement was published in Tehran, the Iranian Foreign Minister promised an Israeli diplomat in Brussels not to interfere with the Consortium's decision on oil sales to Israel. NIOC officials reassured Doriel that in spite of the Foreign Office's declaration, which was only 'a smoke screen', they would continue to supply Israel's Swiss company with the contracted quantities of oil.[24] The impression gained in Israel was therefore that the Iranians were trying to find an easy alibi and to enjoy the best of both worlds. For its part, the Consortium believed that 'the less said the better' and declined therefore to publicize the true facts which could put the onus on NIOC. Still, on one particular issue it was scarcely evasive. Its spokesman stated on 17 April that neither the Iranian Government nor the Consortium had any power to control the operations of the seventeen United States, British, French and Dutch oil companies that marketed Iranian oil abroad.

However, these reassurances were not as yet regarded as definite indications that the Eilat pipeline project was certain. For that very reason, Sonol – which was then importing approximately one-third of Israel's crude oil requirements – 'did not believe that a single sailing through Eilat already makes this a well-established route'.[25] It declined to order Socony Vacuum's tankers to make Eilat their destination and consented only to continue carrying the cargo around the Cape. The Iranians, for their part, had intimated to Israel's representative in Tehran that their position would be strengthened considerably if 'demonstration cargoes' of oil from other sources were brought to Eilat. This proved impossible, as Shell vetoed Israel's exploration of the possibility of arranging for import from their wells in Borneo. Apart from deciding on strict censorship concerning issues of oil supply, there was virtually nothing which Israel could have done while waiting for the tankers carrying Persian crude to arrive at Eilat.[26] Days, weeks and months passed without any Iranian interference with export operations of crude oil destined for Eilat, a fact which indicated that Israel's endeavours were about to bear strategic fruit. Indeed, between the second arrival of the *Kernhill* at Eilat on 4 May 1957, and the end of the year, 26 tankers docked there, carrying half a million tons of crude oil from Iran which constituted one-third of the country's requirements. In December 1957, Socony Vacuum concluded that the route had already been secured and permitted its tankers – carrying crude oil ordered by Sonol from Standard Oil of Ohio – to dock at Eilat. In the following year, 64 crude oil unloadings were recorded there. The standard message from Doriel to the Foreign Ministry was thus: 'Everything is O.K, the name of the game is tankers, and more tankers.'[27]

The movements of such a large number of these vessels could hardly escape the attention of the Arabs. However, their continuous representations in Tehran and abroad to the Iranian Government failed to convince Iran to change its policy. Faced with such pressures, Tehran unabashedly denied the true facts. Thus, in late January 1958, in response to an open question by an Egyptian weekly, the Iranian Ambassador in Cairo replied that 'not a single drop of oil has or will be sent [to Israel]. The companies have received appropriate orders and if they decide to disregard them Iran will severely punish them.'[28] Tehran cloaked its true policy in proclamations of adherence to the Arab cause. In early August 1957, the Syrian Government received a message from Tehran, informing it 'as well as other Arab States, that it has refused permission to the Israeli Finance Minister to visit Iran because of its sincere and brotherly relations with the Arab States'.[29] The Iranian stand was definitely, albeit obliquely, reinforced by the American position. Although King Saud claimed that exclusion of Israel from the Gulf of Aqaba was a 'life and death' matter, and endeavoured to enlist the support of the USA for his struggle, the State Department adhered to its policy of approving transit through the Tiran Straits without the permission of littoral states. Consequently, Iran not only manifested a strong determination to preserve the clandestine oil connection with Israel but even seemed inclined to expand it. At a meeting in London in May 1957 the Vice Chairman of the Iranian National Oil Company indicated to Israeli diplomats that not only was Iran not having second thoughts about the oil deal, but was even ready to sell crude directly to an Israeli company for a small premium.

Although the proposal was rejected the viability of the Iranian option and the feasibility of conveying most of Israel's crude oil import to Eilat were conclusively demonstrated to policy-makers in Jerusalem in the last quarter of 1957. The policy which Israel pursued was strengthened by Shell's decision of mid-1957 to close down its business in the country. The Government had hoped to secure supply arrangements with Shell involving Iranian crude similar to the deals it had managed to extract from Socony upon the latter's withdrawal.[30] The British company, however, eventually declined for fear of invoking adverse reaction by the Arab States. According to a Foreign Office official: 'the British companies feel that [Israel's] under the counter [oil supply] arrangement [with NIOC and Iricon companies] is quite different from what would be an open contract by two leading British companies with the International Consortium operating in Iran'.[31] The only offer Shell made was for Venezuelan crude, which Israel refused to accept. As Shell had been responsible for more than one-third of the country's total oil imports, Israel's anticipated import quota consequently increased to more than two-thirds of the local market. This in turn rendered it essential to secure much larger quantities of Iranian crude oil. The consequent increasing dependence on Tehran explains why Israel was greatly concerned lest Shell's decision to leave would generate concerted and successful efforts by the Arabs to dissuade Iran from satisfying these needs.

This fear proved ungrounded. What is more, following the securing of the crude oil contract with NIOC, Israel succeeded in casting its net wider through additional agreements with several Iricon companies, which had no business dealings in the Arab Middle East. New oil storage tankers were consequently ordered for the port of Eilat to facilitate an increase in the yearly throughput of the eight-inch pipeline. Despite these measures the pipeline was incapable of carrying the entire quantity of anticipated imports from Iran. Israel was obliged to arrange for the transportation of part of it around the Cape, and after completing the construction of the 16-inch pipeline from Beersheba to Sukreir, expedited the plans for its extension to Eilat. Still Israeli officials considered the eight-inch pipeline an 'excellent' investment. The new situation in late 1957 was succinctly described by apparently well-informed State Department officials:

> The Israelis have been well able to look after themselves in making arrangements with the trade. They have some tankers of their own and there is enough oil in the world controlled by companies not involved in Arab oil, to fill their needs. What is more ... although the National Iranian Company has been instructed not to ship to Israel, supplies from this source are in fact reaching Israel through sales to independent tanker owners, without any too specific a requirement of details of destination'.

An immediate outcome of Israel's success was its ability to increase its oil stocks greatly. Policy-makers were astounded to discover that reserves amounted to a mere 260 000 tons two weeks before the Sinai Campaign in 1956 – but fifteen months later, they had reached 530 000 tons. Another result related to the unilateral expansion of the Eilat pipeline system. By early 1958, Israel's oil pipe mill at Sarafand had overcome initial technical troubles and was producing 16-inch pipes, in full conformity with international specifications. Israel was thus then ready to produce most of the pipes needed for the laying of the 16-inch pipes from Beersheba to Sukreir, and by April of that year conveyed through it 1.2 million tons of crude oil – its maximum throughput – only 300 000 tons short of the country's annual oil consumption. Moreover, after nearly one year of successful pipeline operation and 'normal businesslike relations with the Persians' the Government decided, early in 1958 and mainly due to strategic considerations, to order two large tankers of about 50 000-ton deadweight capacity. These would enable Israel to transport its entire crude oil requirement from Iran to Eilat at a rather low freight cost and even offer part of it for sale to Eastern Mediterranean countries at a competitive price. The first big tanker was delivered at the end of 1960. But prior to that event Israel conducted its first experimental oil export. On 23 February of that year refined petroleum products totalling 19 000 tons left Haifa for Western Europe.

Underlying Israel's achievements was a novel set of contracts for oil supply:

Table 12.1 Israel's Contracts for Iranian Crude Oil by Sellers, February 1957 (in tons)

	NIOC 1956	*NIOC 1957*	*Mobil Oil (Socony)*	*Sun Douglas**	*Signal*
Date	11.6.55–30.9.56	3.1.57–31.3.59	26.12.56–31.7.57	4.2.57–1.12.58	4.2.57–1.12.58
Quantity	75 000	535 000	50 000	170 000	170 000
Total					
1 000 000					

Note: *Sun Douglas received the oil from Richfield Co., a member of Iricon. Socony was a member of the Consortium.
Source: Memorandum dated 19 February 1957, ISA 2934/5020/4.

Table 12.2 Israel's Import of Iranian Crude Oil, 1958 (in tons)

Delek	
NIOC	320 000
Sun Douglas	106 000
Signall[1]	85 000
SOHIO	200 000[2]
Signal	200 000[3]
Total	860 000
Sonol	360 000
Grand Total	1 220 000[4]
Predicted Crude Consumption	1 350 000[5]

Notes:
1. Signal was a member of Iricon.
2. Out of a 1 000 000-ton five-year contract.
3. Out of a 2 000 000-ton five-year contract.
4. 1 000 000 tons of which were expected to be brought to Eilat, and 200 000 to Haifa via the Cape.
5. The balance of 150 000 tons of Venezuelan crude oil was bought by Delek from Superior Oil Co.
Sources: Kosloff's despatch to Eshkol, 18 November 1957, ISA 2941/7014/II; and a memorandum dated 23 December 1957, ISA 2942/7015/12.

Table 12.3 Israel's Contracts for Iranian and Venezuelan Crude Oil, 1959–62 (tons)

Supplier	*Quantities to be lifted during*	
A. Iran		
NIOC I	1959	147 000
NIOC II*	4.59–3.61	500 000
Signal II	1959	300 000
	1960	450 000
	1961	525 000
	1962	575 000
Standard Oil	1959	200 000
Ohio (SOHIO)	1960	200 000
	1961	200 000
	1962	200 000
Signal III*	1959	205 000
	1960/1	345 000
B. Venezuela		
Superior	1959	65 000
Signal	1959	120 000
	1960	85 000
Yearly Totals	1959	965 000
	1960	940 000
	1961	775 000
	1962	762 000

Note: *Triangular deal which eventually involved actual purchase from Signal ('Signal III'). See Tadmor's memorandum dated 1 June 1961, ISA 732/5.
Sources: A memorandum dated 14 May 1958, ISA 2955/7202; and a table dated 25 December 1959, ISA 2937/6010.

The information contained in the above tables has not been made public till now as both Israel and Iran considered all data relating to Israel's sources of crude petroleum to be confidential. Israel's published trade statistics did not include data on sources of crude oil imports, nor did Iran's trade statistics list Israel as a destination for its oil exports. Under these circumstances, the State Department had to rely on guesswork when it analysed the oil trade between the two countries in early 1960:

> [The Embassy in] Tehran reports that Iranian trade statistics indicate more oil destined for Capetown than is required to meet South Africa's import requirements. The Embassy further notes that Capetown is the destination often given in Middle East oil trade when the final destination is not known at time of shipment. Thus, the Embassy surmises that Capetown is being used as a cover for oil shipments destined for Eilat, Israel.[32]

The numbers quoted in the tables in themselves do not tell the whole story. While they clearly and unequivocally reflect a significant breakthrough, they naturally fail to illuminate the constraints under which Israel endeavoured to secure the above contracts, the means it employed to overcome difficulties, the complicated commercial relations with NIOC, and, finally, some clandestine yet highly significant mutual undertakings by Israel and Iran in the sphere of oil supply.

The figures quoted above highlight a central yet hitherto unpublished aspect of the infrastructure of Israel's import of Iranian oil in the late 1950s and early 1960s – the drastic decrease in purchases from the National Iranian Oil Company. Whereas in early 1957, Israel undertook to import some 600 000 tons of crude from the oil allotted to that company by the Consortium, the quantities purchased thereafter diminished substantially. In 1961, 85 per cent of Israel's total crude oil consumption – amounting to 1.5 million tons – originated in Iran, but only 100 000 tons out of the 1.28 million imported from that country were formally contracted from NIOC. The rest – 1.2 million tons – was supplied by Iricon companies. The Iranian National Company's nominal share in Israel's total payment for import of Iranian oil amounted in that year to little more than one million dollars out of a total of $14.5 million. Several factors account for this rather strange situation. First, as noted earlier, NIOC still lacked independent sources of crude oil in the second half of the 1950s. Yet, it had been granted the option of either receiving payment on the basis of the posted price for 12.5 per cent of the total production of the Consortium, or engaging in actual sale of that output. Financially, there was therefore no reason for any sale below that price. As cheaper oil could, however, be bought in Iran from members of the Consortium and elsewhere, it is not surprising that – with the exception of Israel – and notwithstanding NIOC's desire to participate in the international oil business and demonstrate its ability to extract the posted price – not a single contract was signed at that time with the Iranian company. This background partly explains its positive response to Jerusalem's demands from mid-1955. Three years later, Israel was still the sole purchaser of no less than one-tenth of NIOC's quota, consenting to pay the posted price for these purchases though it involved a net financial loss to her. The other factor pulling in the same direction was NIOC's assessment that Israel could give them invaluable help in marketing their oil once their fields started producing. Documents at the Israeli State Archive strongly suggest that the total lack of familiarity with international oil marketing, coupled with a greatly exaggerated perception of Jerusalem's existing entrepreneurial abilities to promote these interests, had a material effect on the Iranian decision to supply oil to Israel. An Israeli official summed up his impressions of a visit to Tehran in May 1961 by saying 'The Iranians believe we are supermen, with unlimited talent and ability to penetrate markets and mobilize large-scale financing.' This attitude had been demonstrated unmistakably a year earlier when the Iranians urged Israel to establish a joint research organization (which came into being in late October 1960) to determine which markets were suitable for the penetration of oil owned or produced by NIOC.

On the other hand, there is no doubt that these decisions were not uniformly endorsed within NIOC and the Iranian Government. The profit from oil deals with Israel after January 1957 was small, and Arab protests against supply of Iranian crude oil to Israel certainly worried many NIOC and Foreign Ministry officials in Tehran. This attitude certainly also underlaid the Shah's refusal to grant Israel *de jure* diplomatic recognition, despite the expansion of military and intelligence connections between the two states following the Egyptian–Syrian Union in February 1958 and the military revolution in Iraq five months later. The consequence was that, aside from the Iranian monarch, only a handful of National Iranian Oil Company executives were privy to the intricacies of Israel's Iranian 'oil connection' during that period. Ali Nasser Ashgar, who was Iranian Finance Minister when the initial decision was taken to sell oil to Israel, later confided to an Israeli diplomat that Israel was not mentioned in the decision. The secrecy was facilitated by the freedom of action enjoyed by the company at that time *vis à vis* the Cabinet, and by its managerial *modus operandi* which included customary acceptance of bribes or, as they were defined by Israeli emissaries at that time, 'clinging inducements'. The approach certainly attested to the influence attributed to members of the Iranian establishment who opposed the sale of oil to Israel not only for political but also for financial reasons. These elements were undoubtedly strengthened after the establishment in late 1960 of the Organization of Petroleum Exporting Countries (OPEC), where a constant dialogue was conducted between Iran and Arab oil-producing states. Moreover, certain of the new officials who were appointed to NIOC's management were noted for their nationalistic and anti-Western opinions. Finally, the Iranian attitude towards Israel's growing purchases from Iricon companies was ambivalent. On the one hand, it naturally decreased their own sales to Israel, but at the same time made it easier to persist in public denials of any oil connection with Israel. In any case, Iran continued to insist that in no contract involving Iranian oil would the buyers be identified as Israeli companies. Thus, Sopetrol purchased crude for Delek, Sonapco (Sonneborn Associated Petroleum Corporation) for Sonol, and Petroleum Shipping and Trading for Paz.

The Israeli position was no less complicated. On one hand, it was the Iranian signature upon the January 1957 contract with Israel that really solved its acute supply problem following the Sinai Campaign, rendered the Eilat eight-inch pipeline project feasible, and was instrumental in overcoming the reluctance of Iricon companies to sell oil to Israel. Furthermore, any larger oil pipeline plan which Israel refused to renounce depended on a substantial increase in the supply of Iranian oil. On the other hand, from early 1957 Jerusalem faced the tempting possibility of purchasing Iranian oil from Iricon companies at a substantial discount from posted prices. The dilemma which confronted Israel until the Iranian National Oil Company actually started to produce oil from its own wells in the mid-1960s was how to keep purchases from NIOC to a minimum without endangering the supply of oil from members of the Consortium, and how to treat offers from other sources. In other words, the question was how much to pay for the non-competitive yet highly significant safety net of oil sales offered by NIOC.

The fact that it took no less than six years for the Iranians to consent to a new long-range oil supply contract replacing the January 1957 one attests to the complications with which they were wrestling. Yet the difficulties did not cause a major crisis between the two sides during the intervening period. Both managed to promote their independent and mutual interests even without the long-term supply contract which was signed only in May 1963. The basic patterns of the relations were set in the summer of 1958, and several background elements should be noted to explain it. First, NIOC could hardly have approved Israel's contract signed in 1957, through an intermediary, with Signal (a member of Iricon which had no business dealings in any Arab League country) for the supply over five years of two million tons of crude oil. The Iranians were naturally anxious to have some share in the growing commercial links between Israel and that American company. Indeed these ties expanded in 1958 when Israel was approached tentatively by Signal, which expressed interest in entering into another long-range, large-scale yet 'semi secret' direct agreement for the supply of Iranian oil on credit terms. It also wanted to purchase a share in Israel's second oil-distributing company, Paz, and in the Haifa refineries when the latter were sold to Israel. These proposals unquestionably suited Israeli interests. Second, the proposition crystallized when Israel managed to secure Edmond de Rothschild's consent to finance part of a 16-inch Eilat–Haifa pipeline and to head its management company.[33] The last occurrence relevant for the understanding of the evolving pattern of Israel's connection with NIOC was the collapse in mid-1958 of the scheme for the construction of a large-diameter oil pipeline from the head of the Persian Gulf through Iraq and Turkey. This scheme had been on the international agenda since the first weeks of the Suez crisis and was highly attractive to the Iranians. Its demise made them more amenable to the continuous Israeli efforts from late 1956 to induce them to participate in the envisaged large-diameter Eilat–Haifa pipeline, which was likely to diminish Iran's dependence on the Suez Canal.

These developments explain the Iranian insistence on (and Israeli acceptance of) an agreement in the form of an *aide-mémoire* signed on 10 August 1958. Under the agreement NIOC undertook to sell crude to cover a minimum quantity equal to 50 per cent of Israel's total domestic requirements of crude oil less any quantity of oil which might be purchased at prevailing world oil market prices. It also specified that

> the price of the crude supplied by NIOC in 1961 and afterwards will be determined by mutual agreement. If no such agreement is reached, the Government of Israel will have the option to purchase Iranian crude from any other supplier that it may decide upon, provided the terms and conditions are more favorable than those offered by NIOC.'[34]

Iran thus secured for itself the principle of right of first refusal for half of the Israeli market when independent oil sources became available, while Israel won the formal consent of NIOC to its actual purchases of Iranian oil at prices lower than posted. However, there was more than met the eye in the informal understanding reached in the negotiations leading to the agreement. Following the signing of the *aide mémoire*, negotiations were conducted for eight months for a triangular agreement involving Israel, Signal and NIOC. The contract for the sale of 500 000 tons of Iranian crude oil signed in May 1959 referred to the latter as the seller, while in fact the crude oil was provided by the American company. Israel paid Signal at a discount of about two dollars per ton, but was required to remunerate NIOC for half of the difference between that price and the posted one in the above contract and in forthcoming triangular contracts up to the total sum of $1.25 million. Lastly, the Iranian company agreed to invest that sum plus another $1.25 million in the planned 16-inch Eilat–Haifa oil pipeline project. Their participation in the planned company to manage that project was implemented through a straw firm based in Switzerland. The investment guaranteed them more than 10 per cent of the shares of the company owning the pipeline project – the Tri-Continental Pipeline, which came into being on 17 July 1959. The $20-million project in which the Israeli Government had no shares, was then in fact the largest private investment in the Israeli economy. Five weeks earlier a high-ranking official of NIOC had finalized the arrangements in London with Rothschild.

For at least four years, these agreements set the basic pattern for relations between NIOC and Israel. The Iranians tried to promote triangular contracts with no obligation to invest more money in Israel but only agreed to a single small triangular contract with Israel in late 1961. The Israelis, who managed to secure most of their needs for crude oil until 1962, attempted to promote a long-range contract with NIOC at prices lower than the posted price. The arguments about prices and conditions went on for almost two years, during which Israel declined to sign a new long-range contract with Iricon companies for fear of endangering its relations with NIOC. On 23 May 1963 the two sides finally signed an agreement. The three-year contract was facilitated mainly by the initial production of oil by NIOC, which enabled it to offer prices lower than posted but higher than the prevailing ones. The documentary evidence on this issue is scant, but it is plausible to assume that strengthening of the agricultural, intelligence and military links between the two countries in the previous five years – which was undoubtedly aimed at gaining Iranian goodwill on oil supply (defined by Doriel as the 'central pillar around which almost everything revolved') – also swayed NIOC in early 1963. The Shah, for his part, concluded the internal deliberations with an instruction to the company to continue to foster relations with Israel 'as long as they are profitable'.[35] NIOC thus agreed to provide Israel with 400 000 tons of crude oil in 1963, with 450 000 tons in 1964 and thereafter with 50 per cent of its requirements. The contract removed a substantial obstacle to renewal of Israel's contracts with Iricon companies to supply the balance. Israel reiterated its readiness to assist in the international marketing of NIOC's crude oil. The agreement must have enhanced the already significant progress made in Israel's utilization of the newly built 16-inch Eilat–Haifa oil pipeline. In 1962, Israel imported 1 852 000 tons of Iranian crude through that pipeline – of which 1 380 000 were used to cover its own needs and 472 000 were earmarked for export.

Finally, Iran was not the exclusive source of Israel's oil imports in the late 1950s and early 1960s. The undisputed priority accorded to Iran naturally contradicted the conventional wisdom among oil experts, who urged diversification in the import of that commodity. Still, in the late 1950s and early 1960s, Jerusalem found it feasible and advisable to endeavour to secure just one additional source for that crucial energy import – Venezuela. As noted earlier, in the early 1950s, that country had gradually become less central to the Israeli oil supply system.

Economically speaking, crude oil imports from Venezuela could and did compete with NIOC crude conveyed around the Cape. This was certainly not the case after the completion of the 16-inch Eilat pipeline. However,

Table 12.4 Israel's Import of Venezuelan Crude Oil, 1952–60 (tons)

Year	*Quantity*	*Total Crude Import*	*% of Total*
1946	—	—	0
1950	107 635	222 635	48.3
1951	660 061	844 669	78.1
1952	617 921	992 563	62.2
1953[1]	381 431	962 989	39.6
1954	882 663	993 000	88.8
1955	195 341	1 042 000	18.7
1956	61 769	1 080 000	5.7
1958	90 940	1 350 000	6.7
1960	168 401	1 400 000[2]	12.0

Notes:
1. The substantial decrease in crude oil import from Venezuela at that time resulted from the availability of Kuwaiti oil.
2. Approximated figure. In 1960 130 000 tons of crude oil were supplied from Heletz and roughly 1 200 000 tons (85 per cent of the total) were imported from Iran.
Source: Manor's despatch to Neeman, 6 March 1961, ISA 771/14.

there were two valid reasons for the limited continuation of that practice. First, the Venezuelan imported crude yielded a special type of stable straight-run benzine, needed by the Israeli Defence Forces, in a quantity which corresponded to some 100 000 tons per year, which could not be distilled from other crude. Second, it was considered essential to have an additional source of supply in order to ensure an alternative in case of emergency when crude through Eilat would not be available. One Israeli official argued that the Venezuelan supplier 'must have a standing – generally and in his relation to the Venezuelan authorities – which guarantees to the best possible extent that in case of emergency the supplies could amount to up to ten times the contracted quantities'. The aim of ensuring the lowest possible price for the minimum quantity of crude sufficient for a 'worst case' scenario was not easily achieved, and it retained its centrality for Jerusalem in the early 1960s.

For reasons noted earlier, Israel depended greatly not only on the import of crude oil but increasingly so on overseas purchases of fuel oil. The import of this distillate reached 500 000 tons in 1962, approximately one-quarter of the total. The disruption of fuel supply from Russia five years earlier had forced Israel to search for alternative sources. The availability of relatively cheap fuel oil elsewhere, and the understandable wish to diversify Israel's oil import, made Iran a distinctly second-best option. Thus for

Table 12.5 Israel's Import of Fuel Oil, 1949–57 (in tons)

Year	*Amount*	*Index*	*Remarks*
1949	226 000		Refinery not in operation
1950	229 000		
1951	82 000	100	
1952	153 000	186	
1953	195 000	237	
1954	204 000	248	
1955	349 000	425	
1956	315 000	384	Suez Crisis
1957	457 000	557	Substantial stockpiling of fuel oil had occurred

Source: Undated *aide-mémoire*, probably early July 1958, ISA 2954/2.

several years from 1957, Israel relied on purchases of oil from three additional sources: Caribbean fuel provided by the Signal Company; Esso's stocks in Italy, which were made accessible to Israel indirectly by means of discreet purchases through a Jewish oilman; and occasional spot purchases. While the first two were provided under long-term contracts, the third necessarily involved short-term ones.

These purchases notwithstanding, as demonstrated in this chapter, in the early 1960s Iran was indisputably the cornerstone of the new Israeli oil supply set-up. The pumping of crude oil from Eilat to Ashdod started on 13 August 1957, and pumping directly to Haifa less than a year later, amounting to almost 900 000 tons' throughput. By early 1959 the new lines on the map of Israel's oil supply system were clearly marked. At that time, between five and six crude oil cargoes per month were reaching Eilat from Iran, four per month (mainly fuel oil for the country's power stations from Europe) were unloading at Tel Aviv and Ashdod, and only one (consisting of either aviation fuel or Venezuelan crude oil) at Haifa. Thus the latter largely ceased to function as an oil-importing port, while the town at the southern tip of Israel increasingly assumed that status. Moreover, less than ten years later, with the completion of a 42-inch pipeline from Eilat to Ashdod, the latter became Israel's bridgehead for the export of Middle Eastern oil. The eclipse of Haifa as an oil centre, which began to take shape in late 1947, was thus completed twenty years later.

Epilogue: A Land of Milk, Honey and No Oil

During the first decade of Israel's existence, the state was forced to act for the most part within those same dependency frameworks pertaining to oil supply which had been in effect during the Mandate period. Foreign oil companies and governments dictated reality in this sphere to a large extent. Israel's freedom of action to change this state of affairs unilaterally and swiftly was greatly constrained by its weak legal, political and financial position *vis à vis* these players, and by the Arab–Israeli conflict. Moreover, strategic considerations dictated a policy of cooperation with the major oil companies. Israel thus represents an exception in the history of the post-Second World War Middle East, where for many nationalists the oil industry proved an ideal weapon, either to demonstrate their anti-Western ideology by demands for nationalization, or to undermine the legitimate regime by the disruption of the oil industry and hence the national economy. Still, as the history of Israel's oil diplomacy during the first decade of independence reveals, it manoeuvred adeptly in this less than friendly arena and took several opportunities to promote its strategic interests. Thus, while cleverly refraining from embarking on an overt collision course with Britain and the oil companies, the state successfully employed threats to nationalize the Haifa refinery on two critical occasions in order to extract important strategic concessions. It was these explicit warnings which effectively forced the British Foreign Office to relax the undeclared total oil blockade against Israel at the height of the 1948 War, and which – two years later – brought about the reversal of the British oil companies' decision to actually close down the Haifa refinery.

The implications of these moves were far-reaching. They kept Israel, for better and worse, within the protective framework of the British oil supply system for almost ten critical years. It was this framework which – paradoxically – diminished the effectiveness of the Arab oil boycott. Any other strategy seemed to policy-makers in Jerusalem likely to prove highly detrimental to the country's security and well-being. Another strategic decision taken by Jerusalem was to involve the German Government in the financial arrangements for Israel's oil purchases from British sources. The securing of this objective in the Reparations Agreement considerably ameliorated Israel's financial position in relation to the British oil companies until they closed down their business in the country in the late 1950s.

The choice of Russia as a major oil supplier, notwithstanding the distinct disapproval and often open objections of the British companies, improved Israel's bargaining position and enabled it to extract better contracts from them. This position was strengthened by the rapid growth of Israel's oil requirements. And, finally, the decisions taken in 1955, to try to promote the sale of Iranian oil to Israel by the foreign oil companies, and two years later by Delek, eventually led to Israel's most impressive achievement in establishing an alternative oil supply system. It also enabled the state to lay the foundation – in the form of the Eilat–Haifa eight-inch pipeline fed by Iranian oil – for the eventual reinstatement of Israel as an important land conduit for Middle Eastern oil bound to Europe. This role was facilitated by the acquisition of nine tankers totalling 200000 deadweight tons in 1959, a year which witnessed the first shipment of Iranian crude on an Israeli vessel flying a Liberian flag.[1] While implementing Israel's oil supply policy, Delek gained invaluable experience, established significant international ties, and succeeded in lowering the country's foreign currency cost per ton of petroleum supply in 1956 to 24 per cent less than the cost in 1952.

However, the closing down of the British and American oil companies' business in Israel deprived the country of invaluable contacts with major companies having diversified sources of crude in various parts of the world. Although contracts were signed with smaller foreign companies (notably with Signal) to incorporate them in Israel's oil supply and refining systems, they could not necessarily provide the same advantages. Between 1957 and 1963, a new supply system crystallized, based on the import of Iranian crude oil from Iricon companies and from NIOC. These companies provided more than 85 per cent of the country's needs. The total dependence on foreign companies and on the strategic considerations of foreign governments did not, therefore, diminish. Nor was Israel free to openly engage in oil import due to the political constraints imposed by its conflict with the Arab world.

The foreign policy implications of Israel's quest to secure its oil supply in that period are evident. The continued operation of the Haifa refinery and the activity of Shell and Anglo-Iranian delayed the liquidation of the economic inheritance of the British Mandate for a decade, to the manifest dissatisfaction of the Foreign Office. Nevertheless, this link benefited both Israel and Britain and served to preserve an important item on the bilateral strategic and political agenda for more then ten years following the departure of the British from Palestine. There were no such implications from the rather intensive oil contacts between Israel and the Soviet Union during the 1954–6 period. Israel was not called upon to make political concessions in return for its oil purchases, nor did it appear ready to do so at that time. These oil transactions were therefore totally divorced from politics. Their abrupt suspension in late 1956, however, greatly reinforced the prevailing perception among Israeli policy-makers of Russia as a hostile power.

On the other hand, economics and politics were tightly intertwined in the oil connection established with Iran from 1955. As mentioned earlier, it was the need to cultivate the almost exclusive Iranian oil supply which accounted for most of Israel's rapidly developing military, intelligence, and economic contacts with Tehran from 1956. Important proof of this thesis is provided by a hitherto unknown aspect of the diplomatic relations between the two sides. The Iranians were consistently reluctant to grant *de jure* recognition to Israel and to exchange diplomatic representatives for many years following *de facto* recognition in early 1950. In June 1959, Israeli emissaries in Tehran asserted that 'Iran still prefers the Arabs to Israel'.[2] The expected adverse reaction of the Arabs to overt formal diplomatic relations between Tehran and Jerusalem was indeed the most significant consideration behind Iran's line. What has not hitherto been recognized is the fact that for more than ten years from 1950 onwards, Israel declined to press the Iranians on that issue or even to raise it formally. Awareness of Tehran's strong feelings on the matter was certainly one reason for this complacency. Apprehension that a different policy might endanger the crucial and the seemingly irreplaceable oil connection was unquestionably another. Jerusalem clearly considered the informal political ties, the clandestine military, intelligence and economic ties, and the intensive contacts with NIOC's officials to be better guarantees of the continued provision of Iranian oil than the exchange of diplomatic representation. The latter would be likely to attract Arab attention, cause counteraction and rouse those Iranian politicians who were opposed to the sale of oil to Israel. The strategic directives to Israeli emissaries in Tehran by early 1964 remained the same as in the 1950s: 'keep your eyes open and tighten *operative* connections with the Iranians'.[3]

As Israel has adopted the 'thirty-year rule' concerning access to Government documents, the political implications of its oil supply policy since the mid-1960s can only be speculated on. The 1967 War had a material impact on that policy. During the hostilities Israel occupied Egyptian oil fields in Sinai. Crude oil taken from these wells was shipped around the peninsula from the Gulf of Suez to Eilat and thence by pipeline to Haifa. It covered Israel's needs of 5 540 000 tons in 1971, leaving over half a million tons for export. Due to the rise in consumption and decline of production, these sources were supplying only 70 per cent of the state's consumption two years later.[4] Quantities for later periods have not been made public, but there is no doubt that a sizeable portion of Israel's needs continued to be provided by Sinai wells, until the implementation of the peace treaty between Israel and Egypt, signed in 1979. Despite the availability of Egyptian crude oil, Israel continued to cultivate the oil connection with Iran and engaged therefore in export. The closure of the Suez Canal in the wake of the 1967 War was apparently the prime reason for Iran's consent to take part in a major joint venture with Israel for the construction of a 160-mile 42-inch crude oil pipeline from Eilat to Ashdod. For Iran, the pipeline provided an attractive strategic alternative to the Canal – even had it been open – since Eilat could easily serve supertankers which could not pass through Suez, whilst most Mediterranean ports had to be served by smaller tankers. The quantities of crude oil conveyed through this pipeline in the year it was opened (1970) totalled 11 million tons. A year later, 25.5 million tons went through and in 1973, 23.8 million tons. Approximately 75 per cent of this amount was exported, mostly to Rumania. The strategic contact between Israel and Iran (manifested, *inter alia*, by the fact that Iranian warships escorted Israeli tankers passing through the Persian Gulf), remained concealed, and a straw company based in Canada and titled Trans-Asiatic Oil was established to pose as the formal owner of the project.[5] To keep pace with the expansion of the pipeline capacity and the rise in consumption Israel increased its tanker fleet from 11 with a total deadweight of 330 000 tons in 1966 to 28 with a total deadweight of nearly two million tons five years later.[6] Furthermore, in June 1973 it completed the build-up of a new refinery at Ashdod which, together with the renovated Haifa refinery, could handle more than ten million tons of crude oil per year.

Israel's luck changed soon after, when it was badly hit by a series of events. These included: the slump in tanker rates following the 1973 War; the reopening of the Suez Canal; the Rumanian decision of early 1976 to start transporting Iranian crude imports via the Suez Canal (either because it was cheaper, or because of Arab boycott pressure); and the fall of the Shah of Iran in 1978, which effected a total cut-off in Iranian supplies. Finally, the peace treaty with Egypt a year later deprived Israel of control of the Sinai oil wells. Although under the terms of the treaty Egypt agreed to supply Israel with oil, the amount subsequently sold apparently did not exceed one-third of the demand.

All of these developments meant that Israel reverted almost entirely to its pre-1967 energy dependence on oil imports. Since local oil production remained insignificant, by the early 1980s around 99 per cent of the country's energy needs had to be met from abroad. The new import system, however, differed substantially from that operating between 1960 and 1980. In 1984, 40 per cent of oil imports originated in Mexico, 32 per cent in Egypt, 9 per cent in Norway and 19 per cent was purchased on the spot market. Four years later, long-term supplies continued to come from these countries, yet in view of the depressed oil market purchases on the spot market, had increased to 40 per cent of the total oil imports of 7.3 million tons. Furthermore, oil's share of the energy market was expected to decrease drastically – from 80 per cent in 1988 to 65 per cent in 1990. This was due to the decision implemented in all industrial countries to convert the cement industry and especially electricity generation to coal. As a result, by 1988 coal was being used to generate 55 per cent of the country's electricity. Most of the coal (about 65 per cent) came from South Africa, Israel's new strategic ally. This transformation had, however, no effect on Israel's basic dependence on external supply of energy sources, notwithstanding the increased number of actual supply sources. Substitution of coal for oil simply meant that one import replaced another. The basic dependence prevailing in the mid-1990s and its novel infrastructure is reflected in the fact that in 1994 Israel imported 12.292.000 tons of crude oil, made up as follows: 540 000 from Indonesia; 725 000 from Norway; 236 000 from West Africa; 3 837 000 from Egypt; 262 000 from Russia, 1 172 000 from Gabon/Congo; and 5 520 000 from other sources. In the same year its coal imports totalled 5 711 000 tons: 3 203 000 from South Africa; 526 000 from Australia, 784 000 from the USA, 1 006 000 from Colombia; 63 000 from China; 63 000 from Poland; and 66 000 from Indonesia.

This study of Israel's oil diplomacy in the 1950s demonstrates the crucial effects of the dependence on external sources of energy supply on the country's foreign relations. It seems reasonable to assume that in the post-1960 period the almost total lack of indigenous sources continued to have material implications for the state's relations with suppliers such as Iran, Egypt, Mexico, Norway, and South Africa, and, most probably others, including Rumania and (indirectly) the Soviet Union. However, what seems to be another significant chapter in the annals of the country's foreign policy still awaits its historians. When more documents are declassified, historians will be able to enlighten their readers regarding the various diplomatic and economic solutions to one of Israel's existential problems: how to secure energy supplies for what can aptly be described as a land of milk, honey, and (almost) no oil, in the shadow of the conflict with the Arabs, who control a substantial share of global crude production and reserves.

Appendixes

APPENDIX 1 ISRAEL'S BALANCE OF PAYMENTS ESTIMATES, 1949–51 (million $)

	1949	*1950*	*1951*
Imports	263	328	426
Exports	43	46	67
World Jewry, transfers	118	90	123
World Jewry, investments	25	21	97
US official loans	18	44	28
US grants			14
Sales of foreign balances and securities	24	51	32
Short terms loans and errors and omissions	35	76	65

Sources: N. Halevi and R. Klinov-Malul, *The Economic Development of Israel* (New York, 1968) pp. 141, 294–9. For a focused analysis of Israel's economy during the first three years after independence, see N. Gross, 'Israeli Economic Policies, 1948–1951: Problems of Evaluation', *The Journal of Economic History*, L, 1, 1990, pp. 67–83.

APPENDIX 2 COST OF ISRAEL'S OIL IMPORTS (million $)

	1952	*1956*	*1960*	*1962*
	40.3	41.6	34.8	40.0
% of total Imports	12.5	11.0	6.9	6.4

Source: *Petroleum World*, April 1964, p. 33, Hebrew.

APPENDIX 3 ISRAEL'S FINANCING OF OIL IMPORTS, 1954–6 (in $)

	German reparations	*Grant-in-Aid*	*Free dollars*	*Barter*
1954	17 100 000	9 000 000	1 425 000	3 800 000
1955	24 500 000	1 300 000	2 800 000	4 200 000
1956 (Jan.–Sep.)	15 600 000	4 000 000	1 700 000	4 700 000

Source: Perlman's despatch to Sherman, 3 December 1956, ISA 2955/7201.

APPENDIX 4 ISRAEL'S OIL IMPORTS FROM THE USSR, 1954–7

Year	*Fuel oil (tons)*	*Crude oil*	*Total*	*Cost (fob)*	*Total Israeli oil consumption*
1954	175 000	100 000	275 000	3 650 000	1 092 000
1955	285 000	156 000	441 000	6 400 000	1 230 000
1956	285 000	185 000	470 000	7 000 000	1 350 000
1957*	300 000	220 000	520 000	8 100 000	1 500 000
1958*	350 000	280 000	630 000	11 000 000	1 600 000

Note: *In early November 1956 the USSR stopped all oil shipments to Israel, hence the numbers concerning 1957–8 indicate anticipated imports.
Sources: Kosloff's report to the Minister of Commerce and Industry, 10 January 1956, Perlman's report to Sapir, 16 July 1956 (both in ISA 2953/7167/C); Meron's report to the Foreign Minister, 20 July 1956, ISA 2420/3; and Y. Govrin, *Israel's Relations with the USSR 1953–1967*, Ph.D. Dissertation, The Hebrew University, 1983, p. 111, Hebrew.

APPENDIX 5 SOURCES OF ISRAEL'S OIL IMPORTS, 1954–6 (in tons)

	Crude	*Fuel oil*	*Origin*	*Price ($)*	*Freight per ton ($)*
1954	98 000		USSR	19.00	2.15
	895 000		Venezuela	21.30	6.00
		176 000	USSR	11.00	2.15
		36 000	Venezuela	14.60	6.00
1955	194 000		USSR	18.60	2.75
	184 000		Venezuela	21.30	6.28
	614 000		Iran	14.14	8.70
	50 000		Italy	20.85 (cif)	
		383 000	USSR	13.66	3.00
		98 000	Venezuela	13.00	6.28
		13 000	Italy	17.40	1.92
1956	180 000		USSR	18.60	3.75
	900 000		Iran	14.14	11.00
		281 000	USSR	13.67	3.75
		46 000	Venezuela	13.86	8.00

Sources: Kosloff's despatch to Sherman, 26 August 1956, and Perlman's despatch to Sherman, 5 September 1956, both in ISA 2928/3010/C.

APPENDIX 6 COMPANIES' SHARE IN ISRAEL'S OIL IMPORTS, 1955–6 (in tons)

	Crude oil	*Source*	*Fuel oil*	*Source*
1955				
Delek	165 000	USSR	29 000	Venezuela (Esso)
	50 000	Iran (Supor)	283 000*	USSR
	29 000	Iran (Socony)	13 000	Italy
Sub-total	244 000		325 000	
Total	**569 000**			
Shell	435 000	Iran	67 000	Dutch Indies
	132 000	Venezuela	11 400 (benzine)	Dutch Indies
Sub-total	567 000		78 400	
Total	**645 400**			

Appendix 6 (*Contd.*)

	Crude oil	Source	Fuel oil	Source
Socony	183 000	Iran		
Esso et al.	64 000	Venezuela		
Grand total	**1 461 000**			
Percentage of Total Imports				
Delek	38.9			
Shell	44.1			
Socony	12.6			
Esso	4.4			
Total	100			
January–October 1956				
Delek†	12 000	Iran	28 000	Venezuela
	59 000	Iran (Socony)	246 000†	USSR
	123 000	USSR		
Sub-total	202 000		274 000	
Total	**476 000**			
Shell	416 000	Iran	14 000	?
			10 000 (benzine)	?
Total	**440 000**			
Socony	204 000	Iran		
Grand total	**1 120 000**			
Percentage of Total Imports				
Delek	42.5			
Shell	39.2			
Socony	18.3			
Total	100			

Notes: *Israel Electricity Company. †Including Israel Electricity Company.
Sources: Perlman's despatch to Sherman, 3 December 1956, ISA 2944/7040/C, and a memorandum dated 10 June 1957, ISA 2942/7015/2.

APPENDIX 6A DELEK'S SHARE IN DISTILLATES SALES, 1952–7

	Benzine (tons)	*Kerosene (tons)*	*Gas oil (tons)*	*Fuel (tons)*	*Gas (tons)*	*Total (tons)*
1952						
Consumption	163 125	125 350	135 475	489 400	3 225	916 575
Delek's %	4.29	1.02	5.06	5.01	3.88	4.37
1953						
Consumption	168 575	134 450	145 375	536 875	4 125	989 400
Delek's %	14.59	11.94	23.39	16.20	12.12	16.39
1954						
Consumption	164 350	133 125	156 500	610 925	5 575	1 070 475
Delek's %	14.00	16.90	25.56	20.43	18.39	19.74
				(39.74)*		(30.76)*
1955						
Consumption	188 450	136 400	181 100	693 275	8 200	1 207 425
Delek's %	21.80	28.56	29.02	27.45	22.87	26.89
				(55.34)*		(42.91)*
1956						
Consumption	210 525	163 250	214 050	682 850	11 525	1 282 200
Delek's %	27.18	31.87	27.24	31.49	21.84	30.03
				(57.57)*		(43.92)*
1957						
Consumption	184 325	147 575	219 050	765 100	15 200	1 331 250
Delek's %	26.27	31.27	27.47	22.77	22.70	24.97
				(51.03)*		(41.21)*

Note: *Including sales to Israel Electricity Company.
Source: Undated table, ISA C/2955/7202.

APPENDIX 7 THE FINANCIAL DAMAGE FROM THE CLOSURE OF THE SUEZ CANAL FOR OIL BOUND FOR ISRAEL, 1951–5

The direct additional cost of petroleum to Israel because of the Suez blockade stemmed mainly from the need to pay more than 45 per cent above prevailing world prices for its petroleum imports. During 1951–5 that amounted to $44 million. The major simplifying assumption underlying the computation made at the Israeli Embassy in Washington in October 1956 was that the foreign exchange entitlement which Israel had paid for various petroleum products constituted an average excess cost, per metric ton of product, equivalent to the difference between the cif Haifa cost of the crude oil imported for refining at Haifa and the posted price for Iraqi crude delivered at Sidon, Lebanon. The relatively small foreign exchange savings from the operations of Delek were ignored as being within the margin of error of that method of estimation. In addition there were other unmeasurable losses, the most immediate one being the loss of large foreign exchange earning potential caused by the Haifa refinery's being forced to operate at about one-third of its capacity. Likewise, the damaging effect of a more than 45 per cent higher cost of fuel for the entire structure, operation and development of the Israeli economy could not be estimated. See a memorandum dated 15 October 1956, ISA 2928/3010/C.

APPENDIX 8 MEMBERS OF THE IRANIAN OIL CONSORTIUM, 1956

Company	*Share (%)*	
BP	40	
Shell	14	
C. Française des Pétroles	6	
Standard Oil (NJ)	7	
Socony Vacuum	7	
Texas	7	
Gulf Oil	7	
Standard Oil (Calif.)	7	
American Independent Oil	2/12 of 5	IRICON
Atlantic Refining	1/12 of 5	IRICON
Hancock Oil	1/12 of 5	IRICON
Pacific Western	1/12 of 5	IRICON
Richfield	3/12 of 5	IRICON
San Jacinto	1/12 of 5	IRICON
Signal	1/12 of 5	IRICON
Standard Oil (Ohio)	1/12 of 5	IRICON
Tide Water	1/12 of 5	IRICON

Source: Perlman's letter to Arnon, 21 November 1957, ISA 2954/3.

APPENDIX 9 CRUDE OIL PRODUCTION FROM HELETZ AND BROR* FIELDS, 1956–72 (in tons)

1956	22 800
1961	134 000
1962	135 000
1963	151 000
1964	196 000
1965	202 000
1966	187 000
1967	134 000
1968	114 000
1969	99 000
1970	77 000
1971	60 000
1972	47 000

Note: *From 1957.
Source: B. Shavit and M. Babitch, *In the Kingdom of Oil* (Tel Aviv, 1974) p. 40, Hebrew.

APPENDIX 10 PETROLEUM PRODUCTS

Crude Oil
A naturally occurring mixture, consisting predominantly of hydrocarbons and/or sulphur, nitrogen, and/or oxygen derivatives of hydrocarbons, and which is removed from the earth in liquid state or is capable of being so removed.

Fuel Oil
Any liquid or liquefiable petroleum product burned for the generation of heat in a furnace or firebox, or for the generation of power in an engine, exclusive of oils with a flash point below 100°F and oil burned in cotton- or wool-wick burners.

Gas Oil
A liquid petroleum distillate with viscosity and boiling range between kerosine and lubricating oil.

Kerosine
A refined petroleum distillate having a flashpoint not below 73°F and suitable for use as an illuminant when burned in a wick lamp.

Benzine
A light petroleum distillate covering the gas oil and naphta range.

Source: *Glossary of Terms Used in Petroleum Refining* (American Petroleum Institute, New York, 1953).

APPENDIX 11 OIL REFINERIES IN THE MIDDLE EAST, 1953

Country and company	*Location*	*Crude capacity (barrels daily)*	
		1951	*1953*
Bahrein			
Bahrein Pet. Co.	Bahrein Is.	155 000	180 000
Iran			
Anglo-Iranian	Abadan	500 000	
	Kerminshah	2 100	
	Mis	70 000	
Iraq			
IPC	Bab Gugur	1 500	2 900
AIOC and Iraq Government	Alwand	8 000	11 400
	Basra	—	3 400
Israel			
CRL (AIOC and Shell)	Haifa	83 000	
Kuwait			
Kuwait Oil Co.	Mina Al Ahmadi	25 000	30 000
Lebanon			
IPC	Tripoli	11 000	11 000
Saudi Arabia			
Aramco	Ras Tanura	140 000	189 000
*Aden**			
AIOC		100 000	

Note: *Scheduled for completion in 1954.
Source: A. Neal, 'Effects of Iranian Shutdown on World Oil Situation', 24 September 1953, SDR Lot 57 D/155, Box 41.

Notes

1 FUEL – SUPPLY AND DEMAND IN MANDATORY PALESTINE

1. See N. Vilbush, 'On the History of Oil in Palestine until the End of War, 1918', Central Zionist Archives, Jerusalem (hereafter CZA) file A355/62; N. Thish, 'Jewish Palestine and Persian Oil', August 1919, CZA Z 4/911; B. Faris, *Electric Power in Syria and Palestine* (Beirut, 1936); and sources for Table 1.1 below.
2. S. Avitzur, *From Light to Lightning* (Tel Aviv, 1967), pp. 6–8, Hebrew.
3. 'Forecast of Palestine's 1948 Requirements of Certain Mineral Oil Products', 10 December 1947 Israel State Archive (hereafter ISA) 119/23/C, which is the source for the following analysis until otherwise cited.
4. The following account is based on correspondence in ISA 109/23/C; ISA 708/15; M. Aran, 'Potash and Oil Concessions in the Land of Israel', *Cathedra*, 31, 1983, pp. 135–58, Hebrew; and B. Lavi, *Oil Prospecting Policy in the Land of Israel* (Unpublished manuscript, The Hebrew University of Jerusalem, 1995), Hebrew. I am grateful to Mr Lavi for allowing me access to his study.
5. The following account is based upon ISA 109/23/C; CZA S 40/73-2; and R. Nathan, O Gass and D. Creamer, *Palestine: Problem and Promise* (Washington, 1946), p. 174.
6. ISA 109/23/C.
7. State Department Records, Washington (hereafter SDR), 884A.2553/5-1550.
8. ISA 2420/1. The following is based on CZA S/25-7426. For the Arabs' perspective, see M. Seikaly, *Haifa: Transformation of a Palestinian Arab Society 1918–1939* (London, 1995), pp. 73–5.
9. See notes in CZA S40/80-1.
10. See J. Bamberg, *The History of a British Petroleum Company, Volume 2: The Anglo-Iranian Years 1928–1954* (Cambridge, 1994).
11. The following is based upon CZA S25/7426; and Racine, 'Chapters in the History of Petroleum in Palestine 1886–1938', *Beolam Hadelek*, 3, August 1960, pp. 32–3, Hebrew.
12. The following is based on *League of Nations, Permanent Mandate Commission* (Minutes), XX Session, 1931, pp. 96–9, 144–9, 168–71, 177.
13. The following is based on 'Oil Prices and Oil Price Policy in Palestine', *Bulletin of the Research Institute of the Jewish Agency*, XI, 2, 1947, pp. 27–8; CZA S/25-10599; CZA S8/9494; and Colonial Office Papers (hereafter CO), Public Records Office, London, File 852/644/4.
14. The following is based on CZA S90/61; CZA S40/93-2; CZA S53/2089; ISA 1784/4; and ISA 1784/5.
15. CZA S 53/2089, on which the following is based. For British economic policy in Palestine see I.W. Gaskin, *Palestine 1939–1945: A Study of Colonial Economic Policy* (Ph.D. thesis, University of Oxford, 1992), especially pp. 315–27.
16. ISA 2972/301/1. The following is based on British Ministry of Power Files, Public Record Office (hereafter POWE) file 33/1717; SDR 867N.6363/9-849;

SDR 867N.6363/2749; and D. Little, 'Pipeline Politics: America, Tapline and the Arabs', *Business History Review*, 64, 1990, pp. 255–85.

2 TWILIGHT OF BRITISH RULE

1. See D. Horowitz and M. Lissak, *The Origins of Israeli Polity* (Chicago, 1978); N. Gross, 'The Economic Policy of the Mandatory Government in Palestine', *Research in Economic History*, 9, 1984, pp. 143–85; and H. Barkai, *The Beginnings of the Israeli Economy* (Jerusalem, 1990), Hebrew.
2. For a recent analysis, see M. Kent, *Moguls and Mandarins: Oil Imperialism and the Middle East in British Foreign Policy 1900–1940* (London, 1993). See also E. Monroe, *Britain's Moment in the Middle East 1914–1956* (London, 1963), pp. 95–115. For the military-strategic perspective, see M. Cohen, *Fighting World War Three From the Middle East: Allied Contingency Plans 1945–1954* (London, 1997). For the broader subject, see H. Mejcher, *Die Politik und das Ol im Nahen Osten, Band II: Die Teilung der Welt 1938–1950* (Stuttgart, 1990); and F. Venn, *Oil Diplomacy in the Twentieth Century* (London, 1986), pp. 105–28.
3. The following is based on POWE 33/1716, 33/1717, and ISA 1784/5.
4. POWE 33/1716.
5. See U. Bialer, 'The Iranian Connection in Israel's Foreign Policy 1948–1951', *Middle East Journal*, 39, 2, 1985, pp. 293–315.
6. For Iraq's policy, see M. Eppel, *The Palestine Conflict in the History of Iraq: The Dynamics of Involvement 1928–1948* (London, 1994).
7. POWE 33/1717.
8. See J. Thyne, *British Policy on Oil Resources 1936–1951 with Particular Reference to the Defence of British Controlled Oil in Mexico, Venezuela and Persia* (Ph.D. Dissertation, London School of Economics, 1987), especially pp. 184–7. For the general subject, see W. Roger Louis, *British Empire in the Middle East 1945–1951* (London, 1984); and M. Cohen, *Palestine and the Great Powers 1945–1948* (Princeton, 1982). For the Jewish perspective, see Y. Freundlich, *From Destruction to Resurrection: Zionist Policy from the End of the Second World War to the Establishment of the State of Israel* (Tel Aviv, 1994), Hebrew.
9. The following is based on POWE 33/1717, British Foreign Office Records (hereafter FO) 371/61961, pp. 59–61; SDR 867N.6363/3-1646; ISA 2971/601/2II/C; and Cabinet Paper (48)208, 25 August 1948, Cabinet Papers (hereafter CAB) 129/29.
10. The following is based on POWE 33/1716; FO 371/68604; FO 371/98615 E 1902; FO 371/68615, pp. 44–5; FO 371/68615, C/2198/8/31; POWE 33/1717; B. Shwadran, *Middle East Oil: Blessing and Threat* (Tel Aviv, 1975), pp. 195–9, Hebrew; and ISA 46/10.
11. FO 371/61961.
12. FO 371/68615.
13. On US oil diplomacy, see A. Miller, *Search for Security; Saudi Arabian Oil and American Foreign Policy 1939–1949* (Chapel Hill, 1980); D. Painter, *Oil and the American Century: The Political Economy of U.S. Foreign Oil Policy 1941–1954* (Baltimore, 1986); S. Randall, *United States Foreign Oil Policy 1918–1948*

(Montreal, 1985); and B. Kaufman, 'Multinational Oil, U.S. Foreign Policy and Anti-trust: The 1950's', *Journal of American History*, 63, 1977, pp. 937–57.

14. SDR Lot 530/465 Box 18. The following is based on POWE 33/1717; FO 371/68604; ISA C/109/22; FO 371/98615, E 1902/8/31; and FO 371/98615, E 2198/8/31.
15. The following is based on ISA C/119/23; SDR 867N.6363/4-1548; ISA 2973/702/1; SDR 867.6363/4-1648; SDR 867N.6363/4-2648; and SDR 867N.6363/5-848.
16. ISA 2973/702/1.
17. The following is based on ISA 2318/4; FO 371/68620, E 5487/8/31; SDR 867N.6363/5-1148; ISA 2931/C/5061; and L. Gruenbaum, *Outline of A Development Plan for Jewish Palestine* (Jerusalem, 1946).
18. Notable examples are Pinchas Rutenberg, who established the Palestine Electric Company, and Moshe Novomeysky, who founded the Palestine Potash Company. See E. Shaltiel, *Pinchas Rutenberg* (Tel Aviv, 1989) and Y. Beilin, *The Roots of Israeli Industry* (Tel Aviv, 1987), both in Hebrew.
19. The following is based on ISA 2410/20; CZA S 25/7413; and Lavi, *Oil Prospecting Policy*, p. 78.
20. See Lavi, ibid.
21. The following is based on *Palestine: A Study of Jewish Arab and British Politics* (Esco Foundation for Palestine, New Haven, 1947), pp. 119, 1120; Ben Gurion Diary (hereafter BGD), entry for 13 February 1948; CZA S 40/100-2; and M. Cohen, 'William A. Eddy, the Oil Lobby and the Palestine Problem', *Middle Eastern Studies*, 30, 1, January 1994, pp. 166–80.
22. CZA S 40/100-2.
23. The following is based on CZA S 25/7425 and ISA C/109/21-2.
24. On the Jewish Agency's intelligence, see Yoav Gelber, *Growing a Fleur-de-Lis: The Intelligence Services of the Jewish Yishuv in Palestine 1918–1947* (Tel Aviv, 1992), Hebrew.
25. The following is based on FO 371/68615; CZA S 40/100-2; BGD, entries for 1, 31 December 1947; ISA C/119/22-3; and Z. Levkovitch, 'Oil Supply During the War of Independence: The Problem, Constraints and Solutions', *Ma'arachot*, 304, June 1986, pp. 16–23, Hebrew.
26. The following is based on ISA 2967/69/B; CZA S 90/608; and CZA S 40/8-2.
27. CZA S 53/2089.
28. See Y. Ro'i, *Soviet Decision Making in Practice* (New Brunswick, 1980); and U. Bialer, *Between East and West: Israel's Foreign Policy Orientation 1948–1956* (Cambridge, 1990).
29. The following account is based on CZA S 40/100-1; Israel Defence Forces Archive (hereafter IDFA) 597/56/60; CZA S 40/85-1; ISA 1664/3; ISA 1786/4; and ISA 1784/4.
30. The following is based on IDFA 597/56/60; CZA 40/85-1; BGD, entry for 13 June 1948; SDR 867N.6363/5-2048; ISA C/119/20; and FO 371/75255.
31. SDR 867N.6363/5-2048.
32. The following is based on ISA 2318/1.
33. ISA 183/1.
34. ISA 2601/2.
35. BGD, entry for 28 May 1948. On Sharett, see G. Sheffer's thorough *Moshe Sharett: Biography of a Political Moderate* (Oxford, 1996).

3 THE 1948 WAR

1. The following is based on POWE 33/1717; ISA 2420/1; SDR 867N.6363/6-1048; and D. Silverfarb, 'The Revision of Iraq's Oil Concessions, 1949–52', *Middle Eastern Studies*, 32, I, (1996), pp. 69–95. For British policy in Iraq, see D. Silverfarb, *The Twilight of British Ascendancy in the Middle East: A Case Study of Iraq 1941–1950* (London, 1994); and M. Elliot, *'Independent' Iraq: British Influence from 1941 to 1958* (London, 1996).
2. POWE 33/1717. The following is based on FO 371/68621; ISA 2420/4; ISA 2420/1; FO 371/68622 E/89/4; FO 371/68621; FO 371/68407; and ISA 1784/5.
3. FO 371/68621.
4. Ibid.
5. See I. Pappe, 'Overt Conflict to Tacit Alliance: Anglo-Israeli Relations 1948–51', *Middle Eastern Studies*, IV, 1990, pp. 563–4. For opinions towards Israel within the Foreign Office, see W. Roger Louis, 'Britain at the Crossroads in Palestine, 1952–1954', *The Jerusalem Journal of International Relations*, 12, III, 1990, pp. 59–82. For Britain's policy, see Y. Tennenbaum, *British Policy Towards Israel and the Arab–Israeli Dispute 1951–1954* (D. Phil., Oxford University, 1991); and Z. Levey, *Israel and the Western Powers 1952–1960* (Chapel Hill, 1997), pp. 35–54.
6. The following is based on FO 371/68622 E 8352; ISA 2329/24; FO 371/68621; FO 371/68566, E/8431-3; FO 371/68621; and Mohn's Papers (Uppsala University), file 431/K/1. I am grateful to Amizur Ilan for drawing my attention to this evidence.
7. FO 371/68407.
8. *Foreign Relations of the United States* (hereafter FRUS), 1948, Vol. V, p. 1123. The following is based on FRUS, op. cit., pp. 194, 1144, 1132, 1157, 1162, 1177; FO 371/68622 E 9001; and ISA 2424/20. See also A. Ilan, *Bernadotte in Palestine 1948* (London, 1989).
9. FO 371/68622.
10. FRUS 1948, V, p. 1162.
11. FRUS, *op. cit.*, p. 1177.
12. The following is based on ISA 2220/20; ISA 94/9; FO 371/68622, E 9529, E 9329/8; ISA 2180/21; ISA 94/10; ISA 2420/1; and IDFA 597/56/60.
13. ISA 94/9 which is the source of the following account.
14. ISA 94/10.
15. The following is based on SDR 867N.6363/8-2048; FO 371/68622; ISA 365/25; IDFA 595/56/60; IDFA 597/56/60; and Kollek's letter to Surasky, 22 October 1948, *Enciclopedia Judaica Castellana* (Mexico City, 1950), p. 455.
16. The following is based on ISA 2318/4; ISA 2329/24; FO 371/68621, pp. 56–7; FO 371/68622, E 9455/8/31; ISA 2308/6; ISA 2420/20; and ISA C/2934/6010/1.
17. The following is based on IDFA 597/56/59; ISA 1784/15; FO 371/68622; ISA 2329/24; and ISA 1784/5.
18. FO 371/68622, E 9782/8/31.
19. ISA 2329/24.
20. ISA 1784/5.
21. The following is based on *Haboker*, 1 August 1948, Hebrew; IDFA 597/56/59; ISA 1784/15; FO 371/ 68622, E 9699/8/31; and FO 371/91677, EQ 1536/3.

22. FO 371 68623. The following is based on ISA 2420/1, 4; ISA 129/11; ISA 2457/19; CZA S 40 85/1-2; SDR NND 760050; and IDFA 597/56/59.
23. CZA S 40/85-1.
24. The following is based on IDFA 597/56/59; SDR 867N.6363/8-2048; FO 371/68623; SDR 867N.6363/8-248; SDR NND/760050; and FRUS, V, 1948, pp. 1266–7.
25. SDR 867N.6363/7-3048.
26. The following is based on FRUS, 1948, V p. 1288; SDR 867N.6363/8-348; ISA 2426/5; FO 371/68623; SDR 867N.6363/8-748; ISA 2420/1; and IDFA 597/56/59.
27. ISA 2426/5.
28. FO 371/68623.
29. SDR 867N.6363/8-1348. The following is based on SDR NND/760050; SDR 867N.6363/8-1448; FO 371/68623; Cabinet Paper (hereafter CP) (48) 208 CAB 129/29; SDR 867N.6363/8-2048; SDR 867N.6363/9-1548; IDFA 597/56/59; and FO 371/68609.
30. FO 371/68623.
31. SDR 867N.6363/9-1548.
32. The following is based on ISA 2420/1; FO 371/68623; SDR 867N.6363/8-3148; FO 371/68624; IDFA 597/56/59; BGD, entry for 16 September 1948; ISA 2420/4; and IDFA 597/56/58.
33. CP (48) 208, CAB 129/29.
34. IDFA 597/56/59.
35. ISA 2420/1.

4 INTERNATIONAL OIL DIPLOMACY AND WAR

1. The following is based on SDR 867N.6363/10-448; ISA 2329/23; SDR 867N.6363/9-148; FO 371/68624; SDR 867N.6363/9-148; FRUS 1948, V, pp. 1386, 1399, 1404; SDR 867N.6363/9-1048; SDR 867N.6363/9-3048; and ISA 2426/6.
2. ISA 2329/23.
3. ISA 2452/2. The following is based on FRUS, 1948, V, pp. 1422–5; ISA 181/3; ISA 2420/1; IDFA 597/56/60; SDR 867N.6363/9-1448; SDR 867N.6363/9-1748; IDFA 597/56/58; BGD, entry for 6 October; POWE 33/1717; FO 371/68624 E/13533, E/12849; and SDR 867N.6363/10-748.
4. IDFA 597/56/66.
5. The following is based on IDFA 597/56/66; ISA 1664/3; IDFA 597/56/60; CZA S 40/85-1; FO 371/68610; ISA 2971/601/2/6; and U. Bialer, 'Sterling Balances and Claims Negotiations: Britain and Israel 1947–1952', *Middle Eastern Studies*, 28, 1, 1992, pp. 157–77.
6. ISA 2420/1. The following is based on ISA 131/18; SDR 867N.6363/10-748; ISA 183/1; ISA 185/3; FO 371/68624-5; FO 371/75114; FO 371/68699; SDR 867N.6363/10-1848; FRUS, 1948, V, pp. 1636–8; SDR 867N.6363/10–1648; FO 371/68625; and SDR 867N.6363/10-2248.
7. SDR 867N.6363/10-1148.
8. FO 371/68625 and SDR 867N.6363/10-1848.
9. FO 371/68624 on which the following is based.

10. The following is based on SDR 867N.6363/10-2648; SDR 867N.6363/11-1048; FO 371/68625; SDR 867N.6363/11-1848; SDR 867N 6363/11-2348; and FO 371/75114, E7/1531/31.
11. FO 371/68625.
12. SDR 867N.6363/11-2348.
13. On the Commission, see D. Forsythe, *United Nations Peace Making: The Conciliation Commission of Palestine* (Baltimore, 1972). The following is based on POWE 33/1717; FO 371/75114; SDR 867N.6363/2-1949; IDFA 597/56/60; FO 371/68699; SDR 867N.6363/11-1248; IDFA 597/56/59; ISA 1786/4; ISA 1664/3; and FO 371/75255.
14. SDR 867N.6363/2-1949.
15. FO 371/68625.
16. FO 371/75114.
17. The following is based on IDFA 595/56/60; ISA 1784/3; FO 371/68625; ISA 2420/1; FO 371/75114; SDR 867N.6363/3-449; *New York Times*, 10 February 1949; IDFA 597/56/59; SDR 867N.6363/3-749; SDR 867N.6363/3-1149; SDR 867N.6363/3-949; ISA 2601/2; FO 371/75208 and SDR, Tel Aviv Mission, Classified Files, 4-63-44/1-2.
18. SDR 867N.6363/3-949.
19. SDR 867N.6363/3-1149.
20. FO 371/75350.
21. ISA 2971/601/2/6.
22. The following is based on FO 371/75114; ISA 2420/4; SDR 867N.6363/4-1449; SDR 867N.6363/5-549; POWE 33/1717; SDR 867N.6363/6-2449; FO 371/75350, E8393/1017/31; ISA 2971/601/2/6; ISA 1784/3; SDR 867N.6363/8-2649. SDR Tel Aviv Embassy Classified Files 4/63/44/1-7; FO 371/75255; and ISA 2318/5.
23. SDR Tel Aviv Mission, Classified Files, 4-63-44/1-2.
24. FO 371/75255, ISA 2318/5.
25. IDFA 597/56/70.
26. W. Roger Louis, *The British Empire in the Middle East 1945–1951* (London, 1984), pp. 578–81; CP (49)188; CAB 129/36; and FO 371/175098.
27. FO 371/75098.
28. The following is based on ISA 2329/13; ISA 2420/4; ISA 2452/6; IDFA 597/56/70; ISA 2414/26; ISA 2201/1; SDR Tel Aviv Mission, Classified Files 4/63/44/1-7; SDR 867N.6363/9-2449; SDR 867N.6363/8-2349; FO 371/75255; ISA 2202/2; POWE 33/1717; SDR 867N.6363/8-2649; and SDR Tel Aviv Mission Classified Files, 4/63/44/1-3. For a thorough analysis of the Israeli perspective on the arms embargo, see A. Ilan, *The Origin of the Arab–Israeli Arms Race* (London, 1996).
29. SDR 867N.6363/8-2649.
30. SDR Tel Aviv Mission, Classified Files, 4/63/44/1-3 on which the following is based.
31. FO 371/75114. The following is based on SDR 867N.6363/8-2649; SDR Tel Aviv Mission, Classified Files, 4/63/44/1-3; the *New York Times*, 27 August, 14 October 1949; ISA 2308/12; ISA 2601/2; SDR 867N.6363/9-2749; ISA 2420/1; SDR 867N.6363/10-849; SDR 867N.6363/11-2649; and SDR 867N.6363/11-2749.
32. SDR 867N.6363/10-849.

33. SDR 867N.6363/9-2749.
34. ISA 2318/2.
35. SDR 867N.6363/11-749.
36. The following is based on SDR 867N.6363/9-2749; ISA 2420/4; ISA 2420/1; ISA 2318/5; ISA 2318/2; ISA 64/2; ISA 678/5; SDR 867N.6363/11-749; SDR 867N.6363/11-2349; ISA 2329/14; SDR 867N.6363/11-2349; ISA 2601/2; SDR 867N.6363/11-3049; and SDR 867N.6363/12-149.
37. ISA 2329/14.
38. SDR 867N.6363/11-3049.
39. SDR 867N.6363/12-1449.
40. ISA 1748/5.
41. FO 371/75255.
42. SDR 867N.6363/12-1449.
43. The following is based on SDR 867N.6363/12-749; SDR 867N.6363/12-3049; ISA 5626/C 16/75/1/4; ISA 1748/5; FO 371/75255, E 14576/1533/131; FRUS 1950, V, pp. 21–2; FO 371/99747; SDR 867N.6363/12-1449; SDR Lot 53D 468 Box 18; SDR 867N.6363/12-2249; FO 371/99747; SDR Tel Aviv Embassy Classified Files, 4/63/44/1-3.
44. The following is based on ISA 2420/1; *New York Times*, 15 December 1949, 21 January 1950; ISA 1784/3; ISA 2318/5; ISA 2971/601/2/C; ISA 2601/1; ISA 2583/5; ISA 2971/601/2/6; FO 371/82529; SDR 867N.6363/12-3049; and SDR 867N.2553/1-2750.
45. SDR 867N.6363/12-2349.

5 CUTTING THE LOSSES

1. ISA 2457/4. The following is based on FO 371/82609; ISA 2583/5; ISA 31/5011; ISA 2931/5646/1; ISA 2931/5018/1; ISA 2599/7; FO 371/82612; ER/1534/1; ISA 2967/69/B; FO 371/91749; ER 1533/4; FO 371/82612; ISA 2420/1; ISA 1845/8; and FO 371/82610, ER 1532/22.
2. ISA 2457/4.
3. ISA 44/8.
4. The following is based on ISA 2420/1; ISA 2601/2; SDR Lot 530/468 Box 18; ISA 1784/3; D. Silverfarb, 'The Revision of Iraq's Oil Concession 1949–52', *Middle Eastern Studies*, 32, I, 1996, pp. 69–95; and ISA 2420/1.
5. The following is based on ISA 1784/1; ISA 44/7; FO 371/82610; *The Jerusalem Post*, 2 June 1950; ISA 2921/601/2/C; ISA 2971/601/1/C; POWE 33/1948; ISA 2971/601/2II/C; and ISA 2958/4/C.
6. ISA 1784/1.
7. FO 371/91677.
8. The following is based on D. Horowitz, *In the Heart of Events* (Tel Aviv, 1975), pp. 68–72, Hebrew; FO 371/99747; SDR 884A.2553/11-1650; ISA 601/6; ISA 2930/3017; ISA C/2958/2; SDR 884A.255/4-1150; ISA 2420/1; SDR Lot File 53D/463 Box 45; ISA 5524/3378/C; ISA 2421/5; FO 371/82613, ER 1525/2; SDR 884A.2553/9-1360; SDR 884A.2553/10-351; ISA 2420/1; *New York Times*, 14 August 1950; FO 371/104411; EA 15324/5; FO 371/82610, R 1532/28; FO 371/104411; EA/15324/9; and ISA 2418/18/B.

9. FO 371/99747.
10. SDR 884A.2553/10-351.
11. ISA 2420/1.
12. The following is based on ISA 2936/6010/1/C; M. Oren, *The Origins of the Second Arab–Israeli War; Egypt, Israel and the Great Powers 1952–5* (London, 1992), pp. 39–59; A. Goren, *The Arab League* (Tel Aviv, 1955), pp. 165–76, Hebrew; and W. Eytan, *The First Ten Years* (New York, 1958), pp. 90–104.
13. The following is based on ISA 2418/18/C; ISA 1947/13; ISA 2928/3010/C; ISA 2418/20; ISA 44/8; ISA 46/10; ISA 45/4; FO 371/120828, UE 51171/63; FO 371/128087, VR1015/3; Evelyn Shuckburgh, *Descent to Suez* (New York, 1986), p. 253; FO 371/120828; FO 371/99747; FO 371/91748; and FO 371/91484, ER/1534/46.
14. The following is based on CAB 128/23; Tenenbaum, *British Policy Towards Israel*, pp. 103–43; and FRUS, 9, 1952–4, p. 1165. On Anglo-American relations concerning the defence of the Middle East, see P. Hahn, *The United States, Great Britain and Egypt 1945–1956* (Chapel Hill, 1991); and S. Freiberg, *Dawn Over Suez: The Rise of American Power in the Middle East 1953–1957* (Chicago, 1992).
15. ISA 44/8.
16. ISA 46/10.
17. FO 371/120828.
18. FO 371/99747.
19. FO 371/91748.
20. The following is based on ISA 41/4; FRUS, 1952–4, IX, pp. 608–9; SDR 884A.2553/9-552; ISA 2599/7; and ISA 2928/3010C.
21. ISA 41/4. The following is based on FRUS, 1952–4, IX, pp. 608–9; and SDR 884A.2553/9-552.

6 LEGAL READJUSTMENT: ISRAEL AND THE OIL COMPANIES

1. The following is based on ISA 1784/5; FO 371/75255, E 14178; and SDR 884A.2553/3-1452. For a general analysis placing the issue of Haifa refinery in a broad internal political-economic perspective, see D. Levy, *State and Industry: Interactions in the Industrial Development Policy 1948–1965* (Ph.D. thesis, University of Haifa, 1993), pp. 5–41, 105–44, Hebrew.
2. The following is based on ISA 1784/4-5; IDFA 597/56/60; ISA 687/5; IDFA 597/56/70; ISA 2929/3015/4; ISA 1947/13; ISA 2967/69/B; ISA 2945/7044/1; and J. Frankel, *Short Term and Long Term Tanker Freight Rates and the Significance of their Fluctuations* (Leiden, 1951).
3. ISA 1947/3.
4. The following is based on ISA 2599/8; SDR 884A.2553/3-1452; ISA 44/16/1; ISA 5626/C/16/75/1/4; IDFA 597/56/70; ISA 2420/4; ISA 2972/301/1; IDFA 597/56/60; FO 371/75255 E/14576/1533/13; POWE 33/1801; and M. Adelman, *The World Petroleum Market* (Baltimore, 1972), pp. 131–59.
5. ISA 44/16/1.

6. ISA 5626/C/16/75/74.
7. ISA 2420/4.
8. ISA 2972/301/1.
9. ISA 2420/4.
10. The following is based on ISA 2974/706/1; SDR 884A.2553/2-852; POWE 33/1801; FO 371/91748, ER 1531/35; ISA 2420/4; ISA 2958/1, 2972/301/1; ISA 2592/20; ISA 2958/8/C; and ISA 2967/69/B.
11. See Mostafa Elm, *Oil, Power and Principle: Iran's Oil Nationalisation and its Aftermath* (New York, 1992).
12. The following is based on ISA 44/8; ISA 2967/69/B; FO 371/91748, ER/1531/35; ISA 2420/7; Horowitz, *In the Heart of Events*, pp. 74–5; ISA 2974/706/1; SDR 884A.2553/4-251; ISA 5524/3387/C; ISA 1784/1; ISA 2420/1; SDR 884A.2553/2-852; SDR 884A.2553/10-351; ISA 2967/69/C; ISA 44/5; and ISA 1784/1.
13. Cabinet Meeting, 1 February 1951, ISA.
14. ISA 2420/1.
15. The following is based on ISA 2599/7; SDR 884A.2553/2-852; SDR 884A.2553/11-2552; SDR 884A.2553/2-3052; ISA 2420/2; ISA 2929/3015/2/C; and ISA 2929/3015/4.
16. The following is based on ISA 5524/3381/C; ISA 2960/30718/C; ISA 5279/30706/C; ISA 1947/13; and ISA 2929/3015/4.
17. Article 53 of the Draft indicated that the 'agreement shall come into force on the day following the day when Enabling Legislation is passed by the Knesset, which shall take place (if at all) within 12 months from the date hereof'. However, 'pending such event the parties shall observe the terms of the Agreement as if the said legislation had been passed except that any payments to be made hereunder by the Company or CRL shall be made by way of deposit returnable by the Government only in the event of the said legislation not being passed as aforementioned'; ISA 2960/30718/C. The following is based on ISA 5730/30901/C and ISA 2930/3015/5/C.

7 THE ESTABLISHMENT OF THE DELEK OIL COMPANY

1. See D. Patinkin, *The Israeli Economy: The First Decade* (Jerusalem, 1959), p. 58.
2. The following is based on ISA 601/9; ISA 2956/63/A; ISA 1874/1; SDR 884A.2553/3-1452; ISA 547/12; ISA 2954/2; ISA 2965/68/A; and H. Barkai, *The Beginnings of the Israeli Economy* (Jerusalem, 1990), Hebrew, pp. 58–60.
3. The following is based on FO 371/82563, ER 1158/9; British Treasury Papers (hereafter T) 236/8162; FO 371/91748; SDR 884A.2553/3-1452; ISA 2599/7; ISA 2412/26; ISA 2974/704/1; ISA 5524/3378/C; ISA 2318/9; ISA 79/3/K; T 236/5169; T 236/8171; ISA 258/12; *The Reparations and their Impact on Israel's Economy* (Bank of Israel, December 1965), Hebrew; ISA 2945/7044/2; ISA 2945/7043/3; ISA 2417/6; ISA 45/15; and ISA 2303/15.
4. ISA 2599/7.
5. British Prime Minister's Papers (hereafter PREM) 11/86.
6. ISA 2427/6.

7. The following is based on T 236/8171; ISA 43/5567/4069; ISA 44/18; ISA 2954/7041/2; ISA 44/15; ISA 2420/1; ISA C/2974/704/1; SDR 884A.2553/4-1150; FO 371/75255; ISA 1784/5; ISA 2601/2; ISA 2972/301/1; FO 371/82613, ER/11345/9, ER/1535/1; ISA C/2958/2; SDR 884A.25/3-1150; SDR 884A.2553/7-2450; and ISA 1784/1.
8. ISA 44/7.
9. The following is based on ISA C/2972/301/1; ISA 44/7; ISA 5524/3378/C; FO 371/82613, ER 1525/2; SDR 884A.2553/9-1360; *Haboker*, 27 July 1950, Hebrew; ISA 2958/1; ISA 1784/1; ISA 44/6; FO 371/91245, p. 21; ISA 44/8; ISA 2420/2; ISA 2941/7014; and ISA 2973/705/2.
10. The following is based on the *New York Times*, 7 July 1952; ISA 45/15; ISA 1784/3; ISA 1784/1; ISA 2973/705/2; SDR 884A.3932/11-1052; FO 371/127213; ISA 5279/30706/C; ISA 2973/705/1; and ISA 79/3/K.
11. ISA C/2965/63/B.

8 ALTERNATIVE SOURCES – VENEZUELA, KUWAIT

1. The following is based on ISA C/2974/704/2; ISA 2944/66/A; ISA 2420/2/I; ISA 2928/3010/2/C; ISA 2929/3010/C; ISA 2972/301/3; ISA 2968/78/B; ISA 2420/2; ISA 2972/301/3; ISA 2420/2; ISA 2965/63/B; SDR 884A.2553/6-652; ISA 101/7; ISA 2954/7171/C; ISA 2972/301/3; ISA 2965/63/A; and ISA C/2973/705/2.
2. ISA 2972/301/3.
3. The following is based on ISA 44/16; ISA 2420/2; ISA C/2973/705/2; FO 371/104411, EA 15324/1; ISA 2940/7011; ISA 44/17; ISA C/2918/78/B; ISA 79/3/K; ISA 2420/1; FO 371/104411, E 1121/12, EA 15324/5A; ISA 44/16; ISA 2420/4; SDR 884A.2553/3-1053; ISA 44/16/1; and SDR 884A.2553/4-2154.
4. FO 371/104411.
5. SDR 884A.2553/3-1053.
6. ISA 44/16/1.
7. The following is based on FO 371/104411, AE/15324/5; SDR 886D.2553/6-2153; ISA 44/16/1; ISA 2970/7015/2; SDR 884A.3932/3-2453; ISA 2420/4; ISA 44/19; ISA 2599/8; ISA 2958/1; ISA 2966/65/B; ISA 2970/7015/2; ISA 2940/7011; ISA 2970/7015/2; FO 371/104207; FRUS, 1952–4, IX, pp. 704–8; ISA 2965/63/C; ISA 2972/301/3; FO 371/111125, VR 1531/9; and ISA 45/4.
8. ISA 2970/7015/2, on which the following is based.
9. FO 371/104207.
10. FO 371/104411, on which the following is based.
11. The following is based on FO 371/104411, EA 15324/13; and FO 371/104207.
12. The following is based on FO 371/104411, EA 15324/16; ISA 1947/13; FO 371/104207; FO 371/104411, EA 15324/17; ISA 2929/3015/4; ISA 39/12; FO 371/111125, VR 1531/17; ISA 2319/5; FO 371/104207; and ISA 2420/2.
13. ISA 2319/5.
14. The following is based on ISA 2599/8; T 236/5171; FO 371/111125; ISA 2930/3017/C; and FO 371/134359.
15. ISA 2930/3017/C.

9 ENTRÉE TO MOSCOW

1. The following is based on POWE 33/1867; POWE 33/1868; SDR 861.2553/8-254; *The Economist*, 6 March 1954; and A. Klinghoffer, *The Soviet Union and International Oil Politics* (New York, 1977), pp. 149–50.
2. The following is based on POWE 33/1867; ISA 2952/7138 I/C; ISA 2599/7; ISA 418/15; ISA 2483/8; SDR 884A./6-452; ISA 2952/7138 I/C; ISA 1784/4; ISA 418/15; ISA 2952/7138 I/C; ISA 43/3; ISA 2952/7167-8/1 and SDR 461.84A31/9-2153.
3. The follwing is based on ISA 2593/7167/2/C; ISA 2952/17168/I/C; ISA 2970/7015/2; ISA 39/1; FO 371/111125; ISA 2936/6010/C; SDR 461.84A31/10-1953; ISA 2593/7167/1/C; ISA 2420/2; ISA 2965/65-1/C; FO 371/111125; FO 371/104822; ISA 2970/7015/2; ISA 39/12; ISA 2952/17138/II; and ISA 45/4.
4. Sharett's diary, entry for 13 October 1953, in *A Personal Diary* (Tel Aviv, 1978), Hebrew, p. 272.
5. FO 371/104822.
6. ISA 2953/7167/2/C. The following is based on ISA 45/7; ISA 2941/7013/1/C; FO 371/111125; ISA 2945/7043/2/C; ISA 2953/7167-II/C; SDR 884A.2553/1-1354; ISA 2970/7015/2; FO 371/104822; ISA 45/4; ISA 2952/7168/I/C; SDR 461.84A31/11-2453; ISA 601/14; ISA 45/3; and ISA 2941/7015/1/C.
7. ISA 45/7.
8. FO 371/111125.
9. The following is based on ISA 547/12; ISA 2941/7015/1; ISA 45/3; FO 371/111125; SDR 884A.3932/2-25; ISA 2420/2; ISA 601/14; ISA 39/12; and SDR 884A.2553/1-1354.
10. The following is based on FO 371/111065; FO 371/111125; ISA 45/4; ISA 2420/2/I; ISA 601/14; ISA 2939/7005/C; ISA 2928/3010/C; SDR 461.84A/9-2153; SDR 461.84A31/1-2453; ISA 2970/7015/2; ISA 2599/8; ISA 2593/7167/2/C; ISA 45/3-4; and ISA 2953/7167-2/C.
11. FO 371/111125.
12. ISA 5297/30706/C. The following is based on ISA 2941/7014/2; ISA 2420/3; FO 371/111125; ISA 45/4; ISA 547/12; ISA 2946/66/A; and ISA 758/9. For Israeli legislation concerning oil affairs, see M. Schlossberg and I. Kuenstler, 'The Israel Petroleum Law and Petroleum Regulations', *Economics News*, 7–8, 1953, pp. 49–52.
13. FO 371/111125.
14. ISA 2928/C/3010. The following is based on ISA 601/14; ISA 2928/3010/2/C; FO 371/115925, VR 1531/8/13; ISA 2930/3017/C; ISA 45/4; ISA 39/12; and *A Personal Diary*, p. 391.
15. ISA 2965/68A.
16. ISA 45/4.
17. The following is based on ISA 39/12; FO 371/111125; ISA 2928/C/3010; ISA 45/3; ISA 2945/7043/2/C; ISA 2945/7043/3/C; ISA 603/13; ISA 2599/8; and ISA 2930/3015/5/C.
18. ISA 2928/C/3010.
19. FO 371/111125.
20. ISA 603/13.
21. ISA 2599/8.

22. The following is based on ISA 45/4; ISA 2928/3010/C; ISA 2929/3015/4; ISA 2930/3017/C; ISA 45/3; ISA 45/4; *A Personal Diary*, p. 419; ISA 2599/8; ISA 46/13; ISA 2936/6010/2/C; ISA 601/9; ISA 2927/3010/C; ISA 2928/3009/C; and ISA 2966/44/A.
23. The following is based on ISA 2967/71; ISA 45/12; ISA 603/13; ISA 45/3; ISA 1784/3; ISA 2941/7015/2/C; ISA 2953/7167/3/C; ISA 2953/7167/2/C; ISA 5730/30901/C; ISA 2930/3017/C; ISA 603/16; ISA 2930/3015/C; ISA 46/13; and ISA 2599/8.
24. ISA 2941/7015/2/C.
25. ISA 603/13.
26. ISA 46/3.
27. The following is based on ISA 2930/3015/5/I/C; ISA 1784/3; FO 371/110173; ISA 2930/3017/C; ISA 45/3; FO 371/111125, VR 1531/27; ISA 2941/7015/2/C; ISA 601/6; ISA 2970/85/B; ISA 2930/3015/9/I; ISA 2936/6010/2/C; and ISA 2930/3015/5/C.
28. ISA 2930/3015/5/1/C.
29. The following is based on ISA 2930/3015/5/C; ISA 2599/8; ISA 1664/4; ISA 2420/3; ISA 547/12; ISA 2970/85/B; ISA 2966/66/A; ISA 601/9; and ISA 45/3.

10 AT THE GATES OF TEHRAN

1. See Bialer, 'The Iranian Connection in Israel's Foreign Policy', loc. cit. On Israeli–Iranian relations, see R. Reppa, *Israel and Iran: Bilateral Relationships and Effects on the Indian Ocean Basin* (New York, 1974); G. Weinbaum, 'Iran and Israel: The Discreet Entente', *Orbis*, XVIII, 4, 1975, pp. 1070–87; R. Ramazani, 'Iran and the Arab–Israeli Conflict', *Middle East Journal*, 32, 1978, pp. 413–28; S. Segev, *The Iranian Triangle* (New York, 1988); and S. Sobhani, *The Pragmatic Entente: Israel–Iran Relations 1948–1988* (New York, 1989).
2. See M. Elm, *Oil Power and Principle: Iran's Oil Nationalization and its Aftermath* (Syracuse, 1992).
3. See J. Bill and Wm. Roger Louis (eds), *Musaddiq, Iranian Nationalism and Oil* (London, 1988).
4. The following is based on ISA 2403/11; ISA 1784/5; ISA 2967/69/B; ISA 1784/3; ISA 2965/63/C; ISA 77/K; ISA 39/12; ISA 418/15; ISA 335/4; ISA 2410/11; and ISA 2420/2.
5. The following is based on ISA 2965/63/A; an interview with Joseph Voet held on 11 May 1987; ISA 2532/20; ISA 2410/11; ISA 2565/24; ISA 45/10; ISA 2420/2; POWE 33/1948; ISA 335/4; ISA 2599/8; ISA 2483/8; and ISA 2970/7015/2/C.
6. ISA 2928/3010/C.
7. The following is based on ISA 2929/3015/4; ISA 44/10/I; FO 371/104411; ISA 2420/2/A; ISA 2965/65/A; ISA 2953/4; *A Personal Diary*, p. 391; and Bialer, *Between East and West*, op. cit., chs. 9–12.
8. ISA 45/3.
9. The following is based on ISA 2970/85/B; ISA 1664/4; ISA 2452/6; ISA 2953/2/C; ISA 2420/3; SDR 884A.2553/5-1456; SDR 461.84A9/7-2656; FRUS

1952–54, IX, pp. 1604–5; ISA 1947/13; ISA 2944/66/A; ISA 601/8; ISA 2945/7043/2/C; and ISA 2953/7167/2/C.

10. The following is based on ISA 2945/7043/2/C; ISA 44/6; ISA 2928/3010/C; ISA 2970/85/B; ISA 46/6; ISA 2930/3010/5/I/C; ISA 2970/85/B; FO 371/114852; ISA 335/4; ISA 2953/7168/C; ISA 2420/2; ISA 39/12; ISA 2941/70157/2; ISA 2599/9; and ISA 1947/13.
11. ISA 2420/2.
12. ISA 601/8.
13. The following is based on ISA 601/8; SDR 888.2553/1-725; FO 371/115925; ISA 2420/2; ISA 2599/9/A; FO 371/114852, EP 1533/4; ISA 2970/85/B; ISA 46/6; ISA 2966/66/A; ISA 2947/7014/C; SDR 484A.889/11-2254; ISA 2928/3010/2; ISA 2970/85/B; ISA 1921/13-15; and ISA 2953/7168/C.
14. ISA 2599/9/A.
15. SDR 888A.2553/1-725.
16. The following is based on ISA 2930/3015/3; ISA 2928/3010/C; ISA 2945/7044/3; ISA 2966/64/A; ISA 2936/6010/2/C; ISA 2599/9; ISA 46/7; ISA 2599/9; ISA 601/6; ISA 2970/85/B; ISA 2797/67/A; ISA 2953/7168/C; ISA 2930/3015/6; ISA 1947/13; and ISA 2928/3010/7168.
17. ISA 2928/3010/C.
18. The following is based on ISA 2599/9/A; ISA 1644/2; ISA 2565/24; ISA 2953/7168/C; ISA 46/6; ISA 2970/85/1; and ISA 1947/3.
19. ISA 418/15, on which the following is based.
20. The following is based on ISA 2941/7013/1/C; ISA 2928/3010/2; ISA 1947/3; ISA 2420/2; ISA 2953/7168/2; ISA 418/15; FO 371/114852, EP 1533/5; ISA 2599/9; FO 371/115925, EP 1533/4, VR/1531/4; ISA 418/15, ISA 2599/9; and ISA 2966/64/A.
21. ISA 418/15.
22. FO 371/114852.
23. Ibid.
24. The following is based on ISA 2953/7168/2; ISA 2970/85/1; ISA 418/15; ISA 2966/64/A; ISA 2953/7168/3; ISA 2942/7015/4; ISA 2420/2; ISA 2930/3017/C; ISA 733/8; and ISA 2565/24.
25. ISA 2953/7168/2.
26. The following is based on ISA 1947/14; FO 371/133021, EP1072/10; ISA 335/4; ISA 2565/24; ISA 2953/7168/3C; ISA 2942/7015/5-6; ISA 2953/7168/3/C; ISA 2565/24; FO 371/114852; ISA 2970/85/1; FO 371/115925; ISA 2420/2/II; and ISA 1947/13.
27. ISA 2953/7168/2.
28. The following is based on FO 371/115925, R 1531/12; ISA 2945/7043/3; ISA 46/7; ISA 2953/2/C; FO 371/114852; ISA 2420/2; ISA 2955/7201/II; FO 371/128199; FO 371/121835; SDR 884A.2553/5-1456; ISA 2415/33; and ISA 2420/3.
29. The following is based on *Davar*, 18 July 1956, Hebrew; ISA 2953/4; SDR 884A.2553/7-2056; SDR 884A.2553/7-2356; SDR 884A.2553/8-856; and M. Zak, *Israel and the Soviet Union – A Forty Years Dialogue* (Tel Aviv, 1988), pp. 272–3, Hebrew.
30. ISA 2953/4.
31. ISA 2928/3010/2.

32. The following is based on ISA 2928/3010/2; ISA 547/12; ISA 2967/72/A; *Maariv*, 30 August 1956, Hebrew; ISA 2507/4; ISA 2420/3; ISA 2934/6010/IV; ISA 2930/3015/6; and ISA 2970/86/B.
33. The following is based on *A Personal Diary*, p. 1165; ISA 5524/3379/C; FO 371/115925, VR 1531/14; ISA 192/13; ISA 2965/68/A; ISA 2966/68/B; ISA 49/4; ISA 2942/7015/6; ISA 2965/68/A; ISA 2599/9; ISA 2954/7171/C; ISA 601/6; ISA 2928/3010/2; ISA 601/5; and ISA 2450/4.
34. ISA 5124/3379/C.
35. FO 371/115925.
36. ISA 2928/3010/2.

11 THE DEPARTURE OF THE OIL COMPANIES

1. The following is based on ISA 610/9; ISA 2941/7013/1; ISA 2930/3017/C; SDR 884A.2553/3-1053; SDR 884A.2553/9-2254; ISA 2947/7013/1; ISA 2599/9/A; ISA 2941/7015/2; ISA 2940/7018; ISA 2930/3015; FRUS, XII, 1955–7, pp. 264–5, 271–2; SDR 884A.2553/7-2257; and SDR 884.2553/1-1356.
2. SDR 884A.2553/3-1053.
3. ISA 2940/7013.
4. FRUS, XII, 1955–7, pp. 264–5.
5. The following is based on SDR 888.2553/11-158; ISA 2941/7014; ISA 2928/3010/2; ISA 2420/2; ISA 2460/4; SDR 884A.2553/2-156; and SDR 884A.2553/1-1356.
6. ISA 1947/14.
7. Ibid.
8. The following is based on ISA 2941/7014/C; SDR 884A.2553/2-158; ISA 2928/3010/2; ISA 2941/7014; *A Personal Diary*, p. 1436; SDR 461.84A9/7-2656; ISA 2420/3; SDR 884A.2553/8-856; FO 371/121815, WR 11338/5; SDR 884A.2553/8-856; ISA 2953/4; and ISA 2452/6.
9. ISA 2953/4.
10. ISA 2453/16.
11. The following is based on ISA 2507/4; ISA 1951/21; ISA 2941/7014/2; ISA 2438/8; ISA 2928/3010/C; FO 371/128201; and ISA 2947/7014/2.
12. ISA 2928/3010/C.
13. ISA 5524/20/C.
14. ISA 2941/7014/2. For Sonneborn's arms purchasing activities in 1945–7 on behalf of the Jewish Agency, see A. Ilan, *The Origin of the Arab–Israeli Arms Race* (Oxford, 1996), pp. 89–92.
15. The following is based on J. Campbell, 'The Soviet Union, the United States and the Twin Crises of Hungary and Suez', in W. Roger Louis and R. Owen (eds), *Suez 1956: The Crisis and its Consequences* (Oxford, 1989), pp. 233–56; G. Golan, 'The Soviet Union and the Suez Crisis', in S. I. Troen and M. Shemesh (eds), *The Suez–Sinai Crisis 1956: Retrospective and Appraisal* (London, 1990), pp. 278–9; Y. Ro'i (ed.), *From Encroachment to Involvement: A Documentary Study of the Soviet Policy in the Middle East 1945–1973* (New York, 1974), pp. 186–91; N. Lorch, 'Ben Gurion and the

Sinai Campaign 1956', in R. Zweig (ed.), *Ben Gurion: Politics and Leadership in Israel* (London, 1991), pp. 305–8; and M. Bar-On, *The Gates of Gaza: Israel's Defense and Foreign Policy 1955–1957* (Tel Aviv, 1992), pp. 320–3, Hebrew.

16. The following is based on ISA 7224/34; ISA 2936/6010/4; ISA 2967/72; SDR 884A.2553/11-1656; and D. Kunz, *The Economic Diplomacy of the Suez Crisis* (Chapel Hill, 1991), pp. 144–5.
17. The following is based on ISA 2940/7011; SDR 884A.2553/1-957; ISA 2934/5020/4; ISA 2955/7201; ISA 325/6; and FO 371/128199, VR 1531/1 (D).
18. The following is based on ISA 2967/72; ISA 2970/86; IDFA 174/62/229 and 68/B; SDR 884A.2553/1-957; ISA 771/14; ISA 5524/3379/C; ISA 2955/7201/II; SDR 461/84A41/5-2851; ISA 548/1; ISA 2953/4; ISA 2953/1; SDR 461.84A41/7-1558; SDR 461.84A41/6-2358; and ISA 334/11.
19. SDR 884A.2553/1-957.
20. ISA 548/1.
21. The following is based on ISA 2936/6010/4; FO 371/127126; FO 371/128199; ISA 2930/3015/6; ISA 2928/76/B; ISA 2955/4201/II; ISA 2968/76/B; ISA 4316/16; ISA 2930/3017/C; FO 371/128201; VR 1533/16, ISA 771/14; and ISA 2940/7011.
22. ISA 2930/3015/6.
23. FO 371/127126.
24. FO 371/128199.
25. FO 371/128201.
26. The following is based on FO 371/128201; PREM 11/2440; FO 371/120828, UE 1171/51; ISA 2940/7011; an interview with Israel Kosloff, 16 October 1996; FO 371/127213, UE 31171/282; ISA 325/9; FO 371/128202; FO 371 128201; ISA 325/9; ISA 771/13; SDR 884A.2553/8-557; and ISA 2936/6010.
27. FO 371/120828.
28. FO 371/127213.
29. FO 371/128202, on which the following is based.
30. The following is based on FO 371/128201; PREM 11/2440; SDR 884A.2553/7-2257; FO 371/128107; ISA 2928/3010; ISA 325/19; ISA 325/9; ISA 2930/3015/6; FO 371/128181, VR 1151/4; ISA 2940/7011; ISA 2930/3017; FO 371/127213, US 1171/282(ER); FO 371/127214; ISA 2452/7; and ISA 2967/73/B.
31. FO 371/128201.
32. FO 371/128107.
33. The following is based on SDR 884A.2553/4-758; FO 371/134359; ISA 772/7; ISA 772/6; and a report by Israel' Government Comptroller, dated August 1968, Government Comptroller's Office Library.

12 THE EILAT CONNECTION

1. The following is based on ISA 2452/7; ISA 2450/2; FRUS, 1955–7, XVI, p. 52; Troen, 'Ben Gurion's Diary: The Suez–Sinai Campaign', in Troen and Shemesh, *The Suez–Sinai Crisis 1956*, op. cit., p. 293; ISA 2931/5011; ISA 421/11; ISA 2921/5011/C; Oren, *The Origins of the Second Arab–Israeli*

War, op. cit., pp. 44–6, 55–6; ISA 2452/6; ISA 2934/5014/1; ISA 2931/5011; and ISA 1948/5.

2. ISA 2931/5011.
3. ISA 2931/5011. The following is based on ISA 192/13; ISA 2934/5014/1; FO 371/121835, VR 1531/6; FO 371/128255, VR 1532/16; ISA 1948/4; FRUS, 1955–7, XVI, p. 172; SDR 888.2553/10-1056; ISA 2928/3010/C; ISA 2450/2; ISA 2450/3; ISA 2931/5011; ISA 2452/6; and I. Asia, *The Crux of Conflict: The Battle for the Negev 1947–1956* (Jerusalem, 1994), Hebrew.
4. FO 371/121835.
5. FRUS, 1955–7, XVI, p. 172.
6. ISA 2928/3010/C.
7. Ibid.
8. ISA 2450/2.
9. The following is based on FO 371/121853, VR 1531/8; ISA 7224/34/A; ISA 2931/5011/C; FRUS, 1955–7, XII, p. 562; IDFA 627/57/3; E. Shaltiel (ed.), *David Ben Gurion: The First Prime Minister* (Jerusalem, 1996), pp. 352, 379, Hebrew; FRUS, 1955–7, XV, p. 1241; ISA 1947/16; FRUS, 1955–7, XVII, p. 126; SDR 884A.2893/4-2357; and ISA 2929/3011/C.
10. FRUS, 1955–7, XII, p. 562.
11. IDFA 627/57/3.
12. BGD, entry for 10 March 1957.
13. Shaltiel, *David Ben Gurion*, p. 353.
14. The following is based on ISA 2936/6010/4; ISA 325/6; ISA 1948/7; ISA 7224/34; ISA 192/13; ISA 2931/5011/2; ISA 2928/3010/C; ISA 192/13; ISA 2967/72; IDFA 627/57/3; ISA 2970/86/1; ISA 2934/5014/1; ISA 2967/12; ISA 1948/2; ISA 2955/7201/II; ISA 2954/2/7168; ISA 335/4; and ISA 1381/5.
15. ISA 192/13.
16. ISA 2955/7201II.
17. ISA 2931/5011/2.
18. The following is based on ISA 2953/7168/4; ISA 932/4; ISA 2930/3017; ISA 733/8; SDR 461.84/A9/7-2656; ISA 2970/86/1; ISA 2928/3010/A; ISA 335/4; ISA 2953/5/C, Z. Dinstein, 'Alexander Milman: A Portrait of a Jewish Oil Man', *In the World of Petroleum*, 13–14, 1966, pp. 18–20, Hebrew; ISA 2942/7015/10; ISA 2955/7201/II; ISA 2931/5011/2; and ISA 2967/70.
19. ISA 932/4.
20. ISA 335/4.
21. The following is based on ISA 601/5; ISA 2928/3010/C; ISA 2934/5020/4; ISA 2942/7015/10; ISA 331/3; ISA 205/2; ISA 2953/7168/4; FO 371/127126; *A Personal Diary*, p. 2114; ISA 2953/5/C; ISA 2954/7168/4; ISA 2955/7201/II; ISA 2941/7014/2; ISA 2929/80/B; ISA 2942/7015/II; ISA 2955/7201/II; and ISA 2953/5/C.
22. ISA 205/2.
23. FO 371/127126.
24. ISA 2955/7201/II.
25. ISA 2941/7014/2.
26. The following is based on ISA 3107/12; ISA 1942/33; ISA 2953/5/C; ISA 2955/7202; ISA 3747/27; ISA 4316/16; SDR 884A.2553/6-1257; ISA 2953/7168/5; ISA 2972/72; ISA 2954/7168/6; FO 371/128107; FO 371/128199; ISA 2954/3; FO 371/128097; FRUS, 1955–7, XII, p. 630; and ISA 1948/9.

27. ISA 2953/7168/5.
28. ISA 2954/2/7168.
29. FO 371/128097.
30. The following is based on ISA 325/9; FO 371/127214; ISA 2940/7011; ISA 2968/74; ISA 601/13; ISA 325/9; ISA 2968/76; SDR 884A.2553/9-1357; FO 371/128201; ISA 771/14; ISA 210/10; ISA 2457/7; ISA 117/K; ISA 733/15; and FO 371/142289, VR 1535/3.
31. FO 371/127214.
32. SDR NND 959371. The following is based on ISA 3435/14; ISA 1952/33; ISA 732/5; ISA 2954/2; S. Segev, *The Iranian Triangle* (Tel Aviv, 1981), pp. 95–101, Hebrew; Sobhani, *The Pragmatic Entente*, op. cit., pp. 78–9; ISA 3435/15; E. Danin, *An Unconditional Zionist* (Jerusalem, 1987), pp. 503–4, Hebrew; ISA 733/15; ISA 2965/61/C; ISA 3435/15; ISA 5524/3381/C; ISA 2943/7015/C; ISA 2930/3015; ISA 2936/6010/5; and Emanuel Racine's letter to the author, 7 January 1997.
33. The following is based on ISA 210/10; FO 371/133247, VE 1171/25; ISA 732/5; ISA 2967/73/A; ISA 2954/2; ISA 3752/11; ISA 3748/8; SDR 884A.2553/7-2759; ISA 446/8; ISA 3435/15; ISA 1952/25; ISA 3433/49; ISA K/150; ISA 771/14; ISA 2950/2/7120; ISA 2970/86/1; ISA 2943/7015; and ISA 2955/7200.
34. ISA 732/5.
35. ISA 3435/15.

EPILOGUE: A LAND OF MILK, HONEY AND NO OIL

1. The following is based on ISA 3748/8; ISA 2965/59; ISA 2914/2; ISA 1952/33; ISA 733/15; ISA 3747/28; ISA 3747/29; ISA 3761/30; ISA 3747/29; ISA 3761/25; Danin, *An Unconditional Zionist*, op. cit., p. 503; ISA 3747/3; and ISA 3585/24.
2. ISA 3747/3.
3. ISA 3585/24.
4. Shwadran, *Middle East Oil*, op. cit., p. 287.
5. *Haaretz*, 24 February 1995, Hebrew.
6. The following is based on *Petroleum Press Service*, May 1971; Shwadran, *Middle East Oil*, p. 291; *Petroleum Economist*, October 1976, May 1979, June 1983, June 1985, July 1988; and private information.

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