Between Coup and Revolution: the British Government and Iran's Last Shah - Oil, Arms and Geopolitics, 1955-1979

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To my grandmothers,
Marina and Alamtaj,
for your sacrifice.

To my grandfathers,
Joaquim and Hassan,
for your endurance.

This has only been possible
because of you.

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ABSTRACT

This thesis examines the evolution and dynamics of British government relations with Shah Mohammad Reza Pahlavi from 1955 to 1979 through the lenses of oil, arms, and geopolitics. British policy was initially driven by a dual imperative: securing Iranian oil to stabilise sterling and countering Soviet influence, particularly arms proliferation. However, as Britain's political and economic standing declined, maintaining influence over the shah grew increasingly complex, especially as he secured increased leverage within an emerging triangular relationship with Her Majesty's Government (HMG), and the Consortium. This study provides an in-depth analysis of the annual Consortium negotiations of the 1960s – a critical yet underexplored aspect of Anglo-Iranian relations – where oil served as the mainstage for evolving diplomatic interactions and shifting power dynamics, reflecting the shah's increasing leverage over British interests. By the mid-to-late 1960s, the shah had gained significant power in oil negotiations through brinkmanship and strategic manoeuvring, leveraging a surge in petrodollars to transition Iran from a military aid recipient to a military credit purchase partner - a shift aligning with the commercialisation of British arms exports. This change in the balance of power, combined with Britain's withdrawal from the Persian Gulf and its prerequisite to safeguard sterling, fostered a convergence of oil and arms interests. This nexus was further reinforced by the shah's victory for OPEC in the 1971 Tehran Agreement and crystallised with the 1973 Oil Crisis, when the shah emerged as 'the emperor of oil.' Drawing on British archives, this study reveals how HMG's weakened economic position and its imperative to retain influence over the shah, led to an oil-arms nexus aimed at recycling petrodollars – culminating in oil-arms barter deals with Iran by August 1976. Focusing on British policy towards the shah, this thesis offers a nuanced perspective on the evolution of Anglo-Iranian relations against a transforming geopolitical backdrop.

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ABBREVIATIONS OF ARCHIVES AND TEXT

DEFE	Ministry of Defence files, The National Archives, London
FO	Foreign Office files (until 1968), The National Archives, London
FCO	Foreign and Commonwealth Office files, The National Archives, London
POWE	Ministry of Fuel and Power files, The National Archives, London
PREM	Prime Minister's Office files, The National Archives, London
TNA	The National Archives, London
WO	War Office files, The National Archives, London

AGIP Mineraria	Azienda Generale Italiana Petroli Mineraria
AIOC	Anglo-Iranian Oil Company
APOC	Anglo-Persian Oil Company
APQ	Aggregate Programmed Quantity Formula
BAC	British Aircraft Corporation
BICC	British-Iran Chamber of Commerce
BP	British Petroleum
CENTO	Central Treaty Organization
DOE	Department of Energy
DSO	Defence Sales Organisation
DTI	Department for Trade and Industry
EEC	European Economic Community
ENI	Ente Nazionale Idrocarburi
GDP	Gross Domestic Product
GNP	Gross National Product
HMG	Her Majesty's Government
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
IMDBI	Industry and Mining Development Bank of Iran
IMF	International Monetary Fund
IMS	International Military Services
IRGC	Islamic Revolutionary Guard Corps
IRI	Islamic Republic of Iran

MCMV	Mine Counter Measure Vehicles
MIC	Military Industrial Complex
MOD	Ministry of Defence
MTS	Millbank Technical Services
NIOC	National Iranian Oil Company
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PBO	Plan and Budget Organisation
SAM	Surface-to-Air Missile
SAVAK	Organization of National Security and Information
TNA	The National Archives
UAE	United Arab Emirates
UK	United Kingdom
UKMTAS	UK Military Training Assistance Scheme
US	United States
USSR	Union of Soviet Socialist Republics
WB	World Bank

CHRONOLOGY OF EVENTS

March 1951	Nationalisation of Anglo-Iranian Oil Company (AIOC)
October 1951	Break in UK-Iran diplomatic relations
October 1951	Churchill's Conservative government elected
August 15 – 19, 1953	MI6 and CIA orchestrate a coup, overthrowing Prime Minister Mossadegh and restoring Mohammad Reza Shah to power
December 1953	Denis Wright arrives in Tehran as chargé d'affaires
January 1954	Diplomatic UK-Iran relations resume - Sir Roger Stevens appointed Ambassador
September 1954	Consortium Oil Agreement signed
February, 1955	Shah visits UK for the first time since coup
April 1955	Prime Minister Churchill resigns, succeeded by Anthony Eden
September 1955	Plan Organisation announces Second Seven-Year Development Plan
October 1955	Iran joins Central Treaty Organisation (CENTO)
March 1956	Fuad Rouhani (NIOC) visits UK
June 1956	Shah visits Moscow
June 1956	Iran enters into negotiations with BP on development of the Continental Shelf
August 1956	BP rejects shah's offers to develop the Continental Shelf
August 1956	Ahmed Maybud (shah's advisor) contacts ENI for potential merger with NIOC on a 75:25 division of profits
October 29 – November 7, 1956	Suez Crisis
January 1957	Macmillan's Conservative government elected
January 1957	Iran secures first $75 million loan from the World Bank
March 1957	Enrico Mattei (AGIP/ENI) travels to Tehran to sign the agreement with NIOC for 75:25 division of profits (the 'Mattei formula")
November 1957	*Majles* passes bill declaring Bahrain a 14th province of Iran
February 1958	Mohammad-Vali Gharani arrested for plotting shah's overthrow
January 1959	Geoffrey Harrison replaces Sir Roger Stevens as UK Ambassador to Iran

January 1959	Shah in secret negotiations for a Non-Aggression Pact with the Soviet Union
January 1959	Denis Wright sent to Tehran to dissuade the shah from signing with the Soviets
February 1959	Hassan Ebtehaj (Plan Organisation) dismissed by shah
July – August 1960	Rigged parliamentary elections held in Iran
September 1960	OPEC formed
March 1962	Shah threatens to step down as Commander-in-Chief of the Iranian Armed Forces
June 1962	OPEC member countries begin negotiations on tax royalties with the oil companies
September 1962	Plan Organisation announces Third Development Plan
October 1962	Enrico Mattei (AGIP/ENI) killed in mysterious plane crash
January 1963	White Revolution launched
April 1963	Sir Denis Wright replaces Geoffrey Harrison as UK Ambassador to Iran
November 1963	Shah secretly negotiates with BP to undercut OPEC in return for boosting investment in Iran
December 1963	Shah undercuts OPEC negotiations that would have secured an additional 11 cents per barrel
October 1964	Wilson's Labour government elected
March 1965	Shah visits the UK
April 10, 1965	Assassination attempt on the shah at the Marble Palace – initially planned in a Kensington coffee bar
May 11, 1965	Forty-nine Labour MPs write public letter to Iranian Ambassador Zahedi requesting Iranian graduates of British universities are given fair trial
May 21, 1965	Fifty-eight *Majles* deputies write a public letter to the House of Commons in response
July 1965	HMG publishes the Stokes Report commercialising Britain's arms export drive; Defence Sales Organisation (DSO) is founded
November 1965	OPEC formally abandons royalty expensing resolution
November 1965	Iran announces intention to purchase three Destroyers from Britain
December 1965	Student leaders of the Marble Palace have their death sentences commuted to life sentences
April 1966	British Navy advises Imperial Iranian Navy on arms modernisation, recommending key British weapons for purchase
August 1966	Iran purchases from Britain: 4 Corvette Vickers-Vosper Mark V destroyers, six British Hovercraft Mark 7

	destroyers, the Tigercat, 18 launchers and 270 missiles, and a reconditioned destroyer HMS Sluys
October 1966	Shah threatens to withdraw from the 1954 Oil Agreement unless oil production is increased by the Consortium
November 1966	Consortium offers shah 'package deal' including a 12% production increase and a relinquishment of 25% of the Agreement area in Lorestan and Fars
February 1967	Shah purchases $110 million worth of non-sensitive Soviet equipment
June 1967	Six-Day War
September 1967	Tensions escalate as Iran demands higher oil production
November 1967	Minister of State Goronwy Roberts visits Iran
November 18, 1967	Sterling devalued from $2.80 to $2.40 per pound
December 1967	Shah threatens to legislate against the Consortium
January 1968	Prime Minister Wilson announces HMG's intention to withdraw all forces east of Suez
January 1968	Shah demands $5.9 billion in revenue from the Consortium over the next five years, threatening to seize control of its oil exports
February 1968	Consortium rejects the shah's demands for $5.9 billion
February 1968	Seven Trucial Sheikhdoms, Qatar and Bahrain signal plans for a federation or union
March 1968	Plan Organisation announces Fourth Development Plan
March 1968	Shah threatens nationalisation of the oil industry unless his demands are met
April 1968	Consortium agrees to the shah's $5.9 billion revenue target over five years
January 1969	Tensions reignite at the Zurich Dolder Grand Showdown - Consortium informs shah they are $100 million short of the $1 billion revenue target
May 1969	Foreign Office broker a deal with the Consortium to provide $1.1 billion to meet the shah's demands
July 1969	Nixon Doctrine announced
July 1969	BAC secures landmark deal with Iran with sale of Rapier SAMs
March 1970	Shah demands $1.115 billion in oil liftings in an 'avalanche of escalating demands' – threatening nationalisation, a secret pact with the Soviets, or an increase in the posted price

May 1970	UN passes Resolution 278 confirming Bahrain's preference for independence; Iran renounces its claim to Bahrain
May 1970	Consortium meets the shah's demands through increased oil revenue, modified bookkeeping and a $100 million advance
June 1970	Heath's Conservative government elected
November 1970	Shah secures further gains from the Consortium, including an extra 5% tax on oil net income and a 9-cent increase per barrel in the post price of heavy crude
January 1971	Sir Peter Ramsbotham replaces Sir Denis Wright as UK Ambassador to Iran
February 1971	Shah secures Tehran Agreement for OPEC
July 1971	Britain secures 800 Chieftain Tank order from Iran
October 1971	Shah celebrates 2,500 years of Persian Monarchy
December 1971	Shah seizes disputed islands of Abu Musa and the Greater and Lesser Tunbs
December 1971	Britain completes physical withdrawal from the Persian Gulf
January 1972	OPEC secures win to link posted price of oil to a basket of currencies, increasing it by 8.5%
June 1972	Bank of England intervenes to stabilise sterling
June 1972	Shah visits the UK
June 1972	Shah signs the Partnership Agreement with the Consortium replacing the 1954 Oil Agreement - secures 40% increase in oil production and £400 million in capital investment
August 1972	*Guardian* publishes 4-part Hirst series articles on Iran
December 1972	Saudi Arabia signs the General Agreement angering the shah
January 1973	UK and Iran sign the Bilateral Agreement for Fixed Oil Pricing effectively bartering oil
March 1973	Plan Organisation announces Fifth Development Plan
May 1973	NIOC signs Heads of Agreement with the Consortium
July 1973	Shah announces Oil Bill transferring the Consortium's control over direct operations to NIOC
October 6 – 25, 1973	Yom Kippur War
October 8, 1973	OPEC meeting in Vienna
October 16, 1973	OPEC unilaterally increases price of oil by $2/barrel

October 17, 1973	Arab states announce oil embargo
December 1973	NIOC holds 2 secret auctions – Iranian crude fetches $17.34
December 1973	Shah announces new oil price of $11.65 at OPEC Tehran Conference
January 1974	Sir Anthony Parsons replaces Sir Peter Ramsbotham as UK Ambassador to Iran
March 1974	Wilson's Labour government elected
June 1974	Shah agrees to provide UK with £1.2 billion loan
August 1974	PBO holds meeting in Ramsar to adjust Fifth Development Plan in light of oil boom
November 1974	Shah orders further 700 Chieftain tanks from UK
March 1975	Shah abolishes multi-party-political system, creating a single party of National Resurgence (*Rastakhiz*)
December 1975	Shah cancels £186M Rapier Deal
April 1976	Callaghan's Labour government elected
August 1976	Rapier Deal re-signed as an oil barter deal, marking beginning of Oil-Arms Nexus
December 1976	UK applies for $3.9 billion IMF loan
December 1976	Sheikh Yamani undercuts shah at OPEC Doha Conference
January 1977	Iran's oil revenue plummets by 30%
December 1977	OPEC Caracas Conference shah agrees to price freeze
August 1978	Cinema Rex fire
November 1978	British Embassy in Tehran set on fire by protestors
January 8, 1979	Ambassador Parsons and shah meet for last audience
January 16, 1979	Shah leaves Iran
May 1979	UK rejects shah's request for political asylum

CHAPTER 1

Between Coup and Revolution - the British Government and Iran's Last Shah: Oil, Arms and Geopolitics, 1955 – 1979

1.1 Introduction

'We're broke.'[1] The words slipped from Shah Mohammad Reza Pahlavi's lips; each syllable heavy with disbelief. His confidante, Asadollah Alam, stood before the King of Kings in the Sa'dabad Palace, letting the words sink in, as he gazed upon the Shadow of God, now 'sunk in gloom.'[2] It was January 2, 1977, and Iran's financial lifeline – its oil sales – had all but collapsed. The shah's reign, once bolstered by petrodollars, was now at the mercy of Saudi and American machinations. The fiscal collapse of his dynasty was quietly underway. Alam later grappled with the gravity of the situation as he penned a letter to the shah: "We have squandered every cent we had, only to find ourselves checkmated by a single move from Saudi Arabia."[3] The move, a flood of Saudi oil and a two-tiered pricing strategy, devastated Iran's economy. The shah tore up the letter. His predicament echoed the fate of Mohammed Mossadegh in 1953, both leaders ensnared by the complexities of oil politics, but this time Her Majesty's Government (HMG) had no intention of intervening. As British Ambassador Anthony Parsons later admitted, "We gambled on the shah, and for many years, our gamble paid off."[4] That gamble, however, was no longer worth the risk.

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[1] Asadollah Alam, *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969-1977* (New York: St. Martin's Press, 1991), 537.
[2] Ibid.
[3] Ibid.
[4] Anthony Parsons, *The Pride and the Fall: Iran 1974 – 1979* (London: Jonathan Cape, 1984), 133.

For many decades, this gamble appeared justified. As Britain renegotiated its diminished imperial position in the aftermath of the Second World War, Iranian oil became central to its economic recovery and the stability of sterling. Control over this resource became vital to British foreign policy in the Persian Gulf, intertwining with shifting geopolitical interests, domestic economic pressures and escalating arms sales, between 1955 and 1979. This all unfolded against an historical backdrop of deep-rooted Iranian suspicion and mistrust of the British, tempered only by a grudging familiarity.[5] This duality – fear and recognition - shaped the shah's regime's perception of British influence in Iran. The British were, and still are, imagined god-like in power.[6] To the shah, this divinity was omnipotent and omnipresent. He once confided to Parsons that beneath Ayatollah Khomeini's beard - the man who would later replace him - was the manufacturing logo, 'MADE IN ENGLAND'.[7] These twenty-five years capture the power play between British dominance and Iranian resistance, as they both navigated each other's political, economic and geopolitical interests to establish new rules of engagement. The lines between politics, arms deals, oil and intelligence blurred dangerously, forming an intricate web of forces that would ultimately checkmate Iran's last monarch, reshaping the nation's trajectory for generations.

1.2 Defining the Research Scope: Research Questions & Hypothesis

This thesis examines the relationship between Her Majesty's Government (HMG) and Shah Mohammad Reza Pahlavi of Iran through the lenses of oil, arms and geopolitics, from January

[5] For a discussion on this historical background see the 'introduction' in Ali Ansari, *The Politics of Nationalism in Modern Iran* (Cambridge: Cambridge University Press, 2012).
[6] See the oral evidence presented to the House of Commons Foreign Affairs Committee in its 2014 report, *UK policy towards Iran*, illustrates this point. In response to Q47, which asked, 'How did the Iranians see us? Were we a big player in Tehran, or just one of the boys?', Ali Ansari responded, 'Iran is the only country where the British Empire still exists. They are actually quite convinced that you run the show.' See also the follow-up exchange in Q48. Oral Evidence: *UK Policy towards Iran*, HC 904, January 21, 2014.
[7] Parsons, *The Pride and the Fall*, x.

1, 1955, when diplomatic relations resumed after the coup, to January 16, 1979, when the shah's departure marked the fall of the Pahlavi dynasty. This thesis contends that fully understanding this period requires analysing the power dynamic shaped by oil politics, shifting geopolitical pressures, and, by the 1960s, the rise of arms sales. British policy extended beyond merely installing the shah in 1953 and preserving him as an ally until 1979. Rather, Britain's imperative to control the flow of oil and the flow of arms conflicted with the shah's aspirations for sovereignty, self-reliance, and economic independence, resulting in relations being in a constant state of flux. There were two parallel trajectories in the 1950s: first, HMG's interest to control Iranian oil revenue in order to underwrite sterling, and second, preventing the proliferation of Soviet arms to Iran during the Cold War that could result in Iran's entering the Soviet orbit. By the 1960s, these two pathways evolved and began to intertwine, and as British control over the shah weakened, HMG's need to maintain influence over these progressions remained paramount. The convergence of these two trajectories in the 1970s formed the foundation of HMG's reimagined strategic approach, centred on the recycling of petrodollars through arms sales, creating a precarious nexus of oil, arms and geopolitics.

This thesis will answer the following question: how and why did British policy towards the shah shift so profoundly between 1955 to 1979? To what extent did this transformation reflect the interplay and evolution of oil politics, arms sales, and regional geopolitics in shaping Anglo-Iranian relations? Additionally, this thesis will examine the sub-questions that emerge from this central research question:

- How did HMG's experience of the shah, particularly his dealings with the Soviet Union, between 1955 and 1960, lay the foundation for relations over the subsequent two

decades? To what extent did the 1956 Suez Crisis serve as a turning point in these relations?

- What were the repercussions of Britain's withdrawal from the Persian Gulf between 1968 and 1971 on the shah's arms procurement and his relations with the British government?
- How did Iran's increased purchasing power from the early 1970s oil price surge, combined with the shah's pivotal role in the 1973 Oil Crisis and Britain's domestic economic struggles, shape the trajectory of Anglo-Iranian relations?
- To what extent were oil trade and arms sales interconnected within Anglo-Iranian relations during the 1960s and 70s?
- How did the shah's persistent efforts to secure higher oil revenues – first by pressuring the Consortium in the 1960s, and later by manoeuvring within OPEC to raise oil prices in the 1970s – contribute to the formation of a nexus between Iranian oil and British arms sales?

The central hypothesis of this research asserts that, between 1955 and 1979, British government policy towards Iran was primarily driven by its determination to control the flow of oil and exert political and economic influence over the shah. British officials increasingly interpreted the Shah's policies as reflecting a determination to assert Iran's sovereignty and independence through accelerated modernisation and military expansion. This power struggle between these sometimes competing aims was repeatedly reshaped by major regional turning points such as the 1956 Suez Crisis, Britain's withdrawal from the Gulf (1968 – 1971), and the 1973 Oil Crisis.

This thesis argues that oil relations became the battlefield where both sides fought for leverage, each manoeuvring to shape the trajectory of their political and economic dealings. The geopolitical background of the Cold War also meant that alongside this trajectory was a parallel one, focused on ensuring Iran remained within the Western camp. These two trajectories evolved within this political milieu. This thesis identifies 1965 as a turning point, when the balance of power, long tilted in Britain's favour, began to edge towards the shah, and as such, these trajectories began to intertwine. This shift occurred when Iran transitioned from being a low-priority military aid recipient to a military credit purchase partner. The analysis argues that maintaining political and economic control over the shah was crucial for managing the flow of oil revenues, resulting in the convergence of the two trajectories. As HMG's influence over the shah waned, they sought to reclaim this position through the recycling of petrodollars via British arms sales.

Oil was a decisive force shaping the dynamic of power in Anglo-Iranian relations. From 1955 to 1979, as Britain grappled with the collapse of its empire, the profits from Iranian oil propped up the British economy and sustained the sterling area as a vital trading and reserve currency. Both Labour and Conservative governments shared the conviction that a strong pound was the lifeblood of Britain's influence in the world. Iranian oil kept Britain relevant. By the late 1960s, this thesis argues, the shah had mastered the art of brinkmanship, leveraging to his advantage the oil negotiations with the Consortium. He emerged as a shrewd political player, wielding realpolitik with precision. As a result, HMG's influence over the shah loosened. This shift became undeniable by 1971, when the shah secured the Tehran Agreement, a victory later sealed by the rush of oil revenue from the 1973 Tehran OPEC Conference. With Britain's economic order threatened, this thesis contends that HMG crafted a strategic remedy: channelling the shah's petrodollars through a surge of arms sales.

Determined to sustain its influence after the retreat of empire, British arms sales to the shah skyrocketed in the 1970s. By 1978, contracts worth £1.8 billion had been signed, constituting over 30% of the UK's total defence sales, with an anticipated £2 billion more on the horizon.[8] This thesis argues that by the mid-1970s, oil revenues and arms sales had become increasingly intertwined, forming what is here termed the 'oil-arms nexus.' Rather than a wholly new phenomenon, this study demonstrates how existing connections between oil and arms crystallised into an explicit framework through which HMG sought to maintain leverage with the shah at a time when its direct influence over Iranian oil policy had diminished after the 1971 Tehran Agreement and further receded in the wake of the 1973 Oil Crisis. The nexus became visible in oil – arms barter arrangements and in the recycling of Iranian petrodollars through British arms contracts. These not only supported the British economy but also created new channels of dependence through technical assistance, operations and maintenance. In this respect, the oil – arms nexus prolonged aspects of Britain's relationship with Iran that might otherwise have waned more rapidly after the withdrawal from the Persian Gulf.

This thesis argues that with the emergence of the oil-arms nexus, HMG's policy toward the shah shifted to one of deference, driven by the need to safeguard its commercial relations. Foreign Secretary David Owens described British policy as one of 'constant flattery' and 'support for the shah, warts and all, while occasionally offering treatment for the warts.'[9] But treatment was not nearly as profitable as unwavering support, and dermatology was not HMG's specialty. As the balance of power shifted in shah's favour, the British government scrambled

[8] FCO 8/3195, Ministerial Committee on Economic Strategy: Iran—Economic and Political Implications, Note by the Secretaries (EY (78) 45), 10 November 1978.
[9] David Owen, *Time to Declare* (Harlow: Penguin Books Ltd, 1992), 394-395.

to regain leverage by recycling petrodollars into British arms sales. By the mid-1970s, they even ventured into high-risk oil-for-arms barter deals.

As a sub-hypothesis, this research argues that Anglo-Iranian relations were characterised by persistent mistrust and suspicion, which continued to shape interactions even during periods of apparent cooperation.[10] It contends that political relations never fully recovered from the shah's 1959 flirtation with the Soviet Union over a potential Non-Aggression Pact, amid heightened Cold War tensions. British officials frequently described this episode as their first encounter with what they perceived as the shah's use of brinkmanship, a tactic they believed resurfaced repeatedly through the 1960s and 1970s. Moreover, the pervasive Iranian belief in the 'hidden hand' of Britain - attributing to HMG a level of influence they were 'never able to live up to' - fuelled the deepening mistrust between the two nations.[11] The 1973 Oil Crisis marked a critical turning point: the shah's insistence on higher oil prices, despite British fears of severe economic consequences, reinforced the view of him in Whitehall as a difficult and unreliable ally. By the late 1970s, these accumulated tensions contributed to a climate in which British policymakers increasingly doubted the shah's durability and speculated about potential alternatives.

The dynamics of Anglo-Iranian relations cannot be understood apart from the broader Cold War geopolitical environment. From 1946, when Soviet forces refused to withdraw from northern Iran in what is often described as the first Cold War crisis, Iran's geostrategic salience was firmly established. For Washington, the country assumed dual significance: as a buffer against Soviet expansion southwards and as a gateway to the Persian Gulf, whose oil was

[10] David Owen goes as far as to say the Iranians ascribed 'almost magical powers to the British Secret Service,' despite the CIA and Mossad's superior influence and power (Ibid.)
[11] Owen, *Time to Declare,* 390.

critical to the reconstruction of Western Europe and Japan.[12] Concurrently, as Tony Smith has argued, the Cold War cannot be understood solely through the prism of superpower decisions. Pericentric approaches emphasise how sites such as Tehran, Havana, and Pyongyang were not passive stages but arenas in which local actors and regional dynamics pulled the superpowers into deeper engagement.[13] Alvandi extends this line of argument, contending that third world actors such as Mohammad Reza Shah were not passive bystanders in the Cold War, but active agents of history who at times 'abetted and manipulated' the superpowers in pursuit of their own political and strategic objectives.[14]

During the 1950s and 1960s, Soviet policy toward Iran oscillated between confrontation and cautious engagement, but Western assessments consistently framed Iran through the prism of Soviet influence. The strength of the Tudeh Party and its capacity to mobilise labour unrest heightened fears in London and Washington that Iranian nationalism could align with communism. Simultaneously, the Kremlin's cultivation of Arab nationalist regimes in Egypt and Iraq elevated the shah's perceived utility as a pro-Western bulwark. Against this backdrop, British and American commitments to Iran – whether in oil, arms, or political support – were rationalised as instruments to contain Soviet penetration of the Gulf and to secure Western strategic and economic interests.[15]

Washington's approach from the mid-1950s reflected a tension between global containment strategies and the shah's ambitions for military and regional pre-eminence. By 1968, an

[12] Stephen McGlinchey, "Building A Client State: American Arms Policies Towards Iran, 1950–1963," Central European Journal of International & Security Studies, 6, no. 2 (2012): 15-40.
[13] See Tony Smith, "New Bottles for New Wine: A Pericentric Framework for the Study of the Cold War," Diplomatic History 24, no. 4 (2000): 567–591.
[14] Roham Alvandi, *Nixon, Kissinger, and the Shah: The United States and Iran in the Cold War* (Oxford: Oxford University Press, 2014), 3.
[15] McGlinchey, "Building A Client State," 15.

advanced arms relationship had developed, shifting from aid to credit sales as Iran's economy matured; Iran became the US's largest arms customer, purchasing approximately $150 million annually.[16] In 1972, during Richard Nixon and Henry Kissinger's visit to Tehran, the administration extended what became in effect a blank cheque for arms purchases. Thereafter, Iran embarked on a high-technology, multi-billion-dollar annual procurement programme that continued until 1978. For Washington, this arrangement delivered the strategic advantage of a militarily strong, pro-Western state in the Persian Gulf at the moment of Britain's withdrawal 'east of Suez,' while confirming the US as Iran's principal arms supplier.

At the same time, oil remained the indispensable lever of power. The 1954 Consortium Oil Agreement marked a significant reconfiguration of control over Iranian oil. Whereas the Anglo-Iranian Oil Company had previously exercised near-exclusive dominance, Britain now operated within a multinational framework in which US majors collectively held 40%, whilst British firms retained 54%. This reconfiguration signalled a decisive shift: Britain retained influence but no longer enjoyed primacy, reflecting the wider shift in the international oil order, as the US supplanted Britain as the leading power in the global petroleum industry – a development emblematic of the emerging 'American century.' The subsequent rise of OPEC in 1960, in which Iran played an ambivalent but pivotal role, further illustrated how Cold War geopolitics and petro-nationalism intertwined. The shah's shifting stance – from caution to assertiveness in negotiations with the Consortium – was underpinned by his awareness that oil income financed not only Iran's ambitious domestic development but also its vast arms purchases from the US, reinforcing his indispensability to Western strategy in the Cold War.[17]

[16] Stephen McGlinchey, *US Arms Policies Towards the Shah's Iran* (Abingdon: Routledge, 2014), 3.
[17] Gregory *Brew, Petroleum and Progress in Iran* (Cambridge: Cambridge University Press, 2022), 182-184, and Stephen McGlinchey, "Lyndon B. Johnson and Arms Credit Sales to Iran, 1964-1968," *Middle East Journal* 67, no. 2 (Spring 2013): 229-47.

The resulting oil-arms nexus defined Anglo-Iranian relations. Britain and the US both benefited from Iranian oil revenues, yet it was Washington that emerged as Tehran's indispensable military patron. By the 1970s, Iran had become the largest single purchaser of American arms exports worldwide, with procurement on a scale justified by the continual reference to the Soviet threat. HMG's dealings with Iran and the Consortium thus unfolded in the shadow of Tehran's strategic alignment with Washington and the wider oscillations of the Cold War, a context that both sustained and constrained Britain's dealings with Tehran.

In short, Anglo-Iranian relations in this period cannot be disentangled from the global Cold War. Britain's declining imperial position, America's assumption of strategic primacy, and the shah's cultivation of oil and arms as twin pillars of his authority all evolved in the shadow of US-Soviet rivalry. Iran thus occupied a liminal position: at once dependent on external powers, intent on asserting regional primacy, and situated at the frontline of Cold War rivalry. Its trajectory was determined not solely by domestic imperatives, but equally by the structural pressures of superpower competition.

1.3 Research Significance: Bridging the Gaps in the Field

Analysis of British policy towards the shah often centres on specific geopolitical events, such as the Suez Crisis or Britain's withdrawal from the Gulf, or on pivotal moments like the 1953 coup d'etat or the 1979 Iranian Revolution. This study does not aim to re-examine these; they are well-researched and well-documented.[18] A gap in the existing scholarship, however, is a

[18] For detailed accounts of the 1953 coup see: Ervand Abrahamian, *The Coup – 1953, the CIA, and the Roots of Modern US-Iranian Relations* (New York: The New Press, 2013); Homa Katouzian, *Musaddiq and the Struggle for Power in Iran* (London: IB Tauris, 2009)*;* Mark Gasiorowski and Malcolm Byrne, *Mohammad Mosaddeq and the 1953 Coup in Iran* (New York: Syracuse University Press, 2004); Ali Ansari - *Confronting Iran: The Failure of American Foreign Policy and the Roots of Mistrust* (London: Hurst & Company, 2006); Stephen Kinzer, *All the Shah's Men – An American Coup and the Roots of Middle East Terror* (Wisconsin: Trade Paper Press, 2008); Abbas Milani, *The Shah* (New York: St Martin's Griffin, 2012); Christopher de Bellaigue, *Patriot of Persia:*

comprehensive analysis of the evolution of Anglo-Iranian relations during the intervening years. This is particularly relevant to the 1960s, a period marked by subtle yet significant developments, where relationships were shaped, and national interests crystallised, especially in the field of oil relations. While previous scholarship has noted connections between oil revenues and arms exports in Anglo-Iranian relations – particularly during the oil boom of the 1970s – this has largely been treated as a contextual factor within broader studies of arms trade policy, petrodollar recycling, or the shah's military build-up.[19] What distinguishes this thesis is that it does not merely acknowledge such linkages, but places the oil-arms relationship at the centre of the analysis across the longer period from 1955 to 1979. By grounding the argument in extensive archival evidence, with particular attention to the Consortium negotiations of the 1960s, this study demonstrates how the convergence of oil and arms interests evolved into a defining feature of British policy towards Iran, rather than an incidental or episodic development.

This thesis builds on the work of key contributors to the field, including Anthony Sampson, Daniel Yergin, Steven Galpern, Andrew Scott Cooper, and Edward Posnett.[20] These authors

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Muhammad Mossadegh and a Very British Coup (London: Bodley Head, 2012). For detailed accounts on the 1979 revolution see: Abbas Milani, *The Persian Sphinx: Amir Abbas Hoveyda and the Riddle of the Iranian Revolution* (Washington D.C.: Mage Publishers, 2000); Roy Mottahedeh, *The Mantle of the Prophet: Religion and Politics in Iran* (London: Oneworld Publications, 2008); Ansari, *Confronting* Iran; Nikki Keddie and Richard Yann, *Modern Iran: Roots and Results of Revolution* (Connecticut: Yale University Press, 2006), and Michael Axworthy, *Revolutionary Iran: A History of the Islamic Republic* (Oxford: Oxford University Press, 2016).

[19] Anthony Sampson, *The Arms Bazaar: From Lebanon to Lockheed* (New York: Viking Press, 1977) was among the first to argue for the convergence of oil and arms as a means for the UK and the US to recycle petrodollars. Andrew Scott Cooper later expanded on this argument from the US perspective in *The Oil Kings: How the US, Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* (New York: Simon & Schuster, 2012). A narrative can be traced, and patterns analysed, within Anglo-Iranian relations through the convergence of oil and arms. In "Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War," (*Historical Social Research* 39, no. 4 (150) (2014): 186–208), David S. Painter notes that that the 1973-74 oil shock enabled Iran and Saudia Arabia to finance massive arms purchases, situating arms exports as a central mechanism of petrodollar recycling. See section 1.5 Literature Review for further discussion.

[20] Anthony Sampson, *The Seven Sisters: The Great Oil Companies & the World They Shaped* (New York: Viking Press, 1975); Sampson, *The Arms Bazaar,* Daniel Yergin, *The Prize - the Epic Quest for Oil, Money and Power* (New York: Free Press, 2008); Steven Galpern, *Money, Oil and Empire in the Middle East: Sterling and Post-war Imperialism, 1944-1971* (Cambridge: Cambridge University Press, 2013); Andrew Scott Cooper, *The Oil Kings: How the US, Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* (New York:

have provided significant insight into varying aspects of Anglo-Iranian relations. Cooper in this respect is an outlier, given his use of the Brent Scowcroft files and his focus on the US-Iranian relationship. His findings underscore additional variables that must be considered when analysing the Anglo-Iranian relationship.[21] In many respects, this thesis integrates these broader insights while sharpening their relevance to a British perspective over the period 1955-1979.

The specific contribution of this research is threefold. First, it offers a sustained examination of Anglo-Iranian relations that places the interconnection between oil and arms at the analytical centre and traces its evolution across nearly a quarter-century, rather than treating it as a short-lived phenomenon of the 1970s. Second, it extends and reframes existing arguments about Britain's post-imperial economic constraints—particularly those highlighted by Galpern—by demonstrating how oil and arms became structurally intertwined within British policymaking well before the oil boom. Third, drawing on declassified British archival material, it reveals how officials perceived and responded to the shah's tactics of pressure and perceived brinkmanship, offering fresh insight into the shifting power dynamic and the degree of tension that characterised day-to-day diplomatic interactions.

The contribution of this research lies in its exploration of the shifting power dynamic between the British government and the shah, focusing not only on the key figures driving policy and shaping narratives, but also on decisive factors such as oil and arms within the domestic contexts of both states. While Anglo-Iranian relations are often analysed through the lens of

Simon & Schuster, 2012); Edward Posnett, "Treating His Imperial Majesty's Warts: British Policy towards Iran 1977-79," *Iranian Studies* 45, no. 1 (2012): 119 – 137. See section 1.6 Literature Review for an in-depth analysis of these works

[21] This would include the role of OPEC, the manipulation of oil prices, Saudi Arabia and also the American – Saudi relationship, with the key political actors that drove this relationship, namely William Simons and Sheikh Yamani. See the literature review and Chapter 6 for further discussion.

Iran's internal affairs, Steven Galpern has shown the importance of sterling and oil in shaping British policy in the Middle East after the collapse of empire.[22] Building on Galpern's work, which ends with the 1967 devaluation of the pound, and expanding on Anthony Sampson's insights, this thesis examines the centrality of the interconnection between Iranian oil and British arms sales to Anglo-Iranian relations across the longer period from 1955 to 1979. Drawing on newly declassified British archival material, it demonstrates how officials frequently perceived the shah's tactics as involving brinkmanship and threats, revealing a more complex and tension-filled relationship than has been fully acknowledged in existing research. By foregrounding the evolving convergence of oil and arms in British policymaking and situating this within the wider context of Britain's economic decline and geopolitical retrenchment, this thesis offers a fresh perspective on this critical period in Anglo-Iranian relations, while remaining attentive to the limitations of a study based primarily on British sources.

Lastly, Anglo-Iranian relations remain fraught, shaped by a profound historical misunderstanding of the other. This research is significant because in these relations, the past is ever-present, refusing to remain confined to history and constantly shaping the current discourse. Historical consciousness is recycled in the present, with present-day narratives imposed onto the past, to make sense of it and give it meaning.[23] This thesis aims to serve as a modest contribution toward advancing a more comprehensive understanding of Anglo-Iranian relations.

[22] See Galpern, *Money, Oil and Empire in the Middle East,* on the importance of invisible earnings that British Petroleum (former AIOC) and Royal Dutch Shell, representing 54% of the Consortium, earned for the UK. No two firms gave more to Britain's balance of payments in the post-war era than these two firms.
[23] Amos Funkenstein, "Collective Memory and Historical Consciousness," History and Memory 1, no. 1 (1989): 5-26.

1.4 Source Analysis

This research distinguishes itself in both its sources and scope. It leverages a wealth of untapped primary sources, including Foreign Office memos, communications with the British Embassy in Tehran, government reports and briefings, inter-departmental correspondence, speeches, newspaper articles, memoirs, press briefings, and financial reports. The majority of these sources are located at the UK National Archives in Kew, London, and include documents from: the Foreign & Commonwealth Office (FCO), the Department of Defence (DEFE), the Prime Minister's Office (PREM) and the War Office (WO).[24] Additionally, this thesis benefits from exclusive access to the hitherto unpublished diaries and correspondence of former British Ambassador to Iran, Sir Denis Wright, held at the Bodleian Libraries, Oxford. Opened only in September 2023, this archive comprises diaries, unpublished memoirs, manuscripts, research papers, letters, lectures and his correspondence deposited by Wright in 2002.[25]

Memoirs of key figures in Anglo-Iranian relations have also proven invaluable, corroborating certain ideas while offering new insights. These include Asadollah Alam's *The Shah and I*, Mohammad Reza Shah's hurried autobiography *Answer to History,* Anthony Parson's *The Pride and Fall*, and David Owen's *A Time to Declare*. These memoirs, rich with personal and intimate recollections, reveal not only biases but also the divergence of memory – most notably, the contrasting accounts of certain events between Asadollah Alam and Sir Denis Wright. These divergences not only humanise the historical narrative but also offer multiple perspectives on key events. However, such divergences underscore both the unreliability of

[24] The Foreign and Commonwealth Office (FCO) is referred to as the Foreign Office (FO) in the years prior to 1968.
[25] These papers are different to the material held by the Middle East Centre Archive at St Antony's College, Oxford.

memoirs as objective sources and their usefulness in revealing how individuals sought to frame their role in events.

This thesis, structured as an archival study in a chronological format, both builds on and diverges from previous research by analysing British policy toward Iran through the intersecting lenses of oil politics, arms trade, and the shifting geopolitical environment of the Persian Gulf. Its most original contribution lies in the sustained analysis of the 1960s oil negotiations between the shah, Her Majesty's Government, and the Consortium – a decade which, despite the extensive use of British archives by previous scholarship, has not yet been subjected to systematic examination. Where previous scholarship has drawn on these archives primarily to narrate events or to emphasise oil or arms in isolation, this thesis departs methodologically by interrogating them through the combined lens of the oil-arms nexus, thereby offering a different reading of material that has otherwise been extensively used. In doing so, it highlights the dimensions of Anglo-Iranian relations in the 1960s that have been underexplored, particularly in the context of the protracted negotiations between the shah, HMG, and the Consortium.

This thesis offers mainly a British perspective, analysing HMG's relations with the shah explicitly through a British lens. Although the initial intention was to incorporate Persian sources, the fraught political situation, the sensitivity of the thesis topic, and the author's dual nationality meant that travelling to Iran was strongly discouraged. As a result, the analysis relies on accessible primary sources in Britain, and the scope of study is correspondingly limited. This thesis does not seek to analyse Iranian foreign policy or to speculate on the shah's motives. Rather, it treats his role as mediated through British official sources, thereby focusing on British perceptions of the shah. It is therefore not a study of Iranian foreign policy, but of

how British officials understood, represented and responded to the shah, with well-established secondary literature providing the necessary Iranian context. In this respect, what may have appeared initially as a limitation – the reliance on British sources – becomes a strength, insofar as it enables a systematic analysis of British perceptions and thus sheds light on how the relationship was conceptualised and managed in London. At the same time, this reliance on British material demands caution: these archives inevitably reflect the assumptions, prejudices, and orientalist frameworks of the officials who produced them. This thesis reframes Anglo-Iranian relations, by examining how successive British governments perceived and represented the Shah at different stages in their dealings with him. It highlights how British officials' attitude toward the shah shifted over time – ranging from characterisations that minimised his authority to assessments that exaggerated his leverage – and argues that these perceptions themselves shaped the course of the relationship. In doing so, it presents a distinctive vantage point from which to approach Anglo-Iranian relations, revealing not only the public aspects of HMG's policy but also its private assumptions, calculations, and anxieties.

1.5 Literature Review: Navigating Existing Scholarship

The British government's relationship with the shah from 1955 to 1979 was defined by a complex interplay of economic imperatives, political manoeuvring and shifting geopolitical interests. This period, wedged between the 1953 coup and the 1979 revolution, often remains overshadowed by those seismic events. When it is examined, the focus tends to fall on US - Iranian relations, which is understandable given the US' rise as the dominant global power in the twentieth century, while Britain's influence waned. Yet, Anglo-Iranian relations during these critical decades was no less significant. Britain was not just a passive observer; it maintained a tangible presence in the Persian Gulf until 1971, acting as a key intermediary between the shah and the oil Consortium. Crucially, the shah believed Britain wielded more

power than it actually did – a misperception that underpinned much of the Anglo-Iranian dynamic.

This review primarily focuses on scholarship that directly informs this thesis' exploration of the intertwined roles of oil, arms trade and geopolitical strategy in shaping Anglo-Iranian relations. It does so by tracing several overlapping strands of scholarship: perceptions of Britain and its legacy; the shah's domestic dilemmas and efforts to secure legitimacy; oil and Iran's domestic political economy and social sphere; oil and Cold War geopolitics; oil and British imperialism; and, finally, oil and arms sales. As such, there is a greater emphasis on trade books. Nonetheless, the rich tapestry of scholarly literature on Anglo-Iranian relations offers a vast and expansive terrain upon which this research builds. The first stand of the literature concerns Iranian perceptions of Britain and its imperial legacy. The Iranian perception of Britain as the 'other' throughout the nineteenth and twentieth centuries has been the subject of extensive scholarly exploration. Abbas Amanat, in *Iran: A Modern History*, situates these perceptions within a broader narrative of Iran's encounter with modernity, tracing how successive rulers—from the Qajars to the Pahlavis—sought to reconcile reform and authority within enduring idioms of kingship and legitimacy. His analysis underscores the continuities between Iran's dynastic past and its modern state-building projects, portraying Mohammad Reza Shah's modernising ambitions as part of a longer genealogy of state-centred renewal.[26] Similarly, *Iran Facing Others: Identity Boundaries in a Historical Perspective* extends this concern with identity formation, exploring how encounters with foreign powers—particularly Britain—shaped Iran's self-image through tension, imitation, and resistance.[27]

[26] Abbas Amanat, *Iran: A Modern History* (New Haven, CT: Yale University Press, 2017).
[27] Abbas Amanat and Farzin Vejdani, eds., *Iran Facing Others: Identity Boundaries in a Historical Perspective* (Basingstoke: Palgrave Macmillan, 2012).

In his chapter 'Through the Persian Eye: Anglophilia and Anglophobia in Modern Iranian History,' Amanat considers the British 'hidden hand' against which Iranians, at least partially, formed their nationalist identity, contending that the polarising impact of the Cold War, struggles over economic sovereignty and the events of the oil nationalisation, allowed ordinary Iranians to tangibly experience a shared national destiny.[28] Amanat explores the duality of Anglophobia and Anglophilia that has long characterised the relationship, leading to a nuanced complexity reflected by the proliferation of conspiracy theories in the Iranian collective psyche, allowing the sinister English to play a role unmatched by any other power.

While Amanat persuasively demonstrates how Britain's image as both sinister and seductive became embedded in Iran's collective imagination, his analysis largely situates these perceptions at the level of popular narratives. This thesis builds on Amanat's insight that perceptions of Britain were constitutive of Iranian political identity but moves beyond the realm of discourse and identity formation to examine how such perceptions influenced concrete policy outcomes. By connecting Amanat's cultural framework to the material dynamics of oil and arms diplomacy, this thesis extends his analysis from the symbolic to the structural, showing how deeply ingrained perceptions of power and dependency were reproduced and negotiated within the everyday practices of Anglo-Iranian relations during the Cold War.

A similar view is echoed by H. Lyman Stebbins in 'British Imperialism, Regionalism and Nationalism in Iran, 1880-1919,' who, in examining Britain's imperial role in Iran's southern regions, highlights the complexity of its presence – portrayed both as the 'ultimate other,' and

[28] Abbas Amanat, "Through the Persian Eye: Anglophilia and Anglophobia in Modern Iranian History" in *Iran Facing Others: Identity Boundaries in a Historical Perspective*, ed. Abbas Amanat and Farzin Vejdani (New York: Palgrave Macmillan ,2012).

as an actor whose influence was grounded on local arrangements.[29] Stebbins contends that while Russian imperialism has also played a role in shaping Iranian nationalism, it was Britain, often perceived as *perfidious Albion*, that served as the primary 'other' against which Iranian identity coalesced. Vanessa Martin, in the introduction of *Anglo-Iranian Relations since 1800*, similarly argues that the enduring legacy of Britain's imperial past was characterised by both mistrust and a sense of familiarity and understanding.[30] Although British policy was marked by hectoring and unwarranted interference, British institutions, including its legal system, constitutional governance, and industrial prowess, served as models worthy of emulation. Martin's book, by focusing on the social and cultural exchanges, offers a framework for understanding the broader economic and political interactions.[31] These works demonstrate the contradictory position Britain occupied in Iranian historical consciousness: a power simultaneously mistrusted and resented, yet also regarded with a degree of familiarity and, at times, emulation. While such studies have primarily approached Anglo-Iranian relations through cultural and identity-based frameworks—emphasising the formation of nationalist sentiment and the persistence of Anglophilia and Anglophobia—this thesis extends their insights into the domain of statecraft. It argues that these ambivalent perceptions were not merely discursive legacies but exerted a direct influence on the policy arena. Britain's image as both a sinister manipulator and an institutional model shaped the Shah's bargaining posture in oil and arms negotiations and conditioned Britain's own efforts to preserve leverage despite its declining material capacity.

[29] H. Lyman Stebbins, "British Imperialism, Regionalism and Nationalism in Iran, 1880-1919," in *Iran Facing Others: Identity Boundaries in a Historical Perspective*, ed. Abbas Amanat and Farzin Vejdani (New York: Palgrave Macmillan, 2012).
[30] Vanessa Martins, *Anglo-Iranian Relations since 1800* (Oxfordshire: Routledge, 2005), 1.
[31] See also Stephanie Cronin, "Britain, the Iranian Military and the rise of Reza Khan" in *Anglo-Iranian Relations since 1800,* ed. Vanessa Martin, for insight into British involvement within the Iranian military from 1910-21. Notably, Britain played a paradoxical role by founding the Government Gendarmerie, only to later support the Russian-backed Cossack Division when the former began to exhibit strong nationalist sentiments.

Rudi Matthee, in '*Suspicion, Fear and Admiration: Pre-Nineteenth-Century Iranian Views of the English and the Russians*,' traces how Britain's increased presence in India fuelled Iranian suspicion of British intentions.[32] Earlier relations, marked by pragmatism and admiration, especially for British naval skills and political systems gave way in the nineteenth century to broader narratives of foreign interference in Iran's domestic affairs. Firuz Kazemzadeh's *Russia and Britain in Persia* develops this theme by examining the triangular struggle for political and economic dominance between Britain, Russia and Iran before the First World War, arguing that Anglo-Russian rivalry often undermined both powers and at times inadvertently benefited Iran.[33] Building on Kazemzadeh's examination of the pre-World War I struggle for influence, William Olson's *Anglo-Iranian Relations during WW1* delves into how Britain and Russia continued to assert dominance in Persia under the 1907 Anglo-Russian Agreement. Drawing on British archival sources, Olson argues that British policy shifted after 1917, as Russia's revolutionary upheaval allowed Britain to pursue a more dominant postwar role in Persia. Together, these works highlight how Britain's image in Iran was shaped through a long history of imperial rivalry and intervention, generating patterns of suspicion and dependency that framed subsequent encounters. While this scholarship has largely concentrated on the nineteenth and early twentieth centuries, this thesis diverges by tracing how these legacies played out in a transformed geopolitical environment. From the mid-1950s, the entry of new actors—notably the United States and the international oil companies of the Consortium—altered the balance of power. Britain was no longer Iran's sole or even primary interlocutor, and the Cold War infused oil and arms with heightened strategic significance. This thesis therefore argues that perceptions forged in earlier imperial encounters persisted, but that

[32] Rudi Matthee, "Suspicion, Fear and Admiration: Pre-Nineteenth-Century Iranian Views of the English and the Russians," in *Iran and the Surrounding World Interactions in Culture and Cultural Politics*, ed. Rudi Matthee and Nikki R Keddie (Seattle: University of Washington Press, 2002).
[33] Firuz Kazemzadeh, *Russia and Britain in Persia: Imperial Ambitions in Qajar Iran* (New Haven: Yale University Press, 1968).

they now operated within a reordered landscape of power in which Anglo-Iranian relations were conditioned as much by shifting global dynamics as by inherited suspicions and dependencies.

While Matthee and Kazemzadeh highlight the impacts of foreign interference on Iran's political dynamics, Ali Ansari's *The Politics of Nationalism* pivots toward the intangible elements, particularly the influence of myth and history in shaping Iranian nationalism and the nation. In a nuanced analysis, Ansari argues that Iranian nationalism was not defined *against* Europe, but was instead influenced *by* European intellectual traditions, with key narratives such as progress and nationhood drawing from European thought.[34] While this thesis concurs with Ansari's emphasis on the European dimension of Iranian nationalism, it departs from his primarily intellectual focus by foregrounding how such narratives interacted with the material drivers of oil, arms, and geopolitics. Exploring what he argues was a symbiotic relationship with the Europeans, Ansari demonstrates how Mohammad Reza Shah created and perpetuated his own historical myths of the Pahlavis to legitimise the monarchy.[35] Ansari's analysis is persuasive in illuminating how the shah instrumentalised history; however, my research suggests that this symbolic repertoire was only one facet of the shah's statecraft. His ability to leverage oil revenues and arms purchases was equally central to sustaining his legitimacy and indispensability to the West. The existing body of literature underscores the complexity of Anglo-Iranian relations, particularly the persistent themes of mistrust and suspicion. While I broadly agree with this framing, my thesis argues that these dynamics cannot be understood solely through the lenses of identity or myth. Rather, they must be situated within the concrete

[34] Ali Ansari, T*he Politics of Nationalism in Modern Iran* (Cambridge: Cambridge University Press, 2012).
[35] For an exploration on the tangible consequences of an Iran navigating modernity and the politics of change in see Ali Ansari, *Modern Iran Since 1921: The Pahlavi and After* (Edinburgh: Pearson Education Limited, 2003); Nikki Keddie and Richard Yann, *Modern Iran: Roots and Results of Revolution* (New Haven: Yale University Press, 2003).

negotiations over oil and arms, where perceptions and material interests intersected most forcefully.

A second strand of scholarship focuses on the shah's domestic dilemmas and his efforts to secure legitimacy at home while projecting autonomy abroad. Building on these cultural and legitimacy-focused studies, Roham Alvandi shifts attention to the shah's agency in foreign policy, emphasising how questions of identity and nationalism informed his manoeuvres on the international stage. He has positioned himself at the forefront of a growing scholarship that re-centres the shah not as a passive client of Western powers but as an active diplomatic strategist. In his article on the Bahrain negotiations, Alvandi argues that Mohammad Reza Shah's decision to relinquish Iran's claim was shaped less by external pressures than by the need to preserve his fragile domestic legitimacy, revealing a monarch deeply sensitive to public opinion despite his authoritarian rule.[36] Similarly, in *The Age of Aryamehr*, he and his contributors situate late Pahlavi Iran within wider networks of global entanglement, challenging portrayals of Iran as merely reactive by emphasising the shah's efforts to craft an "independent national policy."[37] This thesis builds on Alvandi's insights into the shah's diplomatic manoeuvring but diverges in two important respects. First, whereas Alvandi foregrounds the shah's agency in foreign policy, my analysis underscores how that agency was structured by Britain's declining power, the rise of new actors such as the United States and the oil companies, and the triangular dynamic between HMG, the Consortium, and Tehran. Second, while Alvandi illuminates the shah's strategies of legitimacy, I argue that oil and arms formed the material underpinnings of those strategies: his bargaining position was strengthened

[36] Roham Alvandi, "Muhammad Reza Pahlavi and the Bahrain Question, 1968–1970," *British Journal of Middle Eastern Studies* 37, no. 2 (2010): 159–77.
[37] Roham Alvandi, "Introduction," in *The Age of Aryamehr: Late Pahlavi Iran and Its Global Entanglements,* ed. Roham Alvandi (London: Gingko Library, 2018), 10.

not only through nationalist rhetoric, but also through the hard currency of oil revenues and the political capital generated by arms purchases. In this way, my work situates the shah's diplomacy within the broader oil-arms nexus that defined Anglo-Iranian relations from 1955 to 1979.

Robert Steele has added to this cultural turn by examining how the Pahlavi regime deployed spectacles and cultural projects to assert legitimacy at home and prestige abroad. In *The Shah's Imperial Celebrations of 1971,* he argues that the Persepolis festivities were not mere extravagance but part of a calculated strategy to project Iran as a modern power, drawing investment and international recognition, even as they sharpened domestic contestation over the monarchy. This thesis builds on Steele's insight into the performative politics of 1971 but extends it by arguing that the celebrations also marked a turning point in Anglo-Iranian relations: in the same year, the shah secured the Tehran Oil Agreement for OPEC, a landmark that captured the shifting balance of power between producer states and Western oil companies. Steele has also examined the shah's outreach to Africa, highlighting how Iran cultivated ties with newly independent states in the 1960s and 1970s as part of its bid to claim a place among the leaders of the Global South while remaining closely aligned with Western powers. Although Africa lies beyond the scope of this thesis, Steele's analysis underscores the shah's determination to leverage oil wealth and diplomatic theatre to expand Iran's global standing — a strategy that, in the Middle East, translated into the bargaining tactics and arms diplomacy that form the focus of this study. While Steele rightly underscores the shah's deployment of cultural diplomacy and symbolic politics, this thesis situates those initiatives within the broader oil–arms nexus, showing how performances of power abroad were underwritten by oil revenues and reinforced by the pursuit of arms contracts.

One of the most significant domestic political-economic developments of the 1960s was the shah's land reform programme, a central pillar of the White Revolution. Ann Lambton occupies a seminal place in the historiography of modern Iran, with her work on agrarian structures and land reform remaining central reference points. In a later reflection at St Antony's College, she recalled the turbulence of mid-twentieth century Iran and the challenges of reconciling reform with entrenched structures of power, noting both the corruption and extortion of officials and the ways new communications technologies heightened political awareness in the countryside.[38] Her most influential contribution, *The Persian Land Reform 1962–1966,* offered a meticulous eyewitness account of the shah's flagship programme of the White Revolution. Lambton captured both the initial enthusiasm of peasants who gained land and the disillusionment that followed as reform became increasingly bureaucratised and subordinated to state control.[39] Lambton's conclusion—that land reform risked substituting bureaucratic domination for landlord power—spoke to the limits of the shah's developmental model. This thesis builds on Lambton's insight into the socioeconomic foundations of Pahlavi rule but situates land reform within a broader framework of control. While Lambton's focus was on agrarian structures, I argue that the White Revolution, funded by oil revenues, functioned not only as a domestic modernisation project but also as an instrument of international legitimation. By portraying himself as a reforming monarch, the shah bolstered his standing with Western patrons, securing the oil revenues and arms supplies that underpinned his regime. In this sense, Lambton's land reform is part of the same dynamic of control—over resources, revenues, and alliances—that shaped Anglo-Iranian relations in the Cold War era.

[38] Ann Lambton, "Recollections of Iran in the Mid-Twentieth Century," *Asian Affairs* 19, no. 3 (1988): 273–288.
[39] Ann K. S. Lambton, *The Persian Land Reform, 1962–1966* (Oxford: Clarendon Press, 1969).

A further body of scholarship examines oil's role in Iran's domestic political economy and social sphere. The consequences of Iran becoming a modern state under the shadow of oil politics in the first half of the twentieth century is explored by Massoud Karshenas in *Oil, State and Industrialisation in Iran* in an analysis of the growth and structural change in Iran between 1953 and 1977.[40] Karshenas provides a meticulous study of the industrialisation process, contending that this growth was 'lopsided' insofar that it placed an excessive dependence on external resources, an inadequate employment generation and a growing maldistribution of income. Fereidun Fesharaki's *Development of the Iranian Oil Industry: International and Domestic Aspects*, less rigorous in comparison, provides a clear understanding of how the oil industry performed in the domestic and international environment, especially Iran's strategies for disposing of its increased oil revenues.[41] Published in 1976, Fesharaki offers a positive analysis of the shah's development of the industry, exploring Iran's role in OPEC, especially the issues of pricing, royalty expensing and the price hike between 1971-75. Writing at a similar time, Robert Graham's *Illusion of Power* is less forgiving, analysing the problematic issues of the intersection of Iranian oil, the economy and the arms trade, contending that the consequences of the events of the 1950s had long-lasting effects on the Iranian economy.[42] Drawing on his time spent as *The Financial Times'* correspondent in Tehran, Graham explores the insidious role of the Consortium in constraining Iran's oil production levels and the economy's deepening reliance on oil revenues grafted onto old structures.

Touraj Atabaki broadens the frame of analysis by moving beyond economic performance to examine oil as a form of capital embedded in Iran's wider social and political transformation. He highlights how oil revenues underpinned the developmental state of the 1960s and 1970s,

[40] Massoud Karshenas, *Oil, State and Industrialisation in Iran* (Cambridge: Cambridge University Press, 1990).
[41] Fereidun Fesharaki, *Development of the Iranian Oil Industry: International and Domestic Aspects* (New York: Praeger Publishers, 1976).
[42] Robert Graham, *Iran: The Illusion of Power* (Oxford: Berg Publishers, 1980).

fuelling industrialisation, rural–urban migration, and new class formations, while also exacerbating uneven development and social tensions.[43] Atabaki's emphasis on oil as a driver of social change is an important corrective to more narrowly economic accounts, but it differs from the concerns of this thesis. Whereas Atabaki situates oil primarily within the structures of modernisation and dependency, this thesis argues that the same revenues must also be analysed through the prism of international bargaining and Cold War geopolitics, where oil was transmuted into arms contracts and strategic leverage.

Taken together, the perspectives of Karshenas, Fesharaki, Graham, and Atabaki highlight the multifaceted impact of oil on Iran's economic trajectory. While this thesis concurs with Karshenas' diagnosis of structural imbalance and Graham's scepticism regarding Iran's overreliance on oil, it diverges from Fesharaki's more optimistic appraisal and from Atabaki's primarily social framing by situating oil within the broader nexus of arms purchases and international strategy. By bringing these dimensions together, this thesis extends the economic analyses of industrialisation into a wider framework, demonstrating how oil politics, arms deals, and strategic considerations intertwined to shape the evolution of Anglo-Iranian relations.

A third strand of the literature addresses oil and Cold War geopolitics. The scholarship on Iranian oil is equally extensive. Ervand Abrahamian, in *The Coup – 1953, the CIA, and the Roots of Modern US-Iranian Relations,* argues that the central issue of the nationalisation crisis was 'control' – specifically, Iran's control over its oil resources versus Britain's loss of control over exports.[44] Drawing on British, US government, and BP archives, Abrahamian challenges

[43] Touraj Atabaki, *Toiling for Oil: A Social History of Petroleum in Iran* (Cambridge: Cambridge University Press, 2024).
[44] Ervand Abrahamian, *The Coup – 1953, the CIA, and the Roots of Modern US-Iranian Relations* (New York: The New Press, 2013); Ervand Abrahamian, *Oil Crisis in Iran* (Cambridge: Cambridge University Press, 2021).

the conventional view that Britain negotiated in good faith, raising questions about whether the 1953 coup should primarily be framed within the context of the Cold War. Mark Gasiorowski, known for his meticulous works on the coup, contends that the event was less about oil and more driven by geopolitics, particularly the fear of communism where Iran could become a potential domino to the Soviet threat.[45] For Gasiorowski, the coup was thus an exercise in premature containment rather than economic imperialism, rooted in Washington's determination to preserve a pro-Western northern tier.[46] He further argues that this logic of security dependence persisted long after the coup, shaping the shah's relationship with the West and sustaining Iran's semi-client status within the Cold War order.[47]

This thesis builds on Gasiorowski's insight into the persistence of Cold War geopolitics but diverges by questioning the rigidity of that dependency. It argues that oil was not merely an economic resource subordinated to US strategic aims but a geopolitical instrument through which the shah gradually reversed Iran's subordinate position. From the mid-1950s onwards, the control of oil revenues enabled Iran to acquire arms, assert autonomy within the Western alliance, and reshape Anglo-Iranian relations. In this sense, the coup's legacy was not static dependence but an evolving negotiation over control — of resources, revenues, and influence — that continued to define the relationship between Britain and Iran.

This view is reinforced by Mostafa Elm, who, after two decades working in the Iranian Ministry for Foreign Affairs, argues that while Cold War strategic considerations motivated US

[45] Mark Gasiorowski, "The 1953 Coup d'état in Iran Against Mosaddeq" in ed. Mark Gasiorowski and Malcolm Byrne, *Mohammad Mosaddeq and the 1953 Coup in Iran* (New York: Syracuse University Press, 2004); Mark J. Gasiorowski, *Neither East nor West: Iran, the Soviet Union, and the United States* (New Haven, CT: Yale University Press, 1990), 41–45.
[46] Mark J. Gasiorowski, "U.S. Perceptions of the Communist Threat in Iran during the Mossadegh Era," *Journal of Cold War Studies* 21, no. 3 (2019): 97–100.
[47] Gasiorowski, *Neither East nor West,* 147.

intervention, for the UK, oil interests were paramount.[48] The nuanced interplay of the US and UK interests are effectively examined by Mary Ann Heiss in *Empire and Nationhood: the United States, Great Britain and Iranian Oil, 1950-1954,* who challenges the notion that during the nationalisation crisis a hegemonic US imposed its will on a helpless Britain.[49] Instead, Heiss contends that British officials skilfully manoeuvred their US counterparts into greater involvement, always on terms that favoured Whitehall. These studies underscore the inextricable entanglement of oil and geopolitics in shaping the 1953 coup. While I build on Abrahamian's emphasis on control and Heiss's analysis of Anglo-American dynamics, I depart from Gasiorowski's claim that geopolitics eclipsed oil. Rather, this thesis argues that oil and revenue constituted core geopolitical stakes in their own right: the struggle for control over Iranian oil cannot be disentangled from the wider Cold War environment, nor can geopolitical strategy be understood apart from the material contest over oil. From 1955 onwards, the question of control—over resources, arms, and influence—remained the central axis of Anglo-Iranian relations.

Fred Halliday's *Iran: Dictatorship and Development* provides one of the earliest Marxist and dependency-theory analyses of Iran's political economy, situating the Pahlavi state within the broader logic of capitalist development and Cold War geopolitics.[50] Halliday argues that Iran's apparent modernisation masked deep structural dependence on Western capital, technology, and military aid — a "militarised development" model that bound the shah's regime to Western strategic and economic interests. While later critics such as Said Amir Arjomand have noted the limits of Halliday's Marxian framework—particularly his neglect of religion and

[48] Elm Mostafa, *Oil, Power and Principle: Iran's Oil Nationalization and its Aftermath* (New York: Syracuse University Press, 1992).
[49] Mary Ann Heiss, *Empire and Nationhood: the United States, Great Britain and Iranian Oil, 1950-1954* (New York: Columbia University Press, 1997).
[50] Fred Halliday, *Iran: Dictatorship and Development* (London: Penguin, 1979).

nationalism—his analysis of oil-fuelled industrialisation and the distortions it produced remains a key point of reference.[51] This thesis builds on Halliday's insight that oil revenues and arms procurement were integral to the shah's model of development, while extending the analysis by situating these dynamics within the changing geopolitical architecture of the Cold War.

Similar to arguments made by Gasiorowski and Elm, James Bill and William Roger Louis in *Musaddiq, Iranian Nationalism and Oil* also situate these events within the broader context of early US-Soviet rivalry.[52] Louis, in his chapter, *'Musaddiq and the dilemmas of British imperialism,'* explores the difficulties faced by the British government – balancing imperial prestige with pragmatic diplomacy – and how British economic interests became increasingly entangled with Cold War geopolitics.[53] In a subsequent chapter titled '*The Anglo-Iranian Oil Dispute: a triangular relationship,'* Ronald W. Ferrier contends that the events of 1951-54, which marked the end of a 'collaborative enterprise' between Iran and the UK, should be understood as a nationalist initiative within the context of the Cold War, politically motivated by Mossadegh's mistrust of the British, rather than driven by economic considerations.[54] This thesis builds on this scholarship while departing from Ferrier's sharp distinction between

[51] Said Amir Arjomand, review of *Iran: Dictatorship and Development* by Fred Halliday, *Contemporary Sociology* 10, no. 2 (1981): 304.
[52] James A. Bill and WM Roger Louis, eds., *Musaddiq, Iranian Nationalism and Oil* (Austin: University of Texas Press, 1988).
[53] WM Roger Louis, "Musaddiq and the Dilemmas of British Imperialism" in ed. Bill and Louis, *Musaddiq, Iranian Nationalism and Oil*.
[54] Ronald W. Ferrier, "The Anglo-Iranian Oil Dispute: a Triangular Relationship," in ed. Bill and Louis, *Musaddiq, Iranian Nationalism and Oil*. See also, LP. Elwell-Sutton, *Persian Oil: A Study in Power Politics* (London: Lawrence and Wishart, 1955) who argues the oil crisis cannot be reduced to personalities or nationalism but rather to power politics. Other perspectives on oil politics include analyses within the context of decolonialisation, where governments across the Global South sought to wrest control from foreign governments and companies as a form of resource nationalism. See Mattin Biglari, "Iran's 1951 Oil Nationalization as Decolonization: Coloniality, Resource Nationalism, and Subaltern Agency" in ed. Robert Steele and Firoozeh Kashani-Sabet, *Iran and Global Decolonialisation* (Chicago: University of Chicago Press, 2023); and Christopher Dietrich, *Oil Revolution: Anticolonial Elites, Sovereign Rights, and the Economic Culture of Decolonization* (Cambridge: Cambridge University Press, 2017).

political and economic drivers. It argues instead that the Cold War cannot be analytically separated from questions of oil and revenue: economic control was itself a geopolitical imperative. In line with Abrahamian, I contend that Britain's control over oil was critical, but I extend this argument further by demonstrating its centrality to the stability of sterling and the UK's balance of payments. Oil thus operated simultaneously as an economic lifeline and a strategic lever, ensuring that the contest over control remained at the heart of Anglo-Iranian relations well into the Cold War era.

Related scholarship explores oil and British imperialism and the evolving entanglement between BP and the British state. Leonardo Davoudi's *Persian Petroleum: Oil, Empire and Revolution in Late Qajar* represents a significant contribution to the field, offering new insights into the intersection of oil and British imperialism that led to the beginning of an industrial behemoth – British Petroleum.[55] Davoudi demonstrates the multifaceted roles HMG undertook as BP's financial intermediary, its diplomatic advocate, security provider, chief negotiator, commercial guardian, end client and major shareholder. This thesis builds on Davoudi's insights by arguing that these overlapping roles not only persisted but intensified in the post-war decades, as oil became increasingly entangled with Britain's arms trade and broader geopolitical strategy. The imperatives of commercial protection and imperial influence thus continued to reinforce one another well beyond the Qajar era.

Writing on the earlier history of BP, Ronald Ferrier's *History of the British Petroleum Company, Volume 1: The Developing Years, 1901-1932* draws on the company's unrestricted papers to offer an analysis focused more on the individuals than its structures.[56] Ferrier also

[55] Leonardo Davoudi, *Persian Petroleum: Oil, Empire and Revolution in Late Qajar Iran* (London: IB Tauris, 2021).
[56] Ronald Ferrier, *History of the British Petroleum Company, Volume 1: The Developing Years, 1901-1932* (Cambridge: Cambridge University Press: 1982).

places the events of intervention within the context of Iran's strategic position with regards to the USSR, and argues that although the operations of the AIOC represented one of the greatest 'form[s] of plunder,' he concludes that Mossadegh was not interested in accepting a 50:50 agreement, as he was driven by a political crusade, as opposed to economic salvation.[57] This thesis departs from Ferrier's emphasis on Mossadegh's political intransigence by reasserting the centrality of oil revenues and economic sovereignty to Iranian policy. At the same time, it demonstrates that these economic imperatives cannot be divorced from the wider geopolitical setting, in which Cold War strategy and Britain's declining power shaped both sides' bargaining positions.

James Bamberg's *The History of the British Petroleum Company, Volume 2: The Anglo-Iranian Years, 1928–1954* provides the most detailed corporate account of the Anglo-Iranian Oil Company in the decades preceding nationalisation. Drawing on privileged access to BP's archives, Bamberg offers a wealth of information on the company's organisational structure, leadership, and concessionary negotiations, particularly the crises of 1932–33 and the eventual breakdown under Mossadegh.[58] The work, however, largely reflects the company's perspective, often downplaying Iranian grievances and presenting disputes as the product of economic fluctuations rather than of the company's exploitative practices. While invaluable as a source on AIOC's internal reasoning, Bamberg's corporate vantage point obscures the wider political and social dimensions of the oil dispute. This thesis builds on Bamberg's identification of the triangular relationship between BP, HMG, and the shah, but departs from his corporate

[57] This is in stark contrast to the analysis offered by Homa Katouzian, who in his chapter 'Oil Boycott and the Political Economy,' draws attention to Mossadegh's agreement to sell crude oil to the AIOC at $1.10 a barrel, which was 65 cents less than the Persian Gulf price, and according to Assistant Secretary of State George McGhee represented a 50:50 sharing arrangement. This offer was rejected by Prime Minister Anthony Eden. (Homa Katouzian, 'Oil Boycott and the Political Economy: Musaddiq and the Strategy of Non-Oil Economics,' in ed Bill and Louis, *Musaddiq, Iranian Nationalism and Oil*.

[58] James Bamberg, *The History of The British Petroleum Company, Volume 2 The Anglo-Iranian Years, 1928 – 1954* (Cambridge: Cambridge University Press, 1994).

vantage point by situating this relationship within the wider Cold War environment and the oil–arms nexus. Rather than privileging BP's institutional perspective, it emphasises how British policymakers interpreted and managed the shah's growing demands, showing how corporate, governmental, and strategic interests converged and clashed throughout the 1960s and 1970s.

James Bamberg's later volume, *British Petroleum and Global Oil, 1950 – 1975: The Challenge of Nationalism*, continues this corporate history into the era of rising nationalism and the transfer of control from private companies to OPEC. Drawing from exclusive access to BP's internal memos, reports, and discussions, Bamberg unpacks the intricate relationship behind the scenes of BP's growth, Britain's imperial decline, and the company's deep entanglement with the shah of Iran and OPEC. As Bamberg argues, BP was more than a mere oil corporation; it functioned as a 'prototype national oil company,' with its operations closely tied to British national interests.[59] This symbiotic relationship stemmed from BP's origins in the Anglo-Persian Oil Company (APOC, later AIOC), which was, in effect, a British public enterprise, with the British Treasury as a majority shareholder. Bamberg's analysis reveals the high-stakes manoeuvring BP engaged in to navigate political pressures, including the near-fatal blow delivered by the Suez Crisis. He exposes how BP's delicate balancing act with both the British government and the shah of Iran led to a protracted struggle over oil revenues, laying bare the competing demands of a corporation caught between its corporate ambitions and the shifting geopolitical landscape.

[59] James Bamberg, *British Petroleum and Global Oil, 1950-1975: The Challenges of Nationalism* (Cambridge: Cambridge University Press, 2000), 224.

In many respects, Bamberg's book reads as a standard corporate document, presenting BP's perspective on the shifting balance of power between the company, the shah and the British government. This thesis builds on Bamberg's identification of the triangular relationship between BP, HMG, and the shah, but departs from his corporate vantage point by foregrounding the perspective of the British government and, where possible, the shah himself. Whereas Bamberg interprets the triangular struggle largely through BP's institutional lens, this study situates it within the wider framework of Cold War geopolitics and the oil–arms nexus, showing how corporate, governmental, and strategic interests converged and clashed throughout the 1960s and 1970s. In doing so, it reframes the story not simply as a contest over revenues but as part of Britain's broader effort to sustain leverage in Iran despite its declining material power.

Finally, a substantial body of scholarship examines oil and arms sales, petrodollar recycling, and the emerging oil-arms nexus. In the 1970s, journalist Anthony Sampson contributed two pivotal works: *The Seven Sisters: the Great Oil Companies and the World they Made*, and *The Arms Bazaar: From Lebanon to Lockheed.* In the former, Sampson provides a meticulously researched account of the origins, rise and political machinations of the seven largest multinational oil companies: Exxon, Mobil, Standard Oil of California, Texaco, Gulf, British Petroleum (BP), and Royal Dutch Shell. He argues that in their pursuit of wealth, power and control over oil, these 'seven sisters' formed a cartel that manipulated production, pitted governments against each other and ultimately, spawned another cartel – the Organisation of the Petroleum Exporting Countries (OPEC). Through interviews with the shah, Sampson illustrates how the monarch leveraged oil to transform his country's fortunes, while also navigating geopolitical complexities. Published in 1975, Sampson's work makes clear that the 1973 Oil Crisis marked a crucial shift in the shah's relationship with Britain – his aggressive

push for higher oil prices, which exacerbated global inflation and weakened the private banking system, rendered him a liability and an unreliable ally.

Sampson's greatest strength lies in his portrayal of the shifting fortunes of the oil companies, their evolving relationship with OPEC, and the multilayered complexity of oil-centred geopolitics. While Sampson offers a chapter on 'Iran and democracy' with a focus on 1953, his next significant analysis of the shah and the oil companies jumps to the 1973 Oil Crisis. This thesis builds on Sampson's insights but addresses this lacuna by examining the intervening decade, showing how the shah's annual confrontations with the Consortium in the 1960s sharpened his bargaining skills and culminated in the 1971 Tehran Agreement. By tracing this evolution, I argue that the shah's transformation from pawn to player cannot be understood without attention to the cumulative struggles over oil that preceded the 1973 crisis.

The Arms Bazaar, published two years after *The Seven Sisters,* delivers one of the first comprehensive studies into the characters, companies, and motivations driving the arms trade, along with the bribery and scandals that trailed behind them. Produced in under a year, *The Arms Bazaar* unearths how the global arms industry exploded in the twentieth century, revealing the intricate entanglements between arms dealers and governments, exposing how the US collateralised its foreign policy through weapons sales, setting the stage for scandals involving Lockheed, Boeing and Northrop. Sampson was among the first to argue that the British and American governments recycled the shah's oil revenues into arms deals in the early 1970s, and he highlights how the December 1973 oil price increase enabled the shah to expand his arsenal. This thesis builds on Sampson's pioneering connection between petrodollars and arms purchases but moves beyond his journalistic narrative to probe the strategic calculations of British policymakers. In particular, I argue that the transmutation of oil revenues into arms

sales was not merely opportunistic but integral to Britain's effort to sustain its influence with the shah at a time of declining material power. By situating Sampson's insights within the broader framework of Anglo-Iranian relations, this study reveals how oil and arms became mutually reinforcing levers of control in the 1970s.

In interviews with the shah, Sampson portrays a monarch who not only understood the language of arms dealers but also relished their cutting-edge gadgets. More crucially, the shah represented a lucrative opportunity for the British government. Sampson argues that the commercial pressures to export arms weighed almost as heavily on the British government as they did on the arms manufacturers themselves, with exports becoming vital to economic stability in the 1960s and 1970s. Sampson frames the arming of the shah within the broader strategy of the 'Nixon Doctrine,' where the US preferred to arm its allies rather than deploy its own troops, building formidable arsenals in the process. He was among the first to argue that the British and American governments recycled the shah's oil revenues into arms deals in the early 1970s. Sampson illustrates the pivotal role the 1973 oil price increase played in the process, revealing the complex intersection between petrodollars and arms sales. Sampson argues that the shah's political manoeuvring to drive up oil prices in December 1973 enabled him to amass more arms.[60] This thesis builds on Sampson's insight into the intersection of Iranian oil and British arms, where one effectively transmuted into the other. By exploring this intersection, this thesis seeks to expose the deeper undercurrents of British strategy, policy and interests towards the shah in the 1970s.

[60] Anthony Sampson, *The Arms Bazaar: From Lebanon to Lockheed* (New York: Viking Press, 1977), 253.

Steven Galpern's *Money, Oil and Empire in the Middle East: Sterling and Post-War Imperialism 1944 – 1971,* makes a vital contribution to the scholarship of Anglo-Iranian relations, highlighting the importance that post-war British governments attributed to Iranian oil in sustaining the British economy and safeguarding sterling. Published in 2009, Galpern's work draws from key archives, including those of the Bank of England, the Ministry of Fuel and Power, and BP, offering new insight into the strategic imperative of safeguarding sterling as both a trading and reserve currency. Galpern explores this imperative through the prism of Iranian oil, post-war international financial structures, and the gradual decline of the British empire. He argues that, during the post-war years, no other company contributed more to Britain's balance of payments than the AIOC and Shell, underscoring how deeply intertwined HMG's national interests in Iran were with its own economic survival.[61]

This thesis builds on Galpern's central assertion that British control over Iranian oil – through pricing, production volumes, and the smooth functioning of the industry – was vital to preserving sterling and maintaining Britain's balance of payments, and thus, its broader national interests. However, it extends this argument by showing how the imperative of safeguarding sterling intersected with Britain's geopolitical strategy in Iran, particularly the use of arms exports as a mechanism both to manage relations with the shah and to bolster the balance of payments. In doing so, the thesis reframes Galpern's primarily financial analysis within the wider nexus of oil, arms, and Cold War geopolitics, demonstrating that economic and strategic imperatives were inseparable in shaping Britain's approach to Iran.

[61] Steven Galpern, "Britain, Middle East Oil, and the Struggle to Save Sterling, 1944-1971," PhD diss., (University of Texas at Austin, 2002), xi.

Daniel Yergin's *The Prize: the Epic Quest for Oil, Money and Power,* published in 1991, presents a compelling argument that, throughout the twentieth century oil became fundamentally intertwined with national strategies, global politics and power dynamics. Yergin exposes the shifting alliances and relentless strategies in the global race for dominance over oil, tracing the political manoeuvring and intense bargaining between key players, such as the shah, BP and the British government. He also delves into the fierce rivalries between oil companies, revealing how their interests became inextricably linked with the agendas of their host governments. These themes are central to this thesis, which advances the analysis by charting how these entanglements evolved over time. Yet, while Yergin's work remains a landmark study, it was written without access to the archival materials that have since transformed the field, and its breadth comes at the expense of depth in the Anglo-Iranian case. Most notably, his account overlooks key turning points, including the decisive transfer of control over oil pricing and production from the majors to OPEC—one of the greatest wealth shifts in modern history—and the 1976 Tehran OPEC conference, which this thesis identifies as a watershed moment. Building on Yergin's global framework, this study re-centres Anglo-Iranian relations within these pivotal transformations, showing how oil, arms, and geopolitics intersected to reshape both the bilateral relationship and the wider balance of power in the 1970s.

Andrew Scott Cooper's *The Oil Kings: How the US, Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* builds on and fills the gaps left by Yergin two decades later. Drawing on interviews with US policymakers and recently declassified documents, Cooper meticulously examines US oil policy from 1969 to 1977. He argues that US policies during this period reshaped the balance of power in the Middle East, setting the tone for US relations with the Gulf oil producers. Cooper contends that the 1973 oil embargo, triggered by

the Yom Kippur War, marked a turning point, exposing a fundamental shift in the balance of power between oil producers and oil consumers. Moreover, through access to the declassified files of former National Security Advisor Brent Scowcroft, Cooper advances a new argument: the US and Saudi Arabia orchestrated an 'oil coup' that not only undercut the shah's OPEC oil price hike in December 1976 but also destabilised his regime and paved the way for Saudi Arabia to replace Iran as Washington's chief Gulf ally.

Cooper's hypothesis adds an important dimension to understanding the geopolitics of the Gulf, though its emphasis on US–Saudi collusion arguably underplays the agency of Britain and the role of oil–arms dynamics in Anglo-Iranian relations. This thesis builds on his insight into the pivotal importance of 1973 and 1976 but extends the analysis by situating these events within Britain's strategic calculations. It argues that the 1973 crisis not only precipitated global economic instability but also sharpened Britain's dependence on Iranian oil revenues, while the events of 1976 underscored the vulnerability of the shah's position and the limits of British leverage. In doing so, this study reframes Cooper's US-centred narrative, demonstrating that Anglo-Iranian relations were equally conditioned by the interplay of oil, arms, and Cold War geopolitics.

While Cooper's contribution primarily focuses on US – Iranian relations, its contributions are significant, and the consequences of his arguments so profound, that they provide a valuable lens through which to examine HMG's relations with the shah. Cooper further contends that by March 1974, oil-for-arms barter deals were becoming commonplace not only in the US market but also in countries such as Poland, France, Libya, and Saudi Arabia. This creates a precedent and offers a parallel for this thesis' exploration of the oil-arms nexus between HMG and the shah. Cooper's examination of the financial ramifications of these barter deals on the

US economy reveals how they established substantially high floor prices for oil, exacerbating an already dire financial situation. His contribution to the field illuminates the intricate links between oil, geopolitics, and at times, arms, during a critical era in Middle Eastern history. This exploration provides a pivotal foundation for understanding HMG's interactions with the shah, and his analysis of oil-for-arms barter deals sets a powerful precedent for this thesis' examination of the oil-arms nexus between Britain and shah. It offers a compelling framework for exploring how economic imperatives, political pressures, and strategic interests converged to shape Anglo-Iranian relations in the 1970s.

Edward Posnett's *Treating His Imperial Majesty's Warts: British Policy towards Iran 1977-79* is a seminal article offering a novel perspective on British policy towards the shah in his final, critical years.[62] Utilising declassified government records from the National Archives, Posnett diverges from previous accounts by focusing less on the British reaction to the Iranian Revolution and more on the shah's leverage over British diplomacy. He argues that British policymakers were overwhelmingly concerned with protecting lucrative commercial and arms deals, often at the expense of addressing human rights abuses and other domestic political concerns. Posnett's work highlights the transactional nature of Anglo-Iranian relations, revealing how Britain's military and economic interests in Iran weakened its bargaining position as the Iranian Revolution unfolded.

His examination of the protracted relationship between the controversial quasi-government organisation – the Defence Sales Organisation (DSO) and the shah - demonstrates the centrality of arms to HMG's relationship with Iran, while exposing the corruption and bribery that tainted

[62] Edward Posnett, "Treating His Imperial Majesty's Warts: British Policy towards Iran 1977-79," *Iranian Studies* 45, no. 1 (2012): 119 - 137.

these dealings. Posnett's analysis provides a critical counterpoint to traditional narratives, suggesting that Britain's strategic 'support for the shah, warts and all,' was driven more by mercenary considerations than ideological alignment or strategic foresight. This thesis builds on this premise, asserting that British policy was indeed driven by mercenary considerations, particularly the need to safeguard oil-for-arms barter deals and commercial contracts. However, it departs from Posnett's view by contending that this approach was, in fact, a deliberate strategy. Although history may suggest that this was not a profitable long-term strategy, HMG's focus on Iran's market potential and export promotion constituted a calculated policy. Posnett's work proves instrumental in understanding the economic imperatives that drove British foreign policy towards Iran during the late 1970s.

Nicholas Gilby's *Deception in High Places: A History of Bribery in Britain's Arms Trade* offers an incisive account of the role bribery has played in Britain's arms trade, particularly from the 1960s onward.[63] Through meticulous research and the use of declassified government documents, Gilby explores the systemic nature of corruption within the UK's arms export industry, highlighting the extent to which government officials, diplomats and military personnel facilitated and condoned bribery to secure lucrative arms deals. The book provides detailed insights into major arms deals with Iran, arguing that HMG maintained a 'special relationship' with the shah, largely due to Iran's crucial role as an oil producer. Gilby contends that Britain's reliance on the shah outweighed his need for the UK, rendering the preservation of favourable relations with Iran a primary British objective – secured primarily through arms sales. Gilby's study is invaluable in exposing the culture of corruption that permeated Britain's arms trade and in linking arms exports to broader political and economic strategies. However,

[63] Nicholas Gilby, *Deception in High Places: A History of Bribery in Britain's Arms Trade* (London: Pluto Press, 2014).

while his focus on bribery highlights one critical dimension of Anglo-Iranian arms relations, it risks overstating corruption as the primary explanatory factor. This thesis builds on his analysis by situating arms exports not only within a framework of corruption but also within Britain's wider strategy to maintain leverage through the oil–arms nexus. By showing how arms sales were bound up with questions of oil revenues, balance of payments, and Cold War strategy, the thesis extends Gilby's insights into the structural role of arms in sustaining Britain's relationship with the shah, even as corruption remained an endemic feature of the trade.

Bringing these strands together, this thesis examines the evolution of the British government's relationship with the shah through the exigencies of oil, arms deals and geopolitical strategy, while building on the existing historiography. By drawing on newly released archival documents, it further explores the emerging concept of petrodollar recycling through oil-for-arms barter deals. Initially proposed by Anthony Sampson in 1977 and expanded in the American context by Andrew Scott Cooper in 2011, this thesis advances the idea to offer a fresh contribution to the scholarship. This literature review evaluates the specific historiography that anchors this thesis, highlighting key debates and identifying areas where it carves out a fresh perspective.

The existing scholarship on Anglo-Iranian relations, oil politics, and arms deals provides a robust foundation for understanding the complex dynamics between Britain and the shah from 1955 to 1979. This thesis builds on their contributions, especially Sampson, Galpern, Cooper, and Gilby, advancing the argument that Britain's relationship with the shah was not merely reactive or opportunistic but was shaped by strategic imperatives to safeguard vital economic interests, particularly through oil-for-arms barter deals. By focusing on the intricate nexus of oil, arms trade and geopolitical strategy this thesis provides a fresh perspective on a nuanced

angle of HMG's relations with the shah, offering a more comprehensive understanding of how Britain's strategy decisions were inextricably linked to its oil and arms interests.

1.6 Historical Background

In the crucible of the twentieth century's great wars, a single truth emerged: oil was power. Nation-states that produced it, and those that controlled its flows, held not just the keys to victory, but to influence in a world where power was constantly shifting. The First World War rapidly demonstrated that oil had become a defining element of national strategy. Its advantages were, 'inestimable.'[64] The day after the assassination of Archduke Franz Ferdinand, on June 29, 1914, Winston Churchill, then First Lord of the Admiralty, introduced to Parliament a bill that many derided as a 'speculative adventure' and 'a gambling transaction.'[65] Despite the scepticism, the Bill for the Acquisition of Capital into the Anglo-Persian Oil Company (APOC) passed with a commanding majority of 228 votes. Her Majesty's Government (HMG) invested £2,200,000 - equivalent to £270 million today - securing a 51% controlling share. This control over the supply of oil, especially with government ownership of an oil company, enabled the British Navy to transition from coal to oil, giving it a decisive advantage: a fleet that could achieve 25 knots of speed and generate 50,000 horsepower - outpacing the Germans at sea. As Lord George Curzon famously observed, 'The Allied cause floated to victory upon a wave of oil.'[66] For the first time in the twentieth century, oil had not only become a strategic commodity but also a central instrument of national policy.

[64] Winston S. Churchill, *The World Crisis Volume 1* (Toronto: The MacMillan Company of Canada, 1923), 133.
[65] Commons Sitting of 7 July 1914, Hansard, https://api.parliament.uk/historic-hansard/commons/1914/jul/07/anglo-persian-oil-company-acquisition-of-1. Accessed April 24, 2022.
[66] *The New York Times,* "'Floated to Victory on Wave of Oil'; Earl Curzon Tells How Allied Ingenuity Overcame the Petroleum Crisis of 1916." November 23, 1918.

By the onset of the Second World War, Britain understood that safeguarding future oil supplies was 'no longer merely a commercial question, but an imperial question of the first magnitude.'[67] Controlling the source, as Churchill confessed, was essential; dependence on a single oil field was a vulnerability. 'Safety and certainty lie in variety and variety alone,' he asserted.[68] By 1925, the AIOC had achieved total control over oil production in Iran –owning and operating all fields, placing British managers at the helm, and determining both the quantity and price of exports.[69] During the Second World War, the AIOC's operations aligned entirely with Britain's war effort, with the company's every action influenced by its needs.[70] Commercial interests were sacrificed for the sake of British national priorities, while Iranian national interests were sidelined altogether. Not only were exports drastically reduced due to shipping disruptions and the imposition of rationing - which drastically reduced Iran's royalties – but Iran's sovereignty was violated once again in the name of securing physical control over oil. The Anglo-Soviet invasion of August 1941 destroyed Reza Shah, and within three weeks, Allied pressure forced him to abdicate in favour of his twenty-one-year-old son, Crown Prince Mohammad Reza. The Tripartite Pact between the Union of Soviet Socialist Republics (USSR), Britain and Iran formalised the Allies' right to station forces in Iran for the duration of the war and for up to six months afterward. Much like in the First World War, the country was effectively divided: the Russians controlled the north, while Britain secured the south, including the crucial oil regions. Iran was carved up to serve British national interests, further deepening the seeds of mistrust and suspicion in the eyes of the new shah. Oil had become not only synonymous with power but a potent symbol of sovereignty.

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[67] Ferrier, *The History of The British Petroleum Company*, 243.
[68] Daniel Yergin, *The Prize: the Epic Quest for Oil, Money & Power* (New York: Free Press, 2009), 144.
[69] Robert B. Stobaugh "The Evolution of Iranian Oil Policy, 1925 – 1975," in *Iran Under the Pahlavis,* ed. George Lenczowski (Stanford: Hoover Institution, 1978), 201.
[70] Bamberg, *The History of the British Petroleum Company,* 206.

Sovereignty and independence became powerful forces in the Iranian psyche precisely because they had been so elusive throughout the first half of the twentieth century. Iran's relationship with Britain was a protracted, delicate balancing act. Under Qajar rule, Britain treated Iran not as a sovereign entity but as a strategic buffer state – a bulwark to protect its imperial jewel, India, from Russian expansion. Iran was little more than a pawn on the chessboard 'upon which [was] being played out a game for the dominion of the world.'[71] Britain maintained its grip through interference in Iran's domestic affairs, exploiting the country's economic vulnerabilities - loans, infrastructure projects, and concessions were all leveraged to gain control of Iran's finances and commerce, ensuring dependence on British interests.[72] The result was a dynamic built on mistrust, one that deepened with Britain's role in the February 1921 coup, which toppled the government and brought General Reza Khan, the Cossack commander, to power.[73]

Reza Shah's era was defined by his relentless drive to modernise and centralise the state. This path of modernisation revolved around two central tenets that would shape Anglo-Iranian relations for decades – freeing Iran from foreign dominance and securing greater oil revenue to achieve that independence. In pursuit of these goals, he abolished capitulations and commercial treaties, repealed or revised concessions, and reformed financial institutions to tighten control over foreign trade.[74] Yet, despite these efforts, relations with the AIOC remained fraught, riddled with suspicions that the company was manipulating profits through

[71] George N. Curzon, *Persia and the Persian Question* (London: Longmans, Green & Co., 1892), 3.
[72] David McLean, *Britain and her Buffer State: The Collapse of the Persian Empire, 1890-1914* (London: Royal Historical Society, 1979), 22.
[73] See Homa Katouzian, "The Campaign Against the Anglo-Iranian Agreement of 1919" *British Journal of Middle Eastern Studies* 25, no. 1 (1998): 05-46; Cyrus Ghani, *Iran, and the Rise of Reza Shah: From Qajar Collapse to Pahlavi Power* (London: IB Tauris, 1998); and Stephanie Cronin, *The Army and the Creation of the Pahlavi State in Iran, 1910-1926* (London: IB Tauris, 1997).
[74] Charles Issawi, "The Iranian Economy 1925-1975: Fifty Years of Economic Development," in *Iran Under the Pahlavis,* ed. George Lenczowski (Stanford: Hoover Institution, 1978), 131.

a maze of complex formulae, setting oil prices for the British Navy, and undercutting Iran's revenues.[75] In an 'act of political emancipation,' Reza Shah cancelled the AIOC's concession in 1932, 'cleansing the country of a dirty stain,' and threatened to incinerate millions of barrels of British oil should a single British soldier set foot on Iranian soil.[76] This act of defiance was intolerable to HMG, which quickly took the case to the League of Nations. Foreign Minister Anthony Eden made it clear: Britain would not tolerate any damage or interference into its business interests in Iran.[77] However, before the League could issue a verdict, the AIOC and Reza Shah negotiated a new concession signed on April 29, 1933.[78]

Mohammad Reza Shah's strained and complicated relationship with HMG, particularly over oil, had deep roots in the legacy of his father's contentious dealings with the AIOC. One significant part of that inheritance was the 1933 Agreement, which was presented as a victory for Iranian sovereignty, offering a semblance of independence from foreign control. However, the financial returns it delivered to Iran were meagre at best. Within just a few years, the AIOC's tax contributions to Britain dwarfed its payments to Iran, nearly fourfold. What was intended to loosen foreign dominance only tightened economic imbalance. When Iran threatened to cancel the concession again during the Second World War, the AIOC and HMG acted swiftly, striking a 'Make Up Payments Agreement' that awarded the Iranian government £1.5 million in addition to its regular royalties, ensuring a total of £4 million for 1940 and

[75] In hindsight, it has become clear that crude oil sales to the British Admiralty were discounted by as much as 55-90% (see Julian Bharier, *Economic Development in Iran, 1900-1970* (Oxford: Oxford University Press, 1971), 157). Churchill, fearing controversy, insisted this figure remain undisclosed; it only became public knowledge after 50 years. Stobaugh "The Evolution of Iranian Oil Policy, 1925-1975," 202.
[76] Bamberg, *The History of the British Petroleum Company*, 34.
[77] Ibid., 204.
[78] The 1933 Agreement allowed the Iranian government to appoint a representative with access to shareholder-level information and attend board meetings. Financial terms included a £1 million lump sum settlement for past claims, with royalties based on oil volumes and shareholder distributions rather than profits. Upon expiration or surrender of the Concession, the Iranian government would receive 20% of sums added to the Company's reserve since 1932. Additionally, the AIOC was exempt from Iranian taxes for thirty years.

1941.[79] While these payments helped stabilise Iran's oil revenue during a recovery in output, they were seen as 'blackmail' that 'savoured of extortion'.[80] The challenges Mohammad Reza Shah would later face were, in many ways, the product of this difficult inheritance. From observing his father's negotiations, he learned a crucial lesson: the AIOC could not be fully trusted, and that successful negotiations required unwavering resolve and the strategic use of pressure to extract greater concessions – skills that would underpin his later tactics of brinkmanship and tactical posturing.

The Second World War proved a watershed moment in Anglo-Iranian relations. The devastation it wrought was so profound for both counties that it necessitated a fundamental shift in their relationship. Iran was left devastated. The government contended with severe budgetary deficits and the physical loss of control over its northern provinces. The nation's recovery hinged on oil revenue. For Mohammad Reza Shah the war's impact was not just political, but deeply personal. Exiled to South Africa, his father died before the war's end. Fearing a similar fate, he covertly deposited $1 million to his New York bank account as a 'nest egg.'[81] However, immediately after the Allied invasion, Britain recognised that its best interest lay in preserving the Iranian state, ensuring the continuity of the Pahlavi dynasty, and the maintaining of the monarchy's crucial ties to the armed forces.[82] In the wake of such devastation, the importance of sovereignty, independence, and self-reliance embedded itself even deeper into the collective Iranian consciousness.

The Second World War was ruinous for Britain, leaving its economy on the brink of bankruptcy. Its gold and dollar reserves were critically depleted, and its foreign debt reached

[79] Bamberg, *The History of the British Petroleum Company*, 233.
[80] Ibid.
[81] Ervand Abrahamian, *A History of Modern Iran* (Cambridge: Cambridge University Press, 2008), 101.
[82] Ibid., 102.

unsustainable levels. In the immediate post-war period, the Attlee Labour Government (1946-1951) viewed a strong pound as vital to preserving the sterling area, which economically bound the British Empire and the Commonwealth, underscoring Britain's global influence. British officials fixated on the interdependence between the strength of sterling, the stability of the British economy and the profits generated by the AIOC.[83] Post-war, both Labour and Conservative governments increasingly viewed Iran and the Middle East as crucial to maintaining imperial strength, declaring the region as of 'cardinal importance…second only to the UK itself.'[84] Oil had become a currency in itself, central to propping up the UK's balance of payments, with no asset more valuable than the AIOC's stake in Iran. The Foreign Office even warned that any decline in AIOC revenues could have 'disastrous effects on [the British] economy.'[85] When the Iranian government demanded a new concession with the AIOC in 1947, HMG monitored the negotiations closely, cognisant of the far-reaching economic and geopolitical implications at play.

Driven by mounting dissatisfaction over the 1933 Agreement and growing resentment toward the AIOC for exploiting Iran's resources, the Iranian government restarted negotiations for a new concession. Central to Iran's grievances was the Gidel memo, a fifty-page report by French law professor Gilbert Gidel, which exposed the AIOC's 'accounting tricks' that had dramatically lowered Iran's royalty share.[86] The memo revealed that British taxes were deducted from Iran's profits, and the controlled price of gold was used to suppress royalty payments, dropping Iran's share of oil profits from 33% in 1933 to just 9% by 1947.[87]

[83] Steven Galpern, *Money, Oil and Empire in the Middle East: Sterling and Post-war Imperialism, 1944-1971* (Cambridge: Cambridge University Press, 2013), 7.
[84] Ibid., 11.
[85] Ibid., 75.
[86] Kinzer, *All the Shah's Men,* 69.
[87] Neveen Abdelrehim, "Oil Nationalisation and Managerial Disclosure: The Case of Anglo-Iranian Oil Company, 1933-1951" PhD diss., (University of York, 2010), 10 and 108.

Moreover, against the terms of the Agreement, profits generated in Iran were used to fund operations elsewhere, and depreciation on foreign assets were used to further reduce Iran's royalties. These revelations fuelled widespread distrust towards the AIOC and HMG, especially as 50:50 profit-sharing agreements were emerging in Iraq, Kuwait and Venezuela. The prevailing sentiment across the country was that 'Iran was being swindled' and that the British presence, embodied by the AIOC, was fundamentally incompatible with Iran's sovereignty and national rights.[88]

The Supplementary Agreement, negotiated between the AIOC and Iran's conservative government, faced immediate opposition in the *Majles* in July 1949. Although it promised to increase the royalty per tonne from 4 shillings to 6, retroactive from 1948, and offered the Iranian government 20% of the annual amount placed in the General Reserve, it did little to pacify the growing nationalist sentiment. Additionally, the agreement proposed a one-time payment of £5 million and guaranteed minimum oil payments of £4 million annually.[89] In real terms, this would have boosted Iran's total oil income by 70% in 1949.[90] Yet, the agreement was perceived as a vehicle to perpetuate Iran's subjugation to Britain, undermining its own sovereignty. The backlash was swift. In the 1950 elections, the *Majles* saw a significant shift as the debate over oil took centre stage. The nationalist National Front, a coalition of groups and parties led by Mohammad Mossadegh, emerged as a dominant force. Their platform, rooted in opposition to the Supplementary Agreement and a rejection of subservience to foreign interests, secured them substantial gains in the new parliament. After months of rising nationalist sentiment, the *Majles* finally acted on March 14, 1951. Just four days after Aramco and Saudi Arabia agreed on the 50:50 profit sharing agreement – something Iran had been

[88] Bamberg, *The History of the British Petroleum Company,* 290.
[89] For a detailed discussion of the Supplementary Agreement, see Bamberg, *The History of the British Petroleum Company*, 398.
[90] Calculations based on figures provided in Bamberg, *The History of the British Petroleum Company,* 398.

repeatedly denied by the British – the *Majles* voted to nationalise Iranian oil. The AIOC was officially designated the 'former company,' and the newly established National Iranian Oil Company (NIOC) was granted control over the nation's oil resources.

The nationalisation of the AIOC precipitated a severe balance of payments crisis in Britain, with Churchill warning that it, 'threatened to destroy the value of sterling'.[91] By 1951, Britain no longer wielded the economic power to sustain its imperial ambitions, and Iranian oil had become pivotal to the British economy. The UK's current account deficit stood at £419 million, and the Treasury acknowledged that Iranian oil was the 'difference between a just manageable position and a completely hopeless one.'[92] Negotiations with Iran quickly unravelled, as every offer by the AIOC clashed with the principle of nationalisation – each designed to maintain effective British monopoly over Iran's oil revenue. For HMG, Iranian oil was not just a vital resource; it was the 'last remaining bulwark of British solvency,' leaving little room for compromise with Mossadegh.[93]

Nationalisation initiated a zero-sum struggle. As Ervand Abrahamian notes, the operative word of the twenty-eight months crisis from April 1951 to the coup in August 1953, was 'control.'[94] For Iran, control meant sovereign authority over its national resource - the power to explore, produce, export oil, and, crucially, to manage its revenues. For Britain and the AIOC however, it signified a loss of control over oil extraction, production, and profits, which threatened to further undermine the UK's already dire economic position. When the Hague ruled in favour of Iran's legal right to nationalisation, HMG responded by freezing its assets, threatening to impound any tanker carrying 'stolen' oil from Iranian ports, and warning companies against

[91] Galpern, *Money, Oil and Empire in the Middle East*, 106.
[92] Ibid., 107.
[93] Ibid., 122.
[94] Abrahamian, *A History of Modern Iran*, 82.

dealing with Iran.[95] These months of confrontation not only deepened mistrust and suspicion, but also left a profound and enduring legacy that would shape relations for decades. For Iranians, the nationalisation crisis became a pivotal episode imprinted on the nation's collective memory, symbolising a history of exploitation and imperial intervention. Meanwhile, for Britain, it marked a significant setback in maintaining its influence over global resources. This legacy of mistrust and resentment, already deeply entrenched, was about to be compounded by the 1953 coup and the subsequent oil agreement, cementing a profound sense of exploitation and foreign dominance in Iran's collective consciousness, and further entrenching the fraught dynamics that would characterise Anglo-Iranian relations for decades.

The August 19, 1953, coup, code-named Operation Ajax, was a meticulously orchestrated effort by British and American intelligence, aimed at overthrowing Mossadegh and reclaiming control over Iran's oil. The groundwork for the operation was laid soon after Eisenhower's election in 1952, when British officials successfully lobbied their American counterparts by stressing the Communist threat.[96] The operation comprised of two parts: widespread instability to destabilise the government and a conventional military coup to topple the government.[97] Central to the plan was the shah, whose role provided the necessary 'quasi-legal cover' for the coup.[98] Kermit Roosevelt, the CIA operative spearheading the mission, assured the hesitant Mohammad Reza Shah that the US would offer 'adequate aid' in the aftermath, while Britain promised a 'generous oil agreement,' in the 'spirit of goodwill.'[99] The plan also relied on a relentless psychological campaign, manipulating public perception and deploying covert military action, ultimately installing General Fazlollah Zahedi as prime minister. Though the

[95] Ibid., 111.
[96] Mark J. Gasiorowski, "U.S. Perceptions of the Communist Threat in Iran during the Mossadegh Era," *Journal of Cold War Studies* 21, no. 3 (Summer 2019): 209.
[97] Abrahamian, *A History of Modern Iran,* 172.
[98] Milani, *The Shah*, 183-184.
[99] Abrahamian, *A History of Modern Iran,* 180.

first attempt failed, the second succeeded - sparking orchestrated riots, street protests, and mobilising military intervention, which brought down Mossadegh's government. The street mobs, devoid of any clear ideology, were bribed with American dollars, paid to unleash chaos and drive the country towards regime change.[100]

The legacy of the oil nationalisation crisis and the 1953 coup is 'impossible to underestimate.'[101] The collusion of foreign powers to manipulate the internal affairs within an independent nation, in order to seize control over its national resources, has cast a long shadow over Iran. Abrahamian identifies four substantial legacies: the denationalisation of the oil industry, the dismantling of secular opposition, the fatal delegitimisation of the monarchy, and the exacerbation of an already pervasive political paranoia.[102] The coup severely damaged the monarchy's credibility, linking the shah directly to the British, the AIOC and broader imperial interests. However, the experience reinforced the shah's belief in the necessity of self-reliance, economic independence and military strength as pillars of Iran's sovereignty. These priorities would come to define his political strategy, often relying on strategic brinkmanship. The enduring resonance of this era is reflected in Iran's commemoration of the oil nationalisation bill, which, as Ansari observes, is celebrated as the closest event to a national independence day.[103]

In mid-1954, the shah settled the long-standing oil dispute by finalising an oil agreement that established a 50:50 profit-sharing arrangement with a Consortium of international oil companies. Under this agreement, the AIOC, now renamed British Petroleum (BP), secured 40% of the shares, while Royal Dutch Shell held 14%, Compagnie Français 6%, and the five

[100] Kinzer, *All the Shah's Men*, 10.
[101] Ansari, *Confronting Iran,* 36.
[102] Abrahamian, *The Coup,* 207.
[103] Ansari, *Confronting Iran,* 36.

American majors collectively claimed 40%.[104] The Consortium secured 'exclusive control over the right to explore for, drill for, produce and refine, as well as the right to transport and export oil,' alongside controlling its transportation and export.[105] Despite NIOC retaining ownership of the oil fields and refineries, the Consortium became the effective masters of Iran's oil production. Sir Denis Wright, the British chargé d'affaires and future Ambassador, aptly observed that the arrangement was a 'formula' that gave Iran the appearance of sovereignty, while the Consortium maintained effective control.[106]

The British emerged with a significant victory. Given that Shell, which held 14% of the shares, was also a British company and BP controlled 40%, Britain effectively maintained controlling shares in the Consortium.[107] In essence, Britain had won the battle for control over Iranian oil. Despite BP losing its monopoly, it received £25 million in compensation from the Iranian government and £32 million from the other Consortium participants. BP's financial gains were so considerable that the company paid an £80 million bonus to its shareholders in November 1954.[108] While Iran was left with a token gesture of nationalisation, the Consortium had devised a perfectly organised system that ensured its control over Iranian oil production.

The oil nationalisation and the coup left an indelible mark on Iran's collective memory. Abrahamian contends that it deepened the already pervasive sense of paranoia within the

[104] The 40% of the American majors was split equally between: Gulf, Texaco, Mobil, Standard Oil of New Jersey, and Standard Oil of California, each receiving 8%. This arrangement was later modified in April 1955 when each of the US major companies gave up 1% of its holding so that a 5% share could be made available for nine smaller independent US oil companies.
[105] Abrahamian, *The Coup,* 207
[106] As quoted in Abrahamian, *The Coup,* 208.
[107] Royal Dutch Shell was the result of a merger between the Royal Dutch Petroleum and the British, Shell PLC, rendering it 60% Dutch and 40% British. It was treated by HMG as a British enterprise. In 1948, Shell and the AIOC signed a joint twenty-year agreement to coordinate all their activities over prices, production and working within the sterling area.
[108] Anthony Sampson, *The Seven Sisters: The Great Oil Companies & the World They Shaped* (New York: Viking Press, 1975), 148.

political culture, with politically aware citizens convinced that real power resided in 'hidden hands' and that national figures were mere puppets controlled by 'foreign strings.'[109] He further explores the lexicon that emerged from this shift in consciousness, such as *tuteh* (plot-conspiracy), *dast-e panha* (hidden hand), *poshteh-e pardeh* (behind the curtain).[110] The coup also had a lasting effect on the shah, who had long been wary of British intentions. By the late 1950s, many of the figures, who had collaborated with the CIA and MI6 to restore him to the throne had been removed from the national scene.[111] As is evident in his *Answer to History,* the events of pre-1955, when the British encroached on Iranian sovereignty, haunted the shah, fostering a deep-seated mistrust of the British government that would influence his reign.[112]

Equally, the events of 1951 had a fundamental impact on British policy, something that has been illuminated with Rohan Butler's 1962 report on *British Policy in the Relinquishment of Abadan in 1951.* Commissioned as an internal "departmental history," Butler's analysis was notable for its candour and its effort to draw political, personal, and administrative lessons from one of Britain's gravest post-war reverses. He identified the relinquishment of Abadan as a symbolic marker of imperial decline and criticised the complacency, legal formalism, and incoherence that characterised the British response.[113] The report underlined the dangerous gap between Britain's waning power and its continued assumptions of global influence, noting that

[109] Abrahamian, *The Coup,* 220.
[110] Ibid., 220. (Persian transliterations cited in the text follow Abrahamian's usage)
[111] Ibid. 221.
[112] The shah accused the British of constant interference in Iranian affairs. He contends the British invaded Iran in 1941 with the primary objective of removing his father, who had angered them by cancelling the oil concession. He accuses the British of supporting Mossadegh to 'clip his wings,' accusing the Iranian nationalist of being a British spy. The shah asserts that the British had a 'hand' in the creation of the Tudeh Party and that they even plotted to assassinate him in 1949. Concluding that in the end, the British conspired with the oil companies to engineer the Islamic Revolution as retribution for his championing of OPEC. Mohammad Reza Shah, *Answer to History* (New York: Stein and Day, 1982).
[113] Gill Bennett and Richard Smith, eds., *Britain and the Abadan Crisis, 1950–51* (London: Foreign, Commonwealth and Development Office, 2017; online ed. 2022), https://www.issuu.com/fcohistorians, 435-437.

policy towards Persia was "at once too rigid and too weak."[114] It condemned the poor coordination between the Foreign Office, Treasury, and the Anglo-Iranian Oil Company, whose narrow commercialism was politically disastrous, and lamented the failure to grasp the strength of Iranian nationalism or to act upon Ernest Bevin's earlier warnings of the need for a more equitable oil settlement.[115] Equally striking was Butler's recognition that Britain's reliance on military and legal instruments had obscured the need for political realism and foresight. His administrative conclusions stressed the importance of maintaining institutional memory, strengthening analytical capacity, and ensuring that the Foreign Office retained personnel of "the highest calibre and character."[116] Though written in the early 1960s, Butler's self-scrutiny anticipated a shift in British policy-making: by the mid-1960s the Foreign Office's new Planning Staff embodied the very reforms he advocated, and its cautious, managerial approach to the shah's Iran—marked by technocratic engagement through oil, arms, and intelligence—owed much to the lessons drawn from Abadan.

The intricate dynamics that shaped Anglo-Iranian relations in the second-half of the twentieth century have their roots deeply embedded in earlier historical events. The themes of sovereignty, independence, and self-reliance that the shah so fervently pursued were profoundly anchored by his and Iran's experiences of Britain. The two world wars established oil as an indispensable strategic resource, where control over it translated into both military and economic power. For HMG, oil was central to preserving Britain's imperial strength, and Iran, with its vast reserves, became a key player in Britain's foreign policy. The British government not only monitored but actively interfered in Iran's domestic affairs to maintain control over its oil. The 1953 coup further exacerbated this dynamic, deepening the mistrust

[114] Ibid., 93.
[115] Ibid. 103.
[116] Ibid., 447.

and entrenching suspicion in the relationship for decades to come. Britain's role within the Consortium, established after the coup, solidified the shah's complex and fraught relationship with foreign powers, further embedding this mistrust. These historical realities laid the groundwork for a nexus between oil, arms and geopolitics, where British dominance would clash with the shah's relentless pursuit of sovereignty, setting the stage for a prolonged struggle over control for Iran's oil.

1.7 Thesis Structure: A Chapter Overview

Chapter two examines the period from 1955 to 1960, when the balance of power began to shift gradually between HMG and the shah. During these six pivotal years, the shah sought to redefine the terms of engagement with Britain against a backdrop of regional instability. These chapters show how national interests clashed, alliances were tested, and the complexities of the relationship – particularly concerning oil – became increasingly visible. For Britain, oil remained essential: Iranian oil revenues buoyed the economy and underpinned the sterling area, reinforcing the importance of influence over the shah. Yet, while the 1954 Oil Agreement replenished the coffers of HMG and the Consortium, it constrained the shah, fuelling his own growing frustrations. This chapter traces the emergence of a precarious triangular relationship between HMG, the Consortium and the shah, in which Britain often found itself mediating the shah's persistent demands for increased oil production, and examines how this mediation shaped political relations. It argues that the 1956 Suez Crisis exposed the limits of Britain's regional authority, especially over the flow of oil and marked a turning point for the shah, who now regarded ambitions for Iranian sovereignty, economic independence, and military modernisation as tangible rather than remote.

The chapter argues that, while the shah secured a stronger geopolitical footing by the decade's end, bolstered by OPEC's creation, his relationship with Britain never fully recovered from his brief dalliance with the Soviet Non-Aggression Pact in 1959. This flirtation left a lasting distrust, with Britain 'never trusting him again. Never.'[117] The dynamics of this six-year period set the stage for the shah's strategic manoeuvring over the next two decades, shaping the complex relations with HMG that followed.

Chapter three examines one of the most transformative decades in the shah's relations with HMG, tracing the power shift between 1961 to 1971, with the balance swinging in the shah's favour by 1965. The surge in oil revenues fuelled Iran's economic transformation and emboldened the shah to confront the Consortium and HMG, often in ways British officials described as brinkmanship. British foreign policy remained focused on preserving influence – both over the flow of oil and over the shah – yet the decade saw the shah emerge as a deft strategist, leveraging his ties with Britain against the United States and the Soviet Union. However, political relations remained overshadowed by a deep-seated distrust of a *perfidious Albion*, as the shah's wariness of British intentions continued to shape their interactions.

The chapter argues that oil relations emerged as the central arena for the power play between the shah and HMG, with each side vying for leverage and control, shaping the trajectory of their political and economic interactions. This dynamic also strongly influenced British perceptions of the shah, who came to be viewed as a less reliable ally, prone to unpredictable manoeuvres and escalating demands. The chapter provides an in-depth analysis of the annual oil crisis standoffs between 1962-1971, an exploration that has not been previously done in such detail. The shah's bold moves during these standoffs reveal a monarch steadily

[117] Milani, *The Shah,* 229.

consolidating his position as a petro-state leader and demonstrate the lengths to which he was prepared to go to secure his objectives. The oil negotiations underscored his strategic acumen, highlighting both his growing influence and the corresponding diminution of HMG's leverage. With each successful demand, he set a new yearly precedent, intensifying the stakes and creating a cycle of escalating expectations that reshaped the terms of engagement in the years that followed.

Chapter 4 examines the impact of Britain's withdrawal from the Persian Gulf between 1968 to 1971, a shift that altered the balance of power between HMG and the shah, sowing the seeds of an oil-arms nexus. For the shah, British withdrawal signalled that Iran was now the 'heir apparent' in the Gulf, a perception reinforced by the surge in oil revenues. This economic transformation turned Iran from a low-priority military aid recipient to a significant military credit purchase partner. Britain's exit not only revealed its tangible decline but also exposed the power dynamics as they entered negotiations over key territories like Bahrain, and the islands of Siri, Abu Musa and the Lesser and Greater Tunbs, reflecting the changing relations between HMG and the shah.

As Britain's economic struggles weakened HMG's influence over the shah, the interplay of oil and arms became increasingly evident. The shah's insatiable appetite for advanced weaponry aligned with Harold Wilson's arms commercialisation drive, intertwining Iranian oil with British arms sales. By the 1970s, this entanglement had crystallised the oil-arms nexus, with HMG attempting to regain leverage through the recycling of petrodollars. While the 1960s are often overshadowed in the literature, this chapter contends that the decade marked a decisive shift in the power balance between the shah and HMG.

Chapter five examines the 1973 Oil Crisis and the high-stakes oil negotiations that preceded it. The crisis significantly altered the power dynamics between HMG and the shah, catapulting him into a position of unparalleled dominance. Buoyed by the successes of the 1971 Tehran Agreement and the resulting surge in oil revenues, the shah consolidated his regional and internal power to a level previously deemed 'unthinkable.'[118] His negotiations with the Consortium – in which British interests were deeply engaged – shifted markedly, from an acceptance of 'partnership' in 1972 to demands for a 'Purchase-Sales Agreement' by 1973. This shift effectively dismantled the Consortium's direct control over Iranian oil operations, which had been in place since 1954. Amidst a brewing energy crisis and rising inflation, HMG's approach toward the shah morphed into one of appeasement, marking a new era of deference in the relationship. As a result, the oil-arms nexus moved from its germinal to its embryonic phase, whereby defence sales surged, British exports to Iran rose by 70% by 1973, and HMG pursued deeper integration into the Iranian military apparatus. By October 1973, with the eruption of the Yom Kippur War and the unleashing of the oil weapon, the gameboard shifted dramatically, redrawing the global landscape.

The shah's role at the December 1973 OPEC Conference in Tehran marked a watershed moment in Anglo-Iranian relations. The shah's refusal to heed HMG's pleas to hold oil prices steady amid Britain's economic turmoil starkly illustrated the shift in power: Britain's ability to exert pressure was now minimal, leaving arms sales as the principal area of engagement. As the international monetary system faltered, economic growth plummeted, and inflation soared, the shah presided over unprecedented oil wealth. Oil prices, which had been $1.80 per barrel in 1970, surged to $2.18 in 1971, $3.01 by autumn 1973, and $5.12 in October 1973, eventually

[118] FCO 8/1882, Ambassador Ramsbotham Report 'The Survival of the Persian Monarchy,' 8 June 1972, TNA.

skyrocketing to $11.65 in January 1974 – while the cost of production remained at $0.12.[119] Iran's oil income exploded from $19 million in 1955 to $21.4 billion in 1973. The shah's assertive role in raising posted prices at the 1973 OPEC summit cemented HMG's growing economic and political reliance on the oil-arms nexus. This shift further tilted the balance of Anglo-Iranian relations in the shah's favour, reducing Britain's room for manoeuvre and compelling HMG to adjust to a new reality. As David Owen later observed, British policy became one of unquestioning deference to the shah - 'support for the shah, warts and all.'[120]

Chapter six explores the economic upheaval caused by the quadrupling of oil revenues, which sparked a hyper-boom in Iran and gave birth to the oil-arms nexus (1974 – 1979). The shah, captivated instead by his new-found role as the 'moralist' of global oil, dismissed signs of an overheating economy, preferring instead to lecture the West on its 'waste and inefficiency,' and the need to 'conserve this noble product.'[121] During this period, economic and strategic interests became tightly intertwined, with British arms sales to Iran increasingly funded by the country's oil revenues, culminating in direct oil barter deals. The 1976 £300 million BAC Rapier Deal exemplified this dynamic and became a template for the oil-arms nexus.[122] The chapter highlights how economic imperatives came to outweigh political and strategic considerations, as the UK's financial stability grew more dependent on arms exports to Iran. HMG navigated the shah's ambitions for higher oil prices to support his 'Big Push' strategy, while Britain grew reliant on Iranian oil money. As the shah's military aspirations expanded, Britain became entangled in a complex web of commercial, political and military interests. The British Embassy, conscious of the importance of arms contracts, chose to remain silent on the

[119] Bamberg, *British Petroleum and Global Oil,* 484.
[120] Owen, *Time to Declare*, 394/395.
[121] Hossein Razavi and Vakil Firouz, *The Political Environment of Economic Planning in Iran, 1971-1983 from Monarchy to Islamic Republic* (London: Routledge, 2021), 64.
[122] Rodney Wilson, "Oil for Arms Barter with West," *The Times*, October 4, 1974

disastrous socio-economic impacts within Iran. Tensions sharpened in December 1976, when Saudi Arabia introduced a two-tier price system that undercut the shah's position and contributed to mounting strains on the Pahlavi state.

The chapter also examines the consequences of this nexus, including its impact on British diplomatic behaviour, alliances, and how the narrowing policy options as the shah's regime weakened. Despite Iran edging toward economic crisis and social upheaval, haemorrhaging $20 million a day, HMG continued to prioritise its commercial interests. British officials later acknowledged their inability to influence the shah effectively, failing to 'infuse him with the decisiveness and ruthlessness necessary.'[123] Embassy activities increasingly blurred the lines between diplomacy, intelligence, and arms sales, all in service of sustaining the commercial drive. The shah, once seen as a 'gamble,' became a risk too great to sustain as revolutionary forces, embodied by Ayatollah Khomeini, made that gamble untenable. Britain's effort to anchor its influence in Iran through the oil-arms nexus unravelled alongside the Pahlavi regime. This chapter underscores how the convergence of oil and arms shaped Anglo-Iranian relations in the 1970s and contributed to the limits of British policy as the revolution approached.

[123] Owen, *Time to Declare,* 387.

CHAPTER 2

New Terrain, New Challenges: The Evolution of an Uncertain Partnership, 1955 – 1960

2.1 Introduction

In September 1956, the British diplomat JW Russell braved a 'cold and sour' reception from the shah, underscoring the 'very delicate and fragile' state of Anglo-Iranian relations.[124] There had been a 'characteristic muddle' surrounding the time of their audience, reflecting what the Ambassador termed a 'bad state of relations.'[125] The shah's suspicion and unease was palpable, as Russell sensed the monarch believed he was dancing to the British Embassy's tune.[126] The stakes were high as the shah aimed to chart a new course for Iran, towards a path of self-sufficiency, independence, and sovereignty, and the slightest misstep threatened disaster for the already tenuous relationship between the two states. A seemingly minor translation error by the British Embassy ignited a firestorm: a letter of thanks from the shah to Queen Elizabeth II regarding flood relief had used the word 'graciously' – a term that in Persian reinforced the servant-master relationship.[127] Offended, the shah viewed the error as more than a diplomatic blunder; it was a stark reminder of the dynamic he sought to escape. Headlines across Iran magnified the incident, leaving the shah livid and wondering what his people would think of him. Breaking from protocol, he decried to Russells, 'What will my people think of me?' and asked pointedly, 'Is this a deliberate insult marking a revival of the old British attitude?' – an attitude he had long-resented. The weight of history loomed over the shah, as memories of his father's forced exile and the British-American coup of 1953 to restore him to power, cast a long

[124] FO 248/1568, JW Russell to DMH Riches, 3 September 1956, TNA.
[125] Ibid.
[126] Ibid.
[127] Ibid.

shadow over his reign. The shah remained suspicious and resentful, notorious for bearing grudges against those who had offended or slighted him.

The six-year period of Anglo-Iranian relations from 1955 – 1960 marked a subtle shift in the power dynamic between the two nations, offering an opportunity to carve out new rules of engagement and redefine their relationship on the global stage. The Middle East was undergoing significant geopolitical realignments, with the rise of nationalism and the consequences from the 1956 Suez Crisis reshaping regional alliances and global power dynamics. Domestically, the shah grappled with an array of challenges, from managing American financial aid and navigating volatile global oil prices, to dealing with rising discontent within his own armed forces. The region's volatility was evident in coups in Egypt, Iraq, and Turkey while internal unrest simmered within Iran. By 1958, the Tudeh Party had infiltrated key posts in the Iranian army, and the American National Security Council estimated that 20% of the Iranian Army was disaffected.[128] The Gharani Affair of 1958, an attempted military coup led by General Mohammad-Vali Gharani, a former supporter of the 1953 coup, further threatened to destabilise the shah's hold on power. Although the plot was uncovered and Gharani dishonourably discharged, the shah remained convinced that the American Embassy had encouraged the attempt to overthrow him.[129] By that same year, however, he had managed to consolidate control, securing his position amidst a fragile and unpredictable environment.

This chapter argues that between 1955 and 1960, the shah's relentless pursuit of sovereignty and self-reliance, through securing greater oil revenues, fundamentally shaped his relationship

[128] Abbas Milani, *The Shah* (New York: Palgrave Macmillan, 2011), 205.
[129] For a detailed account, see Milani, *The Shah,* 207-213.

with Her Majesty's Government (HMG). Securing these goals was not only essential for Iran's economic development but also for transforming the country into a formidable military power. However, these ambitions clashed with HMG's interests in retaining control over the production and export of Iranian oil through the endurance of the oil settlement. For Britain, maintaining economic and political leverage over the shah was critical to safeguarding control over Iran's oil. The chapter contends that the 1956 Suez Crisis marked a turning point in relations, exposing the decline of Britain's influence in the Middle East, while simultaneously emboldening the shah with a renewed sense of mission. As Cold War tensions escalated, the shah manoeuvred between the West and the Soviet Union, and by 1960, with the formation of the Oil Producing Exporting Countries (OPEC), he had consolidated his power and influence, positioning Iran in a significantly stronger position than at the start of the decade. These six years were characterised by a struggle between British dominance and Iranian resistance, with both sides carving out of a new set of rules for engagement.

The terms of Iran's re-engagement with the UK in 1955 were harsh. The decade opened with the nationalisation of oil and a British-engineered coup, but by its close, this chapter reveals a shah emboldened to negotiate a Non-Aggression Treaty with the Soviet Union and take control of oil pricing. Although the shah eventually rejected the Treaty in 1959 under intense British and American pressure, the end of the decade stands as a testament to the subtle erosion of British power and the shah's growing geopolitical acumen.

2.2 Political Re-engagement and the Shah's 'Sorest Spot'

Diplomatic relations between Iran and the UK resumed on precarious terrain. By early 1955, oil negotiations – described by Ambassador Stevens as having been conducted in a 'spirit of

mutual goodwill' - had been concluded.[130] With this resolved, British attention turned to Iran's long-term internal problems, primarily economic, but also the 'serious Communist plot to overthrow the regime and the armed forces.'[131] Prime Minister Anthony Eden outlined Britain's strategic objectives for Iran, asserting that 'the country should achieve stability and economic and social progress so that she may more effectively resist Russian penetration in all its forms,' adding that such stability was, 'essential to the endurance of the oil settlement.'[132]

As the Cold War intensified, Iran emerged as both a strategic asset and a potential liability for the West. Its vast oil resources, so decisive for the Second World War, were invaluable. However, its geographical position and domestic instability made Iran, in British eyes, 'fickle' and vulnerable to Soviet influence. British Foreign Office correspondence reveals that Anglo-American solidarity, embodied in the Consortium, was central to British policy in Iran.[133] Yet, HMG underestimated the consequences of their own political manoeuvres. The 1953 coup, intended to not only control oil but also to limit Soviet influence, inadvertently solidified Iran's commitment to sovereignty and self-reliance.

The shah's 'desire to see Persia militarily strong' dominated the first meeting with the British Ambassador.[134] This fixation on military power would define his reign, with sovereignty and self-reliance tied to Iran's physical military might. John Foster Dulles, Secretary of State under Dwight D. Eisenhower, described the shah as having a 'military obsession,' viewing himself

[130] FO 416/108, Sir Roger Stevens Annual Review, 4 January 1955, TNA.
[131] Ibid.
[132] Ibid.
[133] The term 'Consortium' refers to the group of international oil companies that entered into the 1954 Consortium Oil Agreement with Iran on the profit-sharing of oil revenue. The Consortium was explicitly made-up of: BP (40%), Royal Dutch Shell (14%), Compagnie Français (6%), Standard Oil Company (8%), Socony-Vacuum Oil (8%), Standard Oil Company of California (8%), Texas Company (8%), and the Gulf Oil Company (8%).
[134] FO 416/108, Sir Roger Stevens Annual Review, 4 January 1955.

as a 'military genius' determined to make Iran a dominant regional power.[135] Despite efforts to normalise relations after the 1953 coup, interactions were clouded by profound mistrust and a 'deep slime of suspicion.'[136] Between 1955 and 1960, nearly all British exchanges with the shah focused on his pleas for more budgetary assistance or higher oil revenues, all aimed at bolstering Iran's military capabilities. Although political relations may have improved during this period, Iran was still viewed as an inferior partner – a reality that frustrated the shah. The signing of the Turkish-Pakistan Defence Pact and the Anglo-Egyptian Agreement, which included provisions for Turkey but not Iran, underscored Iran's 'isolated and weak' status.[137] Iran was initially deemed unfit to join a broader Middle East defence system – a perception that would shift with the establishment of the Baghdad Pact.

The Shah's Visit to the UK: A Fragile Balance Between Progress and Suspicion

The political relationship between Iran and the UK remained fragile throughout the 1950s. However, a shift in tone began to emerge, marked by a series of events that suggested a potential easing of relations. The shah's visit to the UK in February 1955 sparked a surge of optimism and excitement. Iranian newspapers praised the 'new look' in British policy towards Iran, calling for a fresh start and urging that the past should be forgotten in favour of a new era of cooperation, possibly cemented with a regional defence agreement.[138] The British exceeded expectations in welcoming the shah, turning his visit into a grand spectacle. As the RMS Queen Mary entered the Channel, four Shackleton RAF aircraft escorted it, and a 21-gun salute was fired upon its arrival. The Duke of Wellington greeted the shah warmly, and the shah reciprocated with a speech celebrating the historic bond between Iran and Britain.

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[135] Milani, *The Shah,* 237.
[136] FO 416/108, Sir Roger Stevens Annual Review, 4 January 1955.
[137] Ibid.
[138] FO 416/108, Sir Roger Stevens to Sir Anthony Eden, 23 February 1955.

The shah emphasised Iran's strategic importance to the West's defence in the region, noting 'a strong Iran…would undoubtedly be a major asset in the tanks of freedom and peace-loving nations.'[139] The shah lauded the UK for supporting Iran in its national aspirations, strengthening its ties with enhanced aid and friendship.[140] After taking tea with the Queen the next day, he visited the Biggin Hill RAF Aerodrome, inspecting every detail of the fighter station and 'showing great interest in everything' – a presage of what was to come.[141] As the shah bid farewell to the UK, he was confident that the friendship between the two nations would help 'strengthen the sinews of the freedom-loving nations' and ensure global security.[142]

In early 1956, Anglo-Iranian relations continued to blossom. The Ambassador noted that his meeting with the shah was 'unusually easy and friendly,' struck that, for the 'first time there were no innuendos of suspicion' toward British policy or 'any mud raking over the past'.[143] The shah likened this new phase to a vibrant spring, 'a new time for life...[that] would open a new page in the history of Iran'.[144] Yet, as the year drew to a close, the transition from winter to spring remained unclear. Stevens described the progress of relations as 'steady' but 'unspectacular,' with 'old suspicions still running close to the surface.'[145] The British were often blamed for the Iranian government's shortcomings, particularly its failure to improve living standards.[146] British policy sought to rebuild its image through parliamentary visits to demonstrate that they regarded Iran as an independent, sovereign nation.[147] Among the

[139] FO 416/108, Roger Stevens to Anthony Eden, 25 February 1955.
[140] Ibid.
[141] Ibid.
[142] Ibid.
[143] FO 248/1568, Roger Stevens – Minutes of Audience with HIM, 30 January 1956.
[144] Ibid.
[145] FO 371/127071, Roger Stevens to Selwyn Lloyd, 18 January 1957, TNA.
[146] Ibid.
[147] Ibid.

educated elements of Iranian society, there was a growing acknowledgement that the 'British no longer interfered in all the devious ways in Iranian life.'[148]

Despite these developments, political relations remained mired in suspicion and mistrust. By July 1955, the Foreign Office had gathered intelligence warning that the shah's ineffective leadership and failed attempts at direct rule were driving the country towards serious disorder.[149] Discontent spread rapidly within the army, fuelled by rumours that the shah's inner circle was comprised of private advisers linked to the Tudeh Party. Confidence in the regime had eroded so significantly that British interests were threatened, creating a dangerous vacuum that could enable a resurgence of the Tudeh. The situation grew so dire that whispers of a military coup 'on the Egyptian model' echoed across Tehran, with intelligence reports indicating that the 'present government is unable to continue for very much longer.'[150]

Britain, deeply invested in Iran's stability and prosperity, faced a difficult dilemma. The deterioration was severe, yet it remained a most 'delicate matter to advise the shah outright.'[151] As to 'advise him to rule rather than to govern would touch him on the sorest spot and would only confirm his suspicions that we must be working against him.'[152] The mistrust, born from Britain's role in ousting his father, Reza Shah, and in removing Mossadegh, ran so deep that British policymakers chose to risk a possible Communist revival in Iran rather than share their intelligence with the shah.[153]

[148] Ibid.
[149] FO 416/108, Macmillan to Wright, 30 July 1955.
[150] Ibid.
[151] Ibid.
[152] Ibid.
[153] FO 416/108, Roger Stevens to Anthony Eden, 4 January 1956.

The 'Old Chestnut' of Bahrain: A Metaphor for Anglo-Iranian Relations

Iranian sovereignty, particularly over Bahrain, which had been under British protection since 1861, stood as a thorn in the side of Anglo-Iranian relations. The unresolved 'old chestnut of Persian claims to Bahrain' had lingered since the 1954 negotiations, with Iran regarding Bahrain as an integral part of its territory.[154] The British however, dismissed these claims as 'unjustified and ridiculous,' attributing them to the shah's geopolitical manoeuvring.[155] Tensions rose in the 1950s when Iran demanded control over the landing of foreign aircraft in Bahrain, a direct challenge to British authority. HMG, resolute, insisted on defending the interests of Bahrain's ruler 'in the same manner as any British territory.'[156] In April 1956, Iran's Foreign Minister, Dr Ali Ardalan, reignited the controversy, declaring Bahrain as part of Iran and warning that any foreign interference would be seen as meddling in Iranian domestic affairs.[157]

During this period, Bahrain symbolised the tense and intricate state of Anglo-Iranian relations. The shah carefully manoeuvred as he sought to redefine the terms of engagement between Iran and Britain. Some British officials however dismissed this manoeuvring as 'Iranian idiocy.'[158] Bahrain offered a chance to test the boundaries, while simultaneously reinforcing Iran's claim to sovereignty - a critical aspect of the shah's geopolitical strategy in the Persian Gulf.

In September 1956, a seemingly small incident brought the issue of Bahrain to a head. *Ettela'at* published a story in which Reggie Burrows, the British Embassy spokesperson, reportedly remarked that 'Bahrain is closer to Arabian shores and only seven percent of its population is

[154] Ibid.
[155] FO 371/120595, Roger Stevens to DMH Riches, 10 April 1956, TNA.
[156] FO 371/120595, Report – 'Iranian Claim to Bahrain,' 24 February 1956.
[157] FO 371/120595, Roger Stevens to the Foreign Office, 8 April 1956.
[158] FO 371/120595, Unattributed minute on the Iranian claim to Bahrain, 26 September 1956.

Persian.'[159] He further asserted that HMG recognized the Sheikh of Bahrain as the legitimate ruler and dismissed Iran's claims as unfounded.[160] The remarks ignited protests from the Iranian Ministry at an inopportune moment, given the ongoing Suez Crisis. Iranian ministers, already under nationalist fire in parliament and the press, expressed frustration to the British Ambassador, noting their restraint in not advancing Iran's claim to Bahrain – sacrificing popularity at home for the sake of securing the Baghdad Pact and improving relations with Britain.[161]

Burrow's comments exacerbated already tense relations. They coincided with the Iranian Foreign Minister's departure to Cairo to discuss the Suez issue with Abdul Nasser on HMG's behalf. HMG perceived that the Iranian government felt it was in 'an excessively difficult and delicate position,' accusing Britain of inflaming 'a point of the sharpest discord in the Middle East.'[162] British officials struggled to grasp the depth of Iran's anger and the intense importance of sovereignty in the Iranian narrative after World War II and the 1953 coup. The Foreign Office dismissed the situation, concluding that 'the Iranian government are feeling very emotional.'[163]

Though British diplomats failed to fully comprehend the emotional weight of sovereignty in Iran's political landscape, they did recognise that Bahrain had become a stage for the shah's broader geopolitical manoeuvres in the Gulf. It may have reflected 'wishful thinking' on Iran's part, but it foreshadowed Britain's waning influence in the region - presenting a monumental opportunity for the shah to reshape the rules of political engagement.

[159] FO 371/120595, Translation from Ettela'at, 11 September 1956.
[160] Ibid.
[161] FO 371/120595, JW Russell to DMH Riches, 4 September 1956.
[162] FO 371/120595, JW Russell to Roger Stevens, 3 September 1956.
[163] Ibid.

Political Re-Engagement and The Baghdad Pact

To understand the terms of political re-engagement, it must be examined within the broader Cold War context. The shah's strategies were not formed in isolation but were deeply influenced by the intensifying hostilities between the Soviet Union and the West. These tensions intertwined with the shah's core objectives: sovereignty, self-reliance, and economic development. His geopolitical manoeuvring, rooted in these goals, facilitated Iran's transformation into an emerging military power. Central to this was the Baghdad Pact, later renamed the Central Treaty Organization (CENTO), that bound the UK, Iraq, Turkey, Pakistan, and Iran in a strategic alliance aimed at containing the USSR. Modelled after the North Atlantic Treaty Organization (NATO), the Pact's purpose was to create a protective frontier of strong states along the Soviet Union's southwestern border.

The *Majles* ratified Iran's adherence to the Pact on October 25, 1955, where the shah addressed the Senate, speaking about the disadvantages of Iranian neutrality in the past and stressing the importance to build up Iranian defensive capabilities within the United Nations (UN) framework.[164] Under pressure from the US and lured by promises of military and economic aid, the negotiations leading to the agreement were difficult, with the Russians sharply opposing Iran's participation through an aide-memoire arguing that adherence was incompatible with maintaining peace. The FCO believed that for Iran the Pact represented more than a military alliance; it was a financial opportunity to position Iran as a 'good and safe field for investment,' an idea reinforced when the UK extended a £10 million credit line shortly after.[165] Though considered one of the least successful Cold War alliances, the Pact was highly symbolic for Anglo-Iranian relations, becoming a tool to exploit Soviet and Western

[164] FO 416/108, Titchner to Macmillan, 26 October 1955.
[165] FO 248/1568, Roger Stevens to Foreign Office, 4 January 1956.

insecurities and manoeuvre for additional funding. Aligning with the West, the shah hoped to receive further American budgetary aid to ease Iran's financial deficit, but as months passed without American support, the situation began to shift.

Within months, many Iranian officials began to view the Pact as 'useless' for Iran, offering neither economic benefits nor adequate defence against mounting Soviet propaganda.[166] The shah's repeated efforts to convince the US and Britain to join as full members proved fruitless, leaving him disillusioned with the Eisenhower Doctrine, which promised to assist any nation resisting Soviet subversion. As Soviet propaganda intensified in 1956, the shah increasingly saw the Pact as offering little in terms of security guarantees against a Soviet attack. He grew frustrated with America's perceived defence line in the Zagros Mountains to protect oil, Britain's inability to commit troops, and the absence of tangible economic advantages. In his eyes, 'the value of the Pact was zero.'[167]

HMG, however, saw it differently. They believed that defence was not just about troops on the ground; the real deterrent came from Soviet awareness that Iran was backed by American and British forces, including atomic bombers and the combined military resources of the Pact's powers.[168] Moreover, Iran had already benefited from $31 million in American budgetary aid – assistance unlikely to have materialised otherwise. By late 1956, the Foreign Office concluded that Iran had proven itself a reliable member of the Baghdad Pact.[169] The Iranians, too, began to appreciate its value, viewing the Pact as pivotal in strengthening its defensive position and securing national independence.[170]

[166] FO 371/120725, S Falle minutes of conversation with Zelli from Iranian Embassy, 16 February 1956, TNA.
[167] Ibid.
[168] Ibid.
[169] Ibid.
[170] In October 1956, the shah revised his stance on the value of the Pact after reviewing intelligence reports concerning Afghanistan. The reports indicated that both the Soviet Union and the Czech Republic had extended

For the shah, the Pact represented an opportunity to secure military assistance – both financial and material – from the US.[171] This support was essential for Iran's ambitious seven-year plan to build-up its military forces. The shah believed that HMG should actively facilitate this aid, seeing the Pact as more than just a defence agreement; it was, in his mind, a pathway to securing Iran's independence and sovereignty through military self-reliance.[172] So eager was the shah to bring this vision to life that he overestimated Iran's role in the alliance and overplayed his own influence in shaping its outcomes.

The Baghdad Pact offered HMG a means to retain influence over the shah. His flirtations with the Soviet Union in 1957 attracted attention but did not prompt a shift in British policy. The prevailing belief was that despite his frustrations, the shah remained fundamentally pro-Western and would never go beyond making 'surface gestures towards the Soviets.'[173] Intelligence reports that year described the shah as having a 'fear of communism,' yet was 'reportedly impressed by the economic advances he observed in the Soviet Union.'[174] His fascination grew after a Soviet charm offensive, beginning with a reluctant 1956 visit to Moscow, where he was paraded as the first reigning monarch to 'ever [be] accommodated in the Kremlin itself … except [for] Napoleon, who hardly counted as a guest.'[175]

The shah pushed the limits of British diplomacy, proudly recounting his stay and boasting of Soviet leaders 'anxious to turn over a new leaf,' and who had 'frankly admitted past mistakes

$290 million to Afghanistan for the purchase of arms. Interpreting this as a strategic move by the Soviets to undermine the Pact through Afghanistan, the shah reassessed the geopolitical importance of the alliance. (FO 248/1568, RB Stevens to DMH Riches, 13 October 1955.)

[171] Ibid.

[172] Ibid.

[173] Milani, *The Shah,* 225.

[174] Ibid., 224

[175] Ibid.

in their policy towards Iran.'[176] Emboldened by these overtures, he toyed with the British Ambassador for an hour and a half over dinner, claiming that 'very attractive, no strings attached' Soviet economic offers were becoming difficult to resist in light of the West's failure to provide competitive alternatives.[177] Though the shah voiced dissatisfaction over the lack of British commercial investment in Iran, British officials remained sceptical. Many suspected these flirtations were tactics to pressure the West for more aid, however, by January 1959, this long-held belief was about to be tested.

Fur Coats, a Mistress, and a Miscalculated Soviet Dalliance

The shah's secret negotiations with the USSR for a Non-Aggression Pact in early 1959 went far beyond mere diplomatic flirtations – it was a bold manoeuvre of brinkmanship. Overestimating both his own leverage and Iran's strategic value to the West, the shah's actions redefined the relationship between Iran and the UK. Denis Wright, a key figure in Anglo-Iranian relations, later confided to the author Abbas Milani, 'after this episode, [Britain] never trusted him again. Never.'[178] Upon learning that Iran was considering a bilateral security pact with the US in October 1958, the Soviets reacted swiftly, sending a threatening note to the shah. They emphasised their military superiority, warning they would make Iran feel an equal 'inconvenience' if it aligned too closely with the West.[179] In response to this threat, the shah took a surprising turn and proposed a treaty of friendship and non-aggression with the Soviet Union. No sooner had the draft text arrived from the Soviet Ambassador, the British Foreign

[176] Ibid., 225.
[177] FO 248/1568, Minutes by JW Russell, 12 October 1956.
[178] Interview with Wright, as quoted in Milani, *The Shah,* 226.
[179] "Soviet Government Statement to the Government of Iran," *Current Digest of the Soviet Press,* XI, no. 31 (September 2, 1959).

Office urgently instructed Denis Wright 'to do all [he] could do to stop the shah…to dissuade the Shah from his perilous path.'[180]

On the morning of January 29, 1959, Wright confronted the shah, who complained bitterly about the Baghdad Pact and a lack of Western aid. The shah exclaimed that the British treated him 'more like a kept woman than a wife,' to which Wright quipped, 'kept women sometimes earned fur coats if they behaved themselves.'[181] Wright beseeched the shah not to sign the agreement with the Soviets, warning him of the dire consequences. With tears streaming down his cheeks, the shah 'prophesied that if he did so, he would eventually lose his throne.'[182] The combined pressure of British disapproval and a threatening letter from President Dwight Eisenhower, which contained an explicit warning that such a move would endanger Iran's security, damage its relations and undermine its independence, compelled the shah to abandon the agreement. Though the Non-Aggression Pact was never signed; the damage was done. The British emerged from the affair with a deep mistrust of the shah, whom one diplomat described as marked by 'vacillations, unreliability, and general tiresomeness.'[183]

Iran had long been caught in the geopolitical struggle between East and West, and as the Cold War intensified, its strategic importance only increased. The shah, however, saw this as a chance to leverage the situation, using it to strengthen Iran's military and economic position while reshaping its relationship with HMG. Despite the challenges he posed, Ambassador Stevens acknowledged it was not possible 'to think seriously about disposing of the shah,' since

[180] Wright Memoirs vol. 2, 315, as quoted in Milani, *The Shah,* 226.
[181] Ibid.
[182] Ibid. 316.
[183] FO 248/1568, Minute by JW Russell describing Evelyn Shuckburgh's opinion, undated.

there was nobody 'half as good' to replace him.[184] The British reluctantly accepted that they had no choice but to tolerate him.

2.3 Fuelling Political Change: The Role of Economic Development in Anglo-Iranian Relations

Economic development is the often-overlooked driver of political change. While political ambitions may chart the course, the engines of progress run on economic power. After the 1953 coup, Iran faced soaring inflation, a staggering budget deficit, and an economy in a state of chaos. This financial instability rendered the state vulnerable to what Prime Minister Eden described as HMG's two fears for Iran: Russian penetration and the collapse of the oil settlement.[185] Consequently, the state's role shifted from mobilising resources in a predominantly agrarian economy to managing a centralised economic surplus. Oil transformed the role of state economy and redefined Anglo-Iranian relations. Economic aid and pressure to reduce the budget deficit dominated nearly all diplomatic meetings between the shah and HMG. This section examines Anglo-Iranian relations in the context of Iran's economic development, focusing on the budget deficit, the Plan Organization and financial aid.

The British and the shah harboured ambitious economic goals for Iran following the coup, understanding that sound fiscal and monetary policy would be crucial to driving progress. Both envisioned an Iran where economic development would steadily increase real per capita income. However, they diverged in their motivations and strategies. For the British, a politically and economically stable Iran was essential not only to counter the growing threat of Communism but also to secure the oil settlement, on which the UK remained heavily reliant.

[184] FO 416/108, Roger Stevens to Selwyn Lloyd, 'The Present Situation in Iran' 31 December 1955.
[185] Ibid.

The importance of the Consortium Agreement to the UK cannot be overstated. The financial toll of the Second World War had been so immense that HMG could not sustain the pound as an international currency without severely straining the domestic economy.[186] The profits generated from British Petroleum (BP) and Royal Dutch Shell, which together accounted for 54% of the Consortium, became vital to Britain's invisible earnings, current account, and reserves. No other firms contributed more to Britain's balance of payments in the post-war period.[187] By 1955, the Treasury concluded that the 'international ramifications of the oil industry are so large and complex as almost to constitute oil a currency in itself.'[188] This 'currency' was reliant on Iran's economic vitality. The Conservative government (1951-1964) therefore championed a strategy of fiscal prudence: reducing the budget deficit, spending within means, and pursuing cautious economic development to prevent inflation and avert recession.

The shah by contrast, viewed economic development as the prerequisite for Iran's independence and the key to protecting its sovereignty from foreign influence. To him, a 'militarily strong' Iran was essential.[189] Achieving this depended on two key elements: higher oil revenues and the compensation he believed Iran was 'owed' for having been overrun and occupied.[190] The shah expected financial aid from both the UK and the US, especially as Iran had not accepted the military and financial offers from the USSR. His strategy was to leverage the Plan and Budget Organization (PBO) to harness Iran's growing oil wealth and propel the country toward modernity, while simultaneously building a strong military and security apparatus. This divergence between the shah's ambitious vision for economic growth and

[186] Steven Galpern, *Money, Oil and Empire in the Middle East: Sterling and Postwar Imperialism, 1944-1971* (Cambridge: Cambridge University Press, 2013), 3.
[187] Ibid., 7.
[188] Ibid., 15.
[189] FO 416/108, Sir Roger Stevens Annual Review for 1954, 4 January 1954, p 3.
[190] FO 416/108, Titchener to Macmillan 'Conversations with the Shah,' 23 November 1955, p 62.

HMG's strategy of caution would further strain Anglo-Iranian relations. The British, despite their efforts, found they could not advise the shah, as any suggestion on how he should rule would, 'touch him on the sorest spot' and 'only confirm his suspicions that we must be working against him.'[191]

The Budget Deficit and the Shah's Frustrations

On January 3, 1956, the shah and the British Ambassador met for their first meeting of the year. There was only one topic on the agenda: Iran's mounting budget deficit. The shah emphasised the difficulty of increasing revenue and reducing expenditure over the next three years, but he saw a clear solution – American financial aid, with HMG's support in securing it.[192] For the British, addressing Iran's budget deficit was critical not only for upholding the Consortium Agreement but also as a bulwark against Soviet influence. However, the shah's vision clashed with this strategy, as it threatened to curtail his military ambitions. Reducing military spending, he feared, would leave Iran vulnerable to the vagaries of great power politics. The shah believed that Iran needed a robust military to ensure its sovereignty and self-reliance, but just three weeks after their congenial opening meeting, the atmosphere had soured. Referring to the budget 'more in sorrow than anger,' the shah warned the Ambassador that unless sufficient external aid was forthcoming, he would have to 'disband certain units' and turn to Moscow.[193] To the Foreign Office this was nothing short of 'blackmail.'[194] Though the shah quickly dismissed the idea, the damage was done. Mistrust had long-haunted Anglo-Iranian relations, and this veiled threat only deepened the rift.

[191] FO 416/108, Macmillan to Wright, 'Iran Political Situation,' 30 July 1955, p 46.
[192] FO 248/1568, Roger Stevens to Foreign Office, 4 January 1956.
[193] FO 248/1568, Titchener Minutes, 27 January 1956.
[194] Ibid.

The Ambassador's audience with the shah the next day carried an even more sinister tone. The conversation was 'more remarkable for its omissions rather than its substance – the shah didn't refer to the Soviet non-aggression offer, nor make implicit requests, nor express doubts on British policy.'[195] He did, however, emphasise the need for US budgetary aid but 'was less insistent than in the past.'[196] For British policymakers, the stark contrast in audiences within a twenty-four-hour period, coupled with the shah's flirtation with what they perceived as blackmail, felt unsettling. It led them to ask: was the shah an asset or a liability.

The shah's government, propelled by the 'politics of promise,' surged forward with an unwavering determination after the coup. Oil wealth was seen as the key to transforming Iran's economy, advancing society, and creating lasting political stability. Yet, as the budget swelled, so did political uncertainty. The shah, resolute in his vision, pushed economic development to the forefront, especially in the aftermath of the coup, when most educated Iranians believed it had been orchestrated by the US and the UK.[197] Although the economic outlook began to show signs of improvement, the fiscal situation remained dire. By 1956, government spending ballooned to nearly 18 billion rials, creating a gaping deficit of 4 billion rials ($52.8 million).[198] With an inefficient tax system, only two alternatives remained: cutting military spending or seeking further US aid. Past US assistance aid had averaged $50 million annually, but in 1956, it had dropped to a mere $20 million.[199] The shah expressed his 'bitter disappointment,' emphasising that this aid was not a grant but a loan that required approval by the *Majles*. He

[195] FO 248/1568, Roger Stevens to Foreign Office, 1 February 1956.
[196] Ibid.
[197] Gregory Brew, "What They Need is Management': American NGOs, the Second Seven Year Plan and Economic Development in Iran, 1954–1963", *International History Review* 41, no. 1 (2017): 1-22.
[198] FO 248/1573, "Financial situation in Iran", 1956, TNA.
[199] Ibid.

lamented, 'Without American budgetary assistance the Iranians could not undertake adequate military expenditure, and the position was really most unsatisfactory.'[200]

Leveraging the Baghdad Pact, the shah intensified his calls for financial aid, stressing that for the Pact to work effectively, 'Iran must receive further military assistance in the form of both money and equipment from the US.'[201] However, his relentless lobbying for financial aid from HMG, coupled with mounting pressure from the Consortium to exploit the Continental Shelf (a matter explored in the following section), raised concerns for the British officials. The British Ambassador found the shah's economic strategies 'disturbing,' with his plans described as 'wild schemes,' progressing at an 'ominous' pace, signalling potentially disastrous consequences.[202]

The mounting budget deficit and the shah's reluctance to use oil revenues to bridge it, strained Anglo-Iranian relations. Between 1955 and 1960, British documents reveal increasing suspicion in the Foreign Office regarding Iranian ambitions, as well as growing requests for greater moral and political support. They feared these pleas would soon turn into demands for greater financial aid, despite repeated assurances that Britain could not help.[203] By then, HMG began to see Iran under the shah not as an asset but as a liability in the Cold War-dominated political landscape. The British government believed Iran's economic development had to be paired with social reform and competent governance – both of which they believed were in short supply.[204] Some of Iran's ambitious development plans were deemed 'lunacy,' with British concerns escalating after the 1958 Iraqi Revolution, as they believed the country could

[200] FO 248/1568, Roger Stevens to Foreign Office, 14 February 1956.
[201] Ibid.
[202] Ibid.
[203] FO 371/120721, DM Riches "Anglo-Iranian Parliamentary Group," 9 January 1956.
[204] FO 416/108, Roger Stevens Annual Review 1954, 4 January 1955, p 4.

not afford to pursue them all.[205] The US Ambassador to Iran warned of an impending disaster, stating, 'the idea was that Iran's demise was about to take place… and we just had to take some dramatic and drastic steps.'[206] Equally threatening as economic reform without social reform, was the shah's flirtation with the USSR and early indications of using Soviet ties as leverage in negotiations with the West.

The growing budget deficit cast a dark shadow over Iran's future until the shah could regain control over expenditure. Despite the time that had passed since the coup, suspicion and mistrust persisted. One Iranian official recounted how after the coup, 'political pressure…was directed in full force' toward the development program.[207] The shah's 'politics of promise' after the coup hinged on redemption in the eyes of Iranian people. He sought atonement for the events of 1953 through economic development, epitomising his 'obsession' with Iran's sovereignty and independence by building a powerful military.[208] To achieve this vision, the shah required an institution to harness, centralise and distribute Iran's rapidly expanding real investment, comprised of oil revenue and foreign capital. The Plan Organization and its Second Seven Year Plan marked a pivotal shift in the country's semi-liberal economic policy, laying the groundwork for the shah's political vision for Iran's future.

[205] FO 371/120721, DM Riches to Roger Stevens, undated (registry number EP 1051/7). 'Lunacy' crossed out and replaced with 'unwise.'
[206] As quoted by Amin Saikal, *The Rise and Fall of the Shah: From Autocracy to Religious Rule* (London: Angus et Robertson, 1980), 75.
[207] Brew, "What They Need is Management': American NGOs, the Second Seven Year Plan and Economic Development in Iran, 1954–1963."
[208] Abrahamian argues that although Mossadegh was 'airbrushed out of history' after the coup, with not even his name allowed to be mentioned in royal presence, his ghost continued to haunt the shah. To minimise the damage Abrahamian contends that the shah did his best to project the image that he had preserved the nationalised oil industry. However, even his rhetoric could not mask the reality that, after 1953, Iran was essentially 'chained to the West.' A British MI6 officer stationed in Tehran during the Islamic Revolution observed that the shah suffered from an 'inferiority complex' vis-à-vis Mossadegh for his whole life. (Abrahamian, *The Coup*, 216-17).

The Plan Organization and the Second Seven Year Plan

The crux of Anglo-Iranian relations during this period revolved around the success of the Plan Organization and its objectives. The stability of Iran as a bulwark against Communism relied entirely on the health and resilience of its economy. Foreign Office documents asserted that Iran's future hinged entirely on the effective implementation of its development plans.[209] The Plan Organization (*Sazman-e Barnama*) sought to create a more equitable distribution of wealth, aligning with the shah's vision to uplift 'the downtrodden, landless peasantry, through cooperation between public and private groups.'[210] Through centralised planning, the Organization aimed to funnel oil revenues into addressing deep-rooted and persistent socio-economic inequalities across Iran. Established in the post-war years, this semi-autonomous institution was tasked to reconstruct the Iranian economy under government auspices.

The First Seven Year Plan (1948-1955) called for 21 billion Rials ($656 million) in public investment, projected to increase by 14%. However, its implementation never really truly took off.[211] The initial two years were consumed with the bureaucratic setup, and by the time the Organization was ready to act, it lost its primary source of funding due to the 1951 oil nationalisation. While the first plan faltered, the Second Seven Year Plan (1955-62) sought to accomplish what its predecessor could not. Its pursuit would position the Plan Organization at a contentious crossroads between Iranian domestic politics, Cold War strategy, and its fractious relationship with the UK. The success of the Plan Organization crystallised the divergent visions for Iran held by the shah and HMG. For the shah, success meant a reformed state that unequivocally supported him, allowing unrestrained military expenditure to secure Iran's

[209] FO 416/108, Roger Stevens to Anthony Eden, 'The Iranian Seven-Year Plan' 22 February 1955, p 10.
[210] Brew, "What They Need is Management': American NGOs, the Second Seven Year Plan and Economic Development in Iran, 1954–1963."
[211] Farhad Daftary, "Development Planning in Iran: A Historical Survey," *Iranian Studies* 6, no. 4 (1973): 176-228.

independence and sovereignty. Conversely, for the British, success would foster stability through economic and social progress, serving two crucial goals: resisting Soviet penetration and upholding the integrity of the oil settlement.[212]

The Second Seven Year Plan (1955-62), much like its predecessor, lacked a comprehensive plan, offering only a loose collection of investment programmes and projects, devoid of a discernible investment criteria.[213] It flouted even its guiding mandate, that expenditures would not exceed the funds assigned to the Plan Organization. Farhad Daftary aptly described the Plan's objectives as both nebulous and imprecise, bereft of any measurable targets. It aimed to achieve a broad range of goals, including, "increasing production, developing exports, preparing public necessities, developing agriculture and industries, discovering and exporting mines and subterranean resources, improving and completing means of communication, improving public health, fulfilling any operations designed for the development of the country, raising the educational, and living standard of the people and improving living conditions."[214] No more detailed or specific objectives were provided.

As the plan unfolded, its costs quickly exceeded the initial earmarked amount of 70 billion Rials ($921 million), prompting the Plan Organization to request a 20% increase by 1957, raising the total to 84 billion Rials ($1.1 billion).[215] Recognising the significance of these investments, both the British and American governments deemed them indispensable and were prepared to lend support in the form of loans and technical expertise. Transforming oil wealth into economic progress and political stability became a cornerstone of British policy, vital not only for the survival of the Pahlavi regime and Iran's defence against Communism, but also

[212] FO 416/108, Anthony Eden to Roger Stevens (p. 6-7), 12 February 1955.
[213] Daftary, "Development Planning in Iran: A Historical Survey"
[214] Ibid.
[215] Ibid.

for the security of Middle Eastern oil reserves. Economic development emerged as a powerful rhetorical device and strategic tool to counter revolutionary socialism, and no figure was more central to this effort than the economist Abol Hasan Ebtehaj, the architect of Iran's development strategy.

Ebtehaj sought to harness Iran's burgeoning oil wealth into meaningful economic development, laying the foundation for the country's ambitious projects. Born in Rasht in 1899, he pursued his studies in Paris, Beirut and Tehran, and by age twenty, Ebtehaj had joined the staff of the British-owned Imperial Bank of Persia, the country's foremost bank at the time. Swiftly ascending the ranks, he assumed the governorship of Bank Melli from 1942 to 1950, transforming it into the country's de facto national bank. Known for his quick-temper and zero tolerance of interference, corruption, and incompetence, Ebtehaj amassed numerous adversaries, leading to his virtual exile for four years.[216] Serving as an Ambassador to France and later as the director of the IMF's Middle East department, Ebtehaj was eventually summoned back to Tehran in 1954 to lead the Plan Organization. His objective was simple: economic growth was the solution to Iran's problems. In his view, it provided superior protection against external threats compared to a bloated army equipped with costly military hardware.[217] This view however, brought him into conflict with the shah. Ebtehaj believed that raising the standard of living through economic development would eradicate corruption, inefficiency, and social unrest. In his words, 'As the standard of living went up, people would become more straightforward, more cooperative, and you would get true social, political changes from the development of the country."[218]

[216] Denis Wright, "Obituary: Abol Hassan Ebtehaj," *Independent,* March 11, 1999, https://www.independent.co.uk/arts-entertainment/obituary-abol-hassan-ebtehaj-1079753.html
[217] Francis Bostock and Geoffrey Gareth Jones, *Planning and Power in Iran: Ebtehaj and Economic Development under the Shah* (London: Frank Cass, 1989), 92.
[218] Ibid.

Ebtehaj's ambitious goals for the Plan Organization, aligned fundamentally with British and American policy. Dean Acheson saw economic development as Iran's best hope of preserving its political independence, and the British government unequivocally advocated for a 'policy of economic assistance.'[219] Archival records from the Prime Minister's Office even reveal that the British government worked with other states to establish the primacy of economic aid to Iran, such as a letter on Anglo-German co-operation, emphasising that 'aid to underdeveloped areas is one of the best means of countering Soviet bloc influence."[220]

Ebtehaj's Second Plan established the infrastructural and organisational groundwork for a more comprehensive approach, serving as the bedrock for Iran's rapid growth in the 1960s. After the economic stagnation in the early 1950s, Iran achieved an impressive 7-8% annual growth in Gross National Product (GNP) from 1955 to 1960.[221] In 1957, despite warnings from the World Bank about potential inflation, Ebtehaj dismissed the concerns, asserting that America would never have developed if it had 'listened to the economists in its early days.'[222] Optimistic projections of rising oil revenues after 1957 further bolstered the Second Plan, with the Plan Organization set to receive 60% of the oil revenues in the first two years, and 70-80% in the following five years.[223] However, as Iran's ambitions unfolded, both HMG and the World Bank grew more cautious, particularly regarding their financial commitments, despite HMG's stated policy of full economic assistance.

[219] Ibid., 93.
[220] FO 371/133022, Letter from Selwyn Lloyd to the German Foreign Office, 7 March, 1958, TNA.
[221] Bostock and Jones, *Planning and Power in Iran,* 117.
[222] Ibid., 115.
[223] Julian Bharier, *Economic Development in Iran 1900-1970* (Oxford: Oxford University Press, 1971), 90.

After the coup, financial assistance poured into Iran, with the US government providing over $890 million in aid and grants between 1953 and 1960.[224] This support, combined with rising oil revenues, was transformative. From 1956 and 1960 alone, Iran received $1.2 billion, compared to just $482 million from 1913 to 1949.[225] However, despite this influx of funds, the shah remained dissatisfied. His frustration grew when he learned that the US government's aid for the 1956 fiscal year included only an additional $20 million from the president's emergency fund, a loan separate from military grants.[226] The shah was constrained by two factors – oil revenue, which he believed was curtailed and manipulated by BP under British orders (to be discussed later in this chapter), and the limited grants and loans provided by the Americans.[227]

Privately, Britain doubted Iran would secure the $250 million requested from the World Bank, due to the bank's limited capacity. However, much to their surprise, Ebtehaj succeeded in securing an initial non-specific loan of $75 million in 1957 to cover the revenue gap in the Second Plan, followed by additional loans: $131 million for road construction, $101 million for dams and agriculture, and $105 million for the Industry and Mining Development Bank of Iran (IMDBI).[228] The World Bank's support was crucial to Ebtehaj's efforts to make the Second Plan a success. However, the strict terms and conditions attached to the loans – such as a 5% interest serviced directly from oil revenues and a stringent stipulation that Iran could not borrow from any other source, as well as dictates on its budget deficit, fuelled the perception that Ebtehaj was a foreign 'stooge.'[229]

[224] Massoud Karshenas, *Oil, State and Industrialization in Iran* (Cambridge: Cambridge University Press, 1990), 113.
[225] Ibid., 112-3.
[226] FO 248/1574, Letter from RW Bailey to DM Riches, 20 February 1956, TNA.
[227] Contrary to the shah's opinion, loans and grants provided by the US government during this period were significantly high; from 1958-1960 Iran received $390m, of which $312 were grants.
[228] Bharier, *Economic Development in Iran 1900-1970*, 120.
[229] Bostock and Jones, *Planning and Power in Iran,* 130.

Behind the scenes, the British Foreign Office worked fervently to ensure Ebtehaj's success in securing the initial $75 million loan. British officials were concerned that if the *Majles* continued to oppose the credit, Iran would struggle to attract future economic aid. To tip the scales in their favour, Hector Prud'Homme from the World Bank's International Bank for Reconstruction and Development (IBRD) requested that the Foreign Office 'run some discreet newspaper reports supporting it.'[230] The *Financial Times* responded with a 'useful piece' and the *Economist* highlighted how the terms of the loan were 'advantageous without precedent.'[231] Emotions ran high during the *Majles* vote, with many suspicious that these foreign credits 'would be used as instruments of political or economic domination.'[232] Despite facing fierce resistance, Ebtehaj managed to push the loan through, though it was 'condemned by nearly every shade of opinion in the *Majles*.'[233]

The Plan Organization operated as a 'state within a state,' beyond the purview of government ministries, funded solely through oil revenues and international loans. By law, at least 60% of oil profits had to be allocated to Plan-related expenditures.[234] Ebtehaj, who held absolute authority over the Plan Organization and answered only to the shah, drove its agenda with relentless force. His approach clashed sharply with the shah's, though it aligned with British interests. Ebtehaj aimed to harness the potential of a non-renewable resource, to establish the foundation for lasting economic reform. He was adamant that oil wealth should be channelled into projects that bolstered productivity, contributed to the GNP, deliberately steering clear of military spending. The pace of his work was frantic and, in his words, 'Iran is the patient who

[230] FO 248/1573, minutes by GF Hiller, 5 December 1956, TNA.
[231] FO 248/1573, Letter from Denis Wright to Roger Stevens, 20 December 1956, TNA.
[232] FO 248/1573, Report 'Iran and the IBRD,' undated, TNA.
[233] FO 248/1573, Letter to Selwyn Lloyd from British Embassy Tehran, 1 December 1956, TNA.
[234] Brew, "What They Need is Management': American NGOs, the Second Seven Year Plan and Economic Development in Iran, 1954–1963"

will die if not operated upon.'[235] He believed however, that there was time to administer a cure, 'provided that our program in Iran responds to the spur of urgency.[236]

Nonetheless, Ebtehaj found no respite in his mission. The Plan Organization was plagued with crises and his policies, as well as brusque demeanour, often clashed with key advisors to the shah, such as Asadollah Alam. The Plan engendered widespread scepticism, and the US Embassy remarked that Ebtehaj was 'most probably the most unpopular man in Iran.'[237] Despite his bold vision for Iran's future, the architect of its economic overhaul would ultimately be undone by his uncompromising nature and the relentless political pressures that surrounded him.

Oil-driven development became a battleground for warring ideas that transcended the resource itself. Some historians later argued that Ebtehaj became the scapegoat for the pervasive belief that every political and economic shift in Iran was engineered by British influence.[238] However, archival documents reveal a more nuanced picture: the British Embassy exerted a heavy influence, not only dictating how oil revenues were allocated between the Plan Organisation and the Ministry of Finance, but also determining the overall size of these revenues and their annual growth.[239] Central to British strategy was the imperative for Iran to balance its budget, reducing its vulnerability to the Communist threat looming from the north.

The shah's decision to dismiss Ebtehaj in February 1959 stemmed not only from their divergent visions on reinvesting oil revenue but also from the shah's mounting concerns about his own

[235] Ibid.
[236] Ibid.
[237] Ibid.
[238] Bostock and Jones, *Planning and Power in Iran,* 148.
[239] FO 248/1574, Letter from Roger Stevens to DM Riches, 17 January 1956.

position. A thwarted coup attempt in February 1958 by General Mohammad-Vali Gharani fuelled the shah's suspicions of the US Embassy and cast a shadow over any official who might pose a challenge to his authority. To accommodate his mounting military budget and address the widening deficit, the shah slashed the Plan Organization's funding in 1960. However, even with this measure, the financial crisis worsened, and emergency World Bank loans became necessary, forcing stringent austerity measures on non-military state finances. By 1961, the entire economic development program was engulfed in crisis. The rigged 1960-61 *Majles* elections exacerbated simmering socio-economic tensions, as public discontent with the shah grew, largely fuelled by the Plan's perceived failure to improve living conditions. Nonetheless, the shah clung to the belief that the solution to his problems lay not in development but in ramping up military spending. By the end of the decade, Iran found itself where it had started – teetering on the precipice of turmoil.

The Foreign Office briefing on Iran's political landscape described the shah as 'the most important piece on the board. If he falls, the game is over.'[240] It was not lost on the official writing that 'checkmate' comes from the Persian *shah mat*, meaning the king is dead. Shielding Iran from Soviet expansionism and preserving the Consortium Oil Agreement demanded bold economic measures. The priority was clear: reduce the budget deficit and launch far-reaching development plans to fortify the economy. While the economy served as a focal point of tension between the shah and HMG, it paled in comparison to the intricacies of oil relations with the Consortium and the pivotal intermediary role the British Embassy came to play.

[240] FO 371/133007, Letter to Selwyn Lloyd (page 14), 27 October 1958.

2.4 Oil and The New Game: Carving Out the Rules

The story of oil captures the intricate power dynamic between the British government and the shah during the crucial period of 1955-60. It showcases a shifting power balance: from Britain's initial dominance, having executed the coup that preserved its influence, to growing Iranian resistance that culminated in the formation of OPEC in 1960 - 'the cartel to face the cartel.' This narrative also highlights the tangled influence of external forces like the Consortium, which held exclusive control over the oil markets, becoming the true masters of production. Layer upon layer of deception is unveiled, such as the Consortium's clandestine agreement to limit Iran's oil production and the secretive terms of the 'Participant's Agreement' - the real arbiter of Iran's growth, concealed from the Iranian government for two decades.[241]

Furthermore, the story exposes the shah's attempts to find alternative investors to develop the Continental Shelf and challenge the 50:50 sharing principle. The British government found these ploys unnerving. These manoeuvres threatened their control over oil, and they promised 'incalculable consequences' in response.[242] For the British government, maintaining stability in oil relations meant predictability and control - control over Iran's budget deficit and control in the face of Soviet overtures. These undercurrents, fuelled by anger, distrust, and suspicion of perceived blackmail, erupted by mid-1956 with the Suez Crisis. The crisis threatened a 25% drop in Iranian oil production and hastened the decline of the British Empire, redrawing its strategic influence in the Middle East. Through all of this, oil remained the linchpin of the Anglo-Iranian relationship, encapsulating every facet of their complex and often fraught rapport.

[241] Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World they Made* (Kent: Hodder and Stoughton Limited, 1975), 145.
[242] FO 248/1575, Telegram from Foreign Office to Tehran, 28 April 1956.

Within two years after the coup by 1955, oil revenues surged again, totalling £30 million with a forecast of £50 million in 1956 and over £80 million by 1957.[243] To the shah, these profits represented Iran's path to independence – a way to become 'militarily strong' and ensure he never found himself in the vulnerable position he faced in 1953. On the surface, oil revenue appeared unfettered, with 50% allocated to NIOC, however the reality was far more complex. The political landscape surrounding oil was in constant flux, as Iran and HMG battled for control. In 1955, the shah still had no authority over Iranian oil - unable to dictate extraction levels, sales volume, or barrel prices. These powers resided with the Consortium, which was British-owned, with more than 50% of the shares held by British companies. The British Embassy in Iran became the intermediary, mediating between the Iranians and the Consortium. The shah, relentless in demands, pushed for increased oil production.[244] By 1956, relations had grown so fraught that Consortium members suspected that BP 'put the Iranians up to asking for an increase for their own purposes.'[245]

The 1954 Consortium Oil Agreement remained under constant suspicion even after two years of its inception. For the agreement to work, Denis Wright insisted that the British Embassy take a step back, insisting that the Iranians liaise directly with the Consortium.[246] This move, however, formed part of a larger power struggle between British dominance and Iranian resistance. The Iranians believed that the British wielded absolute power, prompting HMG to revise its strategy and reassure the Iranians that although they possessed the capability, they had 'no intention to use it to interfere in the commercial affairs of the Consortium.'[247] HMG's actual power was eroding, and this reality would be soon exposed by the Suez debacle.

[243] FO 371/120736, Report 'The Market for IC Engines in Iran' – Malcolm Logan, 9 April 1956, TNA.
[244] FO 248/1574, Telegram from Tehran to Foreign Office, 16 January 1956, TNA.
[245] FO 248/1574, D. Wright to Roger Stevens, 7 March 1956.
[246] Ibid.
[247] Ibid.

However, the illusion of British authority and the perception that HMG remained in control, became the leverage the British government relied upon in its dealings with the shah.

The Aggregate Programmed Quantity Formula (APQ), designed to calculate the exact amount of oil to be extracted from Iran according to the Consortium's needs, limited the country's oil production to a level dictated by the least demanding member company.[248] This mechanism, concealed behind technical jargon, effectively capped Iran's output. By 1956, the shah, aware of some restrictions, demanded a significant increase in production - at least 10 million tonnes the following year. The Consortium, however, only proposed a modest 2 million tonne increase.[249] As frustrations mounted, the Iranians grew suspicious, convinced that the Consortium intentionally fixed the guaranteed rate of production as low as possible for the first three years of the Agreement, to send a message to Iran and other oil-producing nations, that 'crime does not pay.'[250] Later, multinational hearings would expose the full extent of the APQ system. With hindsight, it is then clear why Iranian endeavours to exploit the Continental Shelf would prove fruitless due to the Consortium's resistance.

The Continental Shelf, the Consortium and 'The Jilted Bride'

Shortly after the Iranian New Year of 1956, Fuad Rouhani, the Deputy Manager of NIOC, travelled to the UK with a mission to raise the issue of exploiting the Continental Shelf with individual Consortium members. The Iranians believed that the vast area, stretching from the Iraqi to the Pakistani border extending to the Caspian Sea, held their most valuable oil deposits. Already working with Swiss geologists, NIOC was ready for the next step: finding a partner capable of bearing the costs of exploration and extraction, while offering more favourable

[248] As quoted in Sampson, *The Seven Sisters,* 145.
[249] Ibid.
[250] Ibid.

terms than the prevailing 50:50 sharing model common in the Middle East. Stepping away from the traditional 50:50 sharing model threatened to upset the region's fragile balance of power. However, the shah strategically left the door open to potential bids without making explicit commitments. His ambiguous stance sparked outrage yet also revealed Iran's growing confidence in challenging the status quo.[251]

The shah remained unwavering in his ambition to develop the Continental Shelf, seeing it as a crucial step toward securing Iran's independence and boosting oil revenues. When Selden Chapin, the US Ambassador to Iran, sincerely inquired about Russian involvement, the shah threw his head back in laughter, brushing off the notion as 'no doubt a gambit for stimulating interest on the part of western oil companies.'[252] Denis Wright, however, felt compelled to remind the Iranian government of the 'undesirability of toying with arrangements which might damage relations with the Consortium,' warning that such propositions could not match the projected revenue streams.[253] The shah remained undeterred, resolute that developing the Continental Shelf would translate to higher revenues and thus the safeguarding of Iran's sovereignty. The Iranians firmly believed that oil derived from the Shelf should be reserved for internal consumption, providing 'cheaper fuel for heating purposes…and would be most useful in the war against wanton deforestation.'[254] This marked a shift from the previous year's focus on aggressively increasing revenue. The British Embassy remained sceptical. With memories of the nationalisation of the oil industry still fresh, they concluded, 'it would probably be too much to say that the Iranians have learned their lesson.'[255]

[251] FO 248/1575, Telegram from Addison to Scholtens, 20 April 1956.
[252] FO 248/1575, Letter from Roger Stevens to Denis Wright, 7 May 1956.
[253] FO 248/1575, Letter from Roger Stevens to Denis Wright, 8 May 1956.
[254] FO 248/1575, Letter from Roger Stevens to Denis Wright, 9 May 1956.
[255] Ibid.

Meanwhile, NIOC aimed to secure contracts with individual companies within the Consortium, although notably not with the Consortium itself. They sought an agreement similar to the 1954 Consortium Agreement, where the partnering company would cover all capital expenditure for exploitation. If oil reserves were discovered, those costs - including initial exploitation - would be deducted from the profits, which would then be shared on a 50:50 basis or under terms more favourable to Iran.[256] Operating in a realm of ambiguity, the shah engaged in covert manoeuvres. When Sir Roger Stevens chanced upon the topic with Joseph Addison, Director at the Consortium, Addison was taken aback - it was 'all news' to him.[257] The shah's secret overtures to other oil companies, unbeknownst to the Consortium, posed a direct threat to their control over Iranian oil. Addison found this underhanded approach 'unsatisfactory' and disapproved of the shah's courting of independent US oil companies while the Consortium was still establishing its operations on the ground. Nevertheless, Addison believed it would be unwise for them 'to appear to oppose Iranian efforts.'[258]

The development of the Continental Shelf on Iranian terms held the potential to shift the balance of power in the shah's favour. By wresting control from the Consortium and into his own hands, the shah aimed to secure greater financial independence and sovereignty – principles that had been disregarded in previous years. This bold strategy however, left both the shah and NIOC in a precarious position as they attempted to reassert authority over Iran's oil and shape the country's trajectory. In response, the British government and the Consortium engaged in covert collaboration. While publicly accepting Iran's push for control, they worked behind the scenes to protect their own interests, especially around oil sharing arrangements. They agreed to 'discreetly help NIOC set the ground rules' ensuring that Iran would not be

[256] FO 248/1575, Letter from Roger Stevens to Denis Wright, 29 March 1956.
[257] FO 248/1575, Letter from DM Riches to Roger Stevens, 16 April 1956.
[258] Ibid.

granted a 'free for all' in the aftermath of nationalisation – a move that threatened Western oil interests across the Middle East.[259]

The Iranians continued to challenge the 50:50 oil-sharing arrangements through the Continental Shelf, seeking to renegotiate terms. At the centre of this push was Ahmed Maybud, an Iranian diplomat and later the shah's adviser on oil matters. His name soon became notorious in both the Foreign Office and the Consortium, with officials describing him as someone, 'who knows nothing about oil and is a liar.'[260] Maybud openly challenged British dominance by hinting that Iran's position was far stronger than acknowledged. By mid-1956, he claimed, Iran had received offers that were 'much better than the fifty-fifty arrangements.'[261] Such suggestions struck at the very core of British control in Iran. Foreign Office telegrams underscored the gravity of any attempt to upset the 50:50 principle, labelling such moves 'potentially serious.'[262] Despite such repeated demands, Maybud refused to disclose the sources of these offers, asserting that Iran had received twelve, many surpassing the Consortium's terms. He declared that 'Iran had every intention of accepting the best offer and would not be content with a 50:50 basis.'[263] The dispute escalated when Maybud suggested that the bidding process would be open to the Russians – a power play by the Iranians that further eroded trust. What had started as a minor issue, 'If Kuwait can exploit these resources why can't Iran?' - and the urgent need for revenue to alleviate the budget deficit, had by 1956, evolved into a 'serious boundary problem.'[264] The dispute on the Continental Shelf now jeopardised not only the 50:50 oil-sharing principle across the Middle East but also the stability of the entire region.

[259] Ibid.
[260] FO 248/1575, Telegram from Foreign Office to Tehran, 28 April 1956.
[261] FO 248/1575, Telegram from Foreign Office to Tehran, 20 April 1956.
[262] Ibid.
[263] FO 248/1575, Telegram from Foreign Office to Tehran, 20 April 1956.
[264] FO 248/1575, Letter from JE Coulson to Foreign Office, 21 April 1956.

In his efforts to secure oil companies for the development of the Continental Shelf, the shah navigated a delicate situation, with Foreign Office documents indicating parallels to the trajectory of Mohammad Mossadegh. In a meeting on April 19, 1956, the shah casually mentioned to Denis Wright a certain Mr Alton Jones of City Services Ltd., whom he considered 'a good man.'[265] Ominously, this was the same individual Mossadegh had once tried to enlist in Iranian oil ventures. Jones had visited Iran in 1953 to assess the industry, just months before the British orchestrated Mossadegh's removal through a coup, deeming him too great a threat. The shah's suggestion that he might also seek out Jones plunged Anglo-Iranian relations into disarray, causing the most direct acknowledgement of HMG's involvement in the 1953 coup. Ambassador Stevens warned the shah what 'a great pity' it would be if new negotiations disrupted the Consortium's existing operations.[266] He pointedly reminded the shah of Iran's recent history and advised him that he would do well to seek the counsel of the British and American Ambassadors before making any decisions.[267] It stood as a stark reminder of Iran's past defiance against British control and of the shah's indebtedness to the British for his position. The counsel was heeded and within three months, the Ambassador was happy to learn that the shah had chosen not to pursue any agreement that deviated from the 50:50 sharing arrangements.

Under pressure from the British Embassy, Iran entered negotiations with BP that extended into July 1956. BP considered Iran's demands nothing short of 'excessive.'[268] The Iranians insisted on an upfront payment of $15 million, with further annual instalments of the same amount over the next twelve years.[269] The cost of exploring the Continental Shelf, estimated at $10 million,

[265] FO 248/1568, Meeting minutes by Denis Wright, 18 April 1956.
[266] FO 248/1568, Meeting minutes by Roger Stevens, 18 June 1956.
[267] Ibid.
[268] FO 248/1576, Letter from Roger Stevens to DM Riches, 24 July 1956.
[269] Ibid.

required a two-year commitment from the company. Moreover, NIOC expected a cash bonus of £7.5 million and an annual rent of £3.75 million for twelve years.[270] These demands were quickly dismissed as unrealistic. Iran's desperation to raise funds was evident and in August 1956, BP formally rejected any partnership with NIOC. They argued that the proposed financial terms were too burdensome given the speculative and costly nature of the project, and that it would be too difficult to 'reconcile our ideas of an equitable form of cooperation.'[271] However, private discussions between BP and the British Foreign Office revealed a deeper reason: agreeing to the partnership might 'encourage other Middle Eastern countries to nationalise foreign oil companies and set up 'dud' companies which could then offer a partnership agreement to which they would contribute nothing.'[272] This reasoning raised questions, especially since BP expressed willingness to reconsider if Iran offered an alternative partner other than NIOC.[273] When the shah learned of BP's refusal, he was livid. Ambassador Stevens believed BP was underestimating 'the effect of their refusal.' To convey the shah's acrimony, Stevens likened him to a 'jilted bride,' wounded by abandonment after catching a glimpse of her prospective groom. 'The shah who dreams of the development of mineral resources all day long will, I fear, regard it as a body blow.'[274]

Facing difficulties securing a Consortium member to develop the Continental Shelf and support Iran's bid for financial independence, the shah turned his attention in 1957 to AGIP Mineraria, a subsidiary of the Italian company ENI. Enrico Mattei, AGIP's general director, presented NIOC with an enticing proposal. AGIP would undertake the entire exploration risk, with no provision to recoup more than a fraction of the expenses, even if oil was not discovered.

[270] FO 248/1576, Aide Memoire by BP and NIOC, 26 July 1956.
[271] FO 248/1576, Telegram from BP to Ventham, 17 August 1956.
[272] FO 248/1576, Letter from Harold Beeley to Roger Stevens, 7 August 1956.
[273] Ibid.
[274] FO 248/1576, Letter from Roger Stevens to Harold Beeley, 22 August 1956.

Moreover, AGIP was prepared to offer NIOC an unprecedented sharing agreement of 75:25 – unheard of at the time in the Middle East. The deal threatened to set a dangerous precedent, potentially driving up oil prices in Europe and destabilising the Consortium's established arrangements. In March 1957, Mattei travelled to Tehran to sign the agreement with NIOC, granting AGIP a concession on three areas outside the Consortium's control and shortly after, the shah declared his ambition to transform NIOC into the largest oil concern worldwide. With a newfound vigour, he proclaimed, 'Iran seeks the friendship of foreign powers but on a basis of mutual respect and without surrendering to oil magnates.'[275] These words rankled the Consortium. The Foreign Office noted a change in the shah's demeanour – his speech exuded confidence 'to the point of brashness,' reflecting his 'growing self-assertion in domestic politics' and his determination to 'take the lead in the development of Iran's oil resources.'[276]

In the aftermath of the Suez Crisis, the collaboration between NIOC and AGIP raised urgent concerns. A joint American-British analysis warned that if this trend persisted, Western oil supplies would be effectively wiped out by 1965, leaving a precarious reliance on Eastern Hemisphere production.[277] Relations between Iran and HMG remained strained, with the shah harbouring deep suspicions towards the British. He believed that ever since he steered 'Iran on the course of independence, strange happenings began to take place,' and considered Mattei among the first casualties.[278] In his memoir, *Answer to History,* the shah claimed that Mattei's death in a plane crash in October 1962 was no accident, but an assassination, driven by the fact that 'Iran [had] become the master of its own underground wealth.'[279] According to the shah, this marked the beginning of a coordinated British-American campaign against him.

[275] FO 371/127210, Letter from A Noble to Charles Fleming, 29 July 1957, TNA.
[276] FO 371/127210, Telegram from Tehran to the Foreign Office, 31 July 1957.
[277] FO 371/127210, Draft for Joint Anglo-American Appreciation, undated.
[278] Mohammad Reza Pahlavi, *Answer to History* (New York: Stein and Day, 1982), 96.
[279] Ibid., 97.

Anglo-Iranian relations remained fragile and characterised by deep-rooted mistrust. Misunderstandings frequently arose, and both actions and statements were often misinterpreted within a broader historical context. The Foreign Office, attempting to discern why the shah 'may be browned off with us,' prepared a detailed note. The document cited multiple potential causes: BP's rejection regarding the Continental Shelf - an issue 'dear to the shah's heart'; lingering resentment over Britain's 'firmness over Suez – the old imperialism'; delays in flood relief and the shah's tendency to use the UK as a scapegoat for his growing unpopularity.[280] The Foreign Office also considered the impact of social interactions, suggesting that perceptions of the British as 'cavalier or stand-offish' at the tennis parties hosted by the shah's sister, or malicious gossip at the Tehran Club, where Britons spoke openly and 'disparagingly' of the shah, of further straining relations. The relationship festered with noxious undercurrents of suspicion and mistrust.

The Suez Crisis: the British Blunder that Redrew the Battlelines

The Suez Canal, a narrow twenty-three-mile passage linking the Red Sea to the Mediterranean, was the linchpin in Britain's access to sterling oil.[281] Two-thirds of BP's oil flowed through this strategic route, and any closure would necessitate a costly detour around the Cape of Good Hope, with colossal financial repercussions. Britain's involvement with the Canal began in 1875 when it secured 44% of the shares of the Suez Canal Company, and then in 1882, invaded Egypt to protect the Canal's operations against proto-nationalist uprisings. Egypt's nationalist

[280] FO 248/1568, Handwritten note by TM Martin, undated.
[281] Sterling oil refers to the crucial relationship between the profitability of oil from the Middle East and the viability of the pound sterling as an international currency, especially the oil revenues earned and managed in sterling, which were vital for propping up the British economy.

movements resisted British authority until 1936, when a treaty was signed granting Egypt independence while allowing Britain to maintain military forces in the canal zone until 1956.

The Suez Crisis of 1956 marked a historical reference point, exposing Britain's waning power and Western Europe's dependence on Middle Eastern oil. For the shah, it revealed the true strength of his position, with far-reaching consequences for Anglo-Iranian relations, emboldening NIOC and leading him to fully support the creation of OPEC. Prime Minister Eden's description of the Suez Canal as 'the swing-door of the British Empire, which has got to keep continually revolving,' underscored its strategic significance, but the crisis marked the unravelling of British dominance in the region.[282]

At the end of July 1956, Colonel Gamal Abdel Nasser nationalised the Suez Canal to fund the Aswan Dam project after Britain and the US withdrew their financial support. Nasser's action triggered an immediate crisis in sterling, with confidence in the pound already fragile and exacerbated by sterling holders questioning Britain's ability to maintain control of its trade through the canal.[283] Concerns of a second devaluation of sterling mounted.[284] Amidst escalating pressure, Chancellor of the Exchequer, Harold Macmillan, penned an urgent memo to Prime Minister Eden, stating unequivocally, 'the conclusion is clear - without the oil, both the United Kingdom and Western Europe are lost.'[285] In a clandestine alliance with France and Israel, Britain responded by invading the Suez Canal zone, aiming to regain control of the vital waterway. Notably, this invasion was carried out without informing the Eisenhower administration. Washington reacted with outrage, with President Eisenhower deeming it a

[282] James Bamberg, *The History of the British Petroleum Company, Volume 2 – The Anglo-Iranian Years, 1928 – 1954* (New York: University of Cambridge, 1994), 75.
[283] Galpern, *Money, Oil and Empire in the Middle East*, 144.
[284] Sterling had been devalued by 30.5% in September 1949, from $4.04 to $2.80, per pound.
[285] PREM 11/1135, Harold Macmillan to Anthony Eden, 26 August 1956.

betrayal by Britain, one of the country's closest allies and threatened to sell the American government's bonds of sterling. At the same time, Egypt sank forty ships in the Canal, blocking all traffic and triggering an international oil crisis, exacerbated by Arab nations retaliating with an oil boycott. Eisenhower's frustration was palpable; he declared that US policy should leave the British and French 'to sort out their own oil problems – to boil in their own oil.'[286] The situation raised concerns not only of diminishing Western prestige in the Middle East but also of the possibility of sparking a hot war with the Soviet Union. By December 1956, under intense international pressure, the UN had prompted the evacuation of British and French forces from the canal zone. Nasser, having successfully defended Egypt's sovereignty, was hailed as a hero of Arab nationalism, while Britain's reputation and influence in the Middle East were left irreparably damaged.

The Suez Crisis presented a significant threat to the shah and Iran, with economic, psychological, and political implications. Economically, it threatened Iran's oil revenues, which were expected to plummet by 25%.[287] This sharp decline was particularly concerning given the shah's relentless pressure on BP and the Consortium to secure greater financial support for Iran's ambitious Seven-Year Plan. The severity of the crisis surpassed what the Consortium had revealed to the shah. Their capacity to deliver the agreed 27.5 million cubic metres was critically compromised, rendering the extraction of the additional promised 2 million tonnes out of the question, despite their assurances.[288]

Beyond its economic impact, the Suez Crisis carried profound psychological implications for Iranians, who just four years earlier, had been scolded for their own nationalisation efforts.

[286] Bamberg, *The History of the British Petroleum Company, Volume 2,* 83.
[287] Ibid., 85.
[288] FO 248/1573, Minutes by the Ambassador on Cavanaugh's visit, 3 December 1956.

Ambassador Stevens astutely noted the prevalent 'emotional Iranian reaction,' observing that 'it would be a blow to their self-respect if Colonel Nasser got away successfully' where the Iranians had failed.[289] The wounds of 1953 were still fresh, and now the Suez Crisis threatened to reopen them. On August 2, the Iranian newspaper *Kayhan* praised the Egyptian nationalisation as an act of courage, declaring that whether 'Nasser wins or loses, the Suez Canal is liberated. The Egyptian nation no longer has to submit to a foreigner.'[290] This display of political and psychological sovereignty – of defying foreign control - resonated powerfully in twentieth-century Iran. *Kayhan* sought to link Egypt's success to Iran's own nationalisation efforts between 1951 to 1953, rekindling nostalgic hopes of Iranian independence. However, within days, those dreams were swept aside as British 'arguments had begun to take effect' in the Iranian newspapers.[291] Recognising the potential threat to Iran's oil revenue, the conservative newspaper *Ettela'at* concluded that the 'Canal belongs to the whole world' and that Iran, as a stakeholder in international trade, cannot afford to stand idly.[292] The piece lamented the intrusion of the Egyptian press into Iranian domestic affairs, accusing it of disseminating 'outright lies about our country.'[293] The fleeting solidarity with Egypt swiftly dissolved, as its triumph only served to underscore Iran's own past failure.

The Suez Crisis posed a serious political threat to the shah's already faltering legitimacy. It endangered the effectiveness of the Baghdad Pact and jeopardised Iranian commerce. Moreover, a victory for Nasser would give pan-Arabism the credence it needed to sweep across the Middle East. Desperate, the shah urged the British Ambassador 'to arrange simultaneously

[289] PREM 11/1460, Roger Stevens to Selwyn Lloyd – 'Iran: Attitude to Suez Canal Question,' 13 August 1956.
[290] PREM 11/1460, Roger Stevens to Selwyn Lloyd – Enclosure 1, 'article in Kayhan,' 13 August 1956.
[291] PREM 11/1460, Roger Stevens to Selwyn Lloyd – 'Iran: Attitude to Suez Canal Question,' 13 August 1956.
[292] PREM 11/1460, Roger Stevens to Selwyn Lloyd – Enclosure 3, 'article in The Tehran Journal,' 13 August 1956.
[293] Ibid.

for Nasser's overthrow (compare Musaddiq) and the occupation of the canal zone only.'[294] This conversation, on August 11, 1956, marked a pivotal moment where HMG implicitly acknowledged their involvement in orchestrating the coup in 1953 against Mohammad Mossadegh. The phrase 'compare Musaddiq' not only demonstrated the shah's familiarity with British operations but also reflected a tacit understanding that troublesome leaders could have their removal arranged. Nasser's rise embodied a profound political threat to the shah's legitimacy; his success, where Iran had failed, risked rendering the shah's capitulations to the British, made nearly three years earlier, entirely futile.

The Suez Crisis redrew the battlelines in Anglo-Iranian relations, as Iran deftly manoeuvred to assert an active role 'with considerable skill and balance.'[295] Under the leadership of Foreign Minister Aligholi Ardalan and his five-man committee, chaired by the shah, Iran played a pivotal role during the crisis, skilfully balancing various interests.[296] Remarkably, Iranian oil emerged unscathed, with the Consortium not only fulfilling its minimum promise of 27.5 million cubic metres but surpassing it with an additional 2.5 million cubic metres.[297] NIOC too adopted 'a much stronger and independent tone' in its discussions with the Consortium, demanding more training for senior staff and engineers.[298] This frustrated the Consortium and revealed that Britain's influence was weaker than it professed. The crisis exposed the limitations of British influence in the Middle East as global attitudes shifted. British imperialism faced global condemnation, and the near unanimous opposition to the Suez operation accelerated the rise of the UN as a platform for anti-colonial voices. The shah skilfully navigated this changing landscape, while Britain faced a psychological shift in its

[294] PREM 11/1460, Roger Stevens to Foreign Office, 11 August 1956.
[295] FO 371/127071, Roger Stevens to Selwyn Lloyd – 'Annual Review for 1956,' page 1, 22 January 1957.
[296] Ibid.
[297] FO 371/127124, DM Riches to Roger Stevens, 1 February 1957.
[298] FO 371/127124, Roger Stevens to Derek Scholterns, 13 December 1957.

colonial policy, leading to a 1959 mandate to wind down its empire. The Suez debacle marked the death knell of British imperialism, as Britain now had to consult the US before taking significant action on the global stage. The battlelines had shifted, and the shah was not alone in recognizing this. In Caracas, thousands of miles away, the Venezuelan politician Pérez Alfonzo was also positioning himself to seize the opportunity and reshape the oil industry.

The Birth of OPEC – 'The Cartel to Confront the Cartel'

In a secluded chalet perched on the Nile's banks within the serene grounds of the Maadi Yacht Club, an unlikely proposition unfolded: the creation of a covert commission to challenge the dominance of the oil majors. Just two months earlier, in February 1959, the oil majors had responded to an oil surplus by cutting their posted prices in Venezuela and the Middle East. This action dealt a material blow to oil-producing countries, whose taxes were tied to the posted price. It sparked an unprecedented wave of unity among Arab nations, Iran, and Venezuela, a unity that reverberated powerfully at the first Arab Petroleum Congress in Cairo in April 1959.

At this Congress, Venezuelan Oil Minister Juan Perez Alfonzo, championed pro-rationing, a method to distribute production quotas across oil products to stabilise both output and prices in the global market. Alfonzo found an ally in Abdullah al-Tariki, Saudi Arabia's Director General of Petroleum and Ministerial Affairs. In secret meetings at the chalet, Alfonso and Tariki convened with key figures such as Manucher Farmanfarmaian from Iran, Ahmed Said Omar from Kuwait, Mohammad Salman from Iraq, and Saleh Nessim from the United Arab Republic. Together, they drafted and signed the Maadi Pact, which called for the formation of a Petroleum Consultation Commission. This proposed body envisaged an annual forum to discuss matters of shared concerns, including oil prices, production levels, and the participation of producing countries in the oil industry. Although the commission did not materialise, the

Maadi Pact laid the groundwork for what would later evolve into the Organisation of Petroleum Exporting Countries (OPEC).

The oil-producing nations convened in Baghdad in September 1960, marking a pivotal moment not only in the annals of the oil industry, but also in Iran's quest for independence. Energised and resolute, the five nations resolved that the posted prices should revert to their pre-August levels, shielded from 'all unnecessary fluctuations.' They further demanded that oil companies consult the producing countries before making any price changes. United in solidarity, they committed to studying and formulating pro-rationing systems for regulating production, preparing to act in unison if the oil majors retaliated with sanctions. In essence, they were establishing 'a cartel to confront the cartel.'[299] In their inaugural resolution, OPEC nations acknowledged a shared predicament: their development and budget stability were tightly bound to oil income.[300] Moreover, they recognized that fluctuations in oil prices disrupted not only their economies but also those of consuming nations. A Kuwaiti delegate insisted that 'OPEC couldn't have happened without the oil cartel. We just took a leaf from the oil companies. The victim had learnt the lesson.'[301] With OPEC's formation, the balance of power shifted in favour of the oil-producing countries, bolstering their collective and individual bargaining power.

Appointed by the shah as Iran's representative to OPEC, Fuad Rouhani would go on to become OPEC's first Secretary-General. A seasoned international lawyer, Rouhani was determined to keep OPEC apolitical and secular.[302] This strategy proved effective, allowing OPEC to successfully avert further reductions in the posted price despite intensifying competition and attempts by the oil majors to undermine the group. Although OPEC may not have initially been

[299] As quoted in Sampson, *The Seven Sisters,* 174.
[300] Ibid., 175.
[301] Ibid.
[302] Ibid.

taken seriously by the oil majors, by the 1960s, shifting global supply and demand empowered the organisation, transforming it into a formidable cartel.

Conclusion

From 1955 to 1960, the two trajectories of HMG's objective for control over Iranian oil and the prevention of Iran entering the Soviet camp evolved in parallel. The evolution witnessed the power dynamics shift between the UK and Iran as the two states sought to redefine the rules of engagement. The shah, propelled by his pursuit for sovereignty and economic independence, found resistance in HMG who sought to secure control over Iran's oil resources to stabilise sterling, and to halt Soviet encroachment. The contest for dominance evolved against a backdrop of seismic geopolitical events, such as the Suez Crisis - a watershed moment marking Britain's weakening influence. The shah navigating this changing geopolitical landscape constantly weighed the benefits of aligning with the West against the potential advantages of closer ties with the Soviet Union. As Cold War tensions escalated, he skilfully played both sides, using the implicit threat of moving toward one superpower to extract greater concessions from the other, thus increasing his leverage over Iran's resources and sovereignty.

The political power dynamic oscillated, underlined by a complex tapestry of mistrust and suspicion. The shah's visit to the UK in 1955 signalled a potential alliance, while by 1959, he covertly flirted with the USSR with the Non-Aggression Treaty. Economic challenges loomed large, with Iran striving for stability, loans, and favourable commercial relations. By September 1960, the terms of engagement between HMG and the shah had undergone a significant transformation. OPEC's formation marked a turning point, signalling a new phase of Iranian assertiveness. The decade that began with the nationalisation of the Iranian oil industry and a British-engineered coup, ended with a shah confident to negotiate a Non-Aggression Treaty

with the Soviet Union and assert greater control over oil pricing. As Britain's influence waned, the shah's geopolitical acumen sharpened, navigating an evolving landscape that redefined their relationship and was increasingly marked by shifting power dynamics, new challenges, and deepening uncertainty.

CHAPTER 3

The Twilight of Pax Britannica and Oil as a 'Resourceful Servant' - 1961 – 1971

3.1 Anglo – Iranian Political Relations

Beneath a cloudless azure sky on October 12, 1971, in the shadow of Cyrus the Great's tomb in Pasargadae, Shah Mohammad Reza Pahlavi, in a voice pulsating with emotion 'communed with the dead.'[303] Sixty heads of state stood in rapt attention behind him as he 'called to the bones of his illustrious precursor,' weaving a narrative that transcended time.[304] Positioning himself as the guardian of Cyrus the Great's legacy, the shah vowed to 'stay awake' and guard his 'proud heritage.' Peter Ramsbotham, the newly dispatched British Ambassador to Iran, depicted the opening of the 2,500th anniversary of the foundation of the monarchy, as 'extraordinary… one where the shah went back in time' to immortalise his own achievements.[305] Days of extravagant revelry followed, culminating in a banquet that necessitated six months of logistical planning by the Imperial Iranian Air Force to transport 30 kilos of caviar and 12 tonnes of champagne chilled in ice cubes the size of a garage. The feast, catered by the famed Maxim's of Paris, was crowned by its pièce de résistance: the 'Imperial Peacock.' The British Embassy saw these festivities not merely as the proclamation of 'Iran's arrival as a modern state, but also the starting point of a new empire.'[306] For the shah, it was an act of redemption – an attempt to purge the spectre of his father's 1941 expulsion and the 1953 coup, by linking the Pahlavi dynasty's future to the Achaemenid past. Within a decade, Iran's

[303] FCO 17/1517, Peter Ramsbotham to FCO – 'The Dynasty Blessed by the Gods – Summary,' 11 October 1971.
[304] Ibid.
[305] Ibid.
[306] Ibid.

fortunes had altered significantly. As Britain grappled with a crumbling empire, the shah presided over Iran's coming of age.

Only eleven years earlier, the circumstances depicted a markedly different reality. On the ski slopes of Abali, 60 km northeast of Tehran, the British Ambassador, Sir Geoffrey Harrison, serendipitously encountered a 'very depressed and pessimistic' shah.[307] Engaging in an 'exceptionally informal' chat, the shah, standing in his skis, confided to Sir Geoffrey about contemplating giving up his post as Commander-in-Chief of the Iranian Armed Forces.[308] He recognised that such a decision might spell the end of the regime, yet he 'saw no clear way ahead.'[309] Challenges loomed large as the decade commenced – the economy wrestled with high inflation from ambitious development plans, oil revenues were constrained by the Consortium, and securing increased American aid for Iran's military budget proved elusive due to an unfriendly American regime, with President Kennedy prioritising social reform over military growth. Relations with the British government were no better, strained by lingering mistrust from the shah's dalliances with the USSR in 1959.

The period from 1961 to 1971 marked the most transformative years in the shah's relations with Her Majesty's Government (HMG). Global events shifted power dynamics, and HMG's foreign policy fixated on control – specifically, control over Iran's oil revenues and political leverage over the shah. In the 1960s, Iran was catapulted forward by a surge in oil revenue, transforming it from a low-priority military aid recipient, into a military-credit purchase partner by 1965 – tilting the balance of power in the shah's favour. The rapid economic growth emboldened the shah to alter Iran's trajectory through strategic brinkmanship, particularly in

[307] PREM 11/3845, Geoffrey Harrison to Foreign Office, 5 March 1962.
[308] Ibid.
[309] Ibid.

his dealings with the Consortium. His adept political manoeuvring, playing HMG against the USSR, was epitomised by the 1967 Iranian-Soviet arms deal, which bore 'very serious' implications for the West.[310] All the while, Britain grappled with severe economic challenges, culminating in the 1967 devaluation of sterling, a moment that, according to the US State Department, 'shook the international monetary system and sealed a historic transformation of British foreign policy.'[311] By 1971, Britain had completely withdrawn from the Persian Gulf, underscoring its waning influence, while the shah began to fortify his military arsenal in preparation.

The Devaluation of Sterling and the Pahlavi Pivot: A Shift in Power Dynamics

In post-war Britain, economic strength gave way to relative decline. Throughout the 1960s, as HMG grappled with an increasingly assertive shah, persistent economic challenges plagued the domestic front. The Conservative governments of Harold Macmillan and Alec Douglas-Home (1957-1964) contended with surging inflation, attempting to balance monetary policy with the delicate management of sterling's global standing. Harold Wilson's Labour government (1964-1970) faced similar issues, and its fiscal interventions were largely ineffective. Despite full employment in the 1960s, high labour costs and growing trade union power, drove wages up without corresponding gains in productivity, fuelling inflation.

Britain's global economic position continued to deteriorate, increasingly vulnerable to global events. The 1967 Six-Day War between Israel and the Arab states disrupted Britain's access to sterling oil via the Suez Canal, while its support for Israel led to an Arab oil boycott. Although Britain secured alternative supplies from Iran, Venezuela, and Indonesia, shipping costs

[310] FO 371/186701, Foreign Office to Tehran, 29 July 1966.
[311] Steven Galpern, *Money, Oil and Empire in the Middle East: Sterling and Postwar Imperialism, 1944-1971* (Cambridge: Cambridge University Press, 2013), 268.

increased by 400%, as oil had to be rerouted via the Cape of Good Hope. These factors severely impacted Britain's trade account, which suffered losses of £90 million in 1967, £45 million in 1968, and £40 million in 1969.[312] The growing loss of confidence in sterling exacerbated Britain's balance of payments. By September 1967, a combination of the Middle East crisis, dock strikes in London and Liverpool, and Labour's economic reflation policies drained £500 million from British reserves.[313] On November 18, 1967, Britain was forced to devalue sterling from $2.80 to $2.40 per pound – a humiliating blow that marked a profound turning point and compelled the nation to confront its declining global stature.

Britain's economic downturn and political challenges in the 1960s tested its policy towards the shah. Safeguarding economic interests, particularly revenues from British Petroleum (BP) and Shell, necessitated maintaining control over the shah. Until 1967, Britain upheld the illusion of its imperial strength, drawing as much from perception as from actual power. The devaluation of sterling shattered this façade, exposing Britain's economic weakness. Britain's decline created two key opportunities: it empowered the shah in negotiations, allowing him to leverage brinkmanship with the Consortium to boost oil revenues, and make bold geopolitical manoeuvres, particularly as Britain prepared to withdraw from the Persian Gulf. It also forced HMG to develop a petrodollar recycling strategy through arms exports, to sustain its policy of control and influence over the shah.

The 1960s marked a profound shift in the power dynamics between the shah and HMG. The initial four years of the decade were particularly challenging for the shah as he faced conspiracies, assassination attempts, and uprisings in the cities, while struggling to consolidate

[312] Ibid.
[313] Ibid., 269-270.

power during the White Revolution.[314] Economic growth however, became the engine of change, with Iran's Gross National Product (GNP) increasing by 8% annually throughout the 1960s, surging to 30.3% in 1973 and 42% in 1974.[315] Industrialisation accelerated, triggering public sector investment to increase at an annual rate of 22% from 1963 to 1977.[316] Following severe deflation in the early sixties, and a foreign exchange crisis, Iran achieved a modest balance of payments surplus by 1964-65.[317] Oil income, which grew by 17.9% per annum between 1959 to 1972, was central to this expansion.[318] In 1963-64, oil income totalled $388 million, with the Iranian Central Bank forecasting $2 billion for 1970.[319] This growth positioned Iran as a leading third-world economy and laid the foundation for ambitious development plans.

Iran's industrialisation was driven by the third and fourth development plans (1962-1968 and 1968-1973) and oil revenues comprised over 60% of the total planned expenditure for the Plan Organisation.[320] The third plan, with an envisioned expenditure of 230 billion rials and an objective of an annual income increase of 6%, yielded mixed results as growth was curtailed by severe drought, harsh winters and uncertainties from the White Revolution's land reform.[321] The fourth plan, 'the most ambitious yet,' aimed to industrialise and develop agriculture on par with advanced countries.[322] With an investment of 810 billion rials (equivalent to $58 billion today), 55% which came from oil revenue, the plan targeted a 34% GNP increase by prioritising

[314] Abbas Milani, *The Shah* (New York: Palgrave Macmillan, 2011), 233.
[315] Fred Halliday, *Iran: Dictatorship and Development* (Suffolk: The Chaucer Press, 1979), 138.
[316] Massoud Karshenas, *Oil, State and Industrialization in Iran* (Cambridge: Cambridge University Press, 1990), 169.
[317] "Iran's Economy: Taking Its Chance," *The Economist*, August 26, 1967.
[318] Karshenas deflates these figures by the import price index. (Karshenas, *Oil, State and Industrialization in Iran,* 211)
[319] "Iran's Economy: Taking Its Chance," *The Economist*, August 26, 1967.
[320] Jahangir Amuzegar and Ali Fekrat, *Iran: Economic Development under Dualistic Conditions* (Chicago: University of Chicago Press, 1971), 52.
[321] Ibid., 45-48.
[322] FCO 17/351, Charles Wiggin 'Iran: Annual Review for 1967 – Summary,' 3 January 1968.

heavy industry, water preservation, power expansion, urban development, and decreasing dependence on foreign markets for food and raw material.[323] The oil industry remained central to economic development, contributing 50% of all government revenue and 67% of foreign exchange earnings by the decade's end, even though growth was constrained by social reforms in the early 1960s.[324]

As the 1960s began, the shah faced mounting political unrest and challenges to his authority. The 1961 elections were condemned as fraudulent, igniting widespread opposition, whilst a teachers' strike in Tehran turned violent, killing two and fuelling speculations of a military coup. Prime Minister Ali Amini, appointed in April 1961, addressed the strike with a pay rise and land reforms but resigned in 1962 when the shah refused to cut the military budget. Asadollah Alam, a long-time confidante of the shah, replaced him as Prime Minister and in a bid to create a reformist image, the White Revolution was launched. The dazzling package of reforms aimed to alter Iran's political and social structure. Central to it was land distribution, which broke up the estates of 500 of Iran's largest landowners.[325] To broaden his support, the shah paired land reform with measures such as women's suffrage, literacy programmes, benefits for industrial workers, and privatising state-owned factories. By 1963, the White Revolution was in full-swing, and a plebiscite, with results 'artificially stimulated,' showed 99% support, giving the shah the legitimacy he sought.[326] Despite the fabricated outcome, he received praise from Prime Minister Macmillan and President Kennedy for his 'controlled revolution.'[327]

[323] Amuzegar and Fekrat, *Iran: Economic Development under Dualistic Conditions,* 51
[324] Ibid., 108.
[325] Gregory Brew, *Petroleum and Progress in Iran: Oil, Development and the Cold War* (Cambridge: Cambridge University Press, 2022), 232.
[326] Ibid.
[327] Milani, *The Shah,* 233.

Despite the economic repercussions from the White Revolution, including a deep recession and the defunding of the Plan Organisation, the shah managed to navigate these challenges. In Europe, the press reaction, 'especially in Britain (except *The Economist*)' offered great encouragement and approval.[328] Tehran's *Khandaniha* echoed the shah's sentiments, citing Foreign Secretary Alec Douglas-Home's 'most explicit, firmest and boldest' approval of the shah's programme. The Foreign Secretary assured Iranians of Britain's 'strongest and unqualified support,' a significant statement given how 'notorious' the British are for 'their thrifty and meticulous use of words.'[329] British opinion still held great sway. The British Embassy reported that many Iranians 'believed that any major development…in Iran has something to do with the British,' meaning that British words of approval or disapproval 'carry a great deal of weight.'[330]

By the mid-1960s, surging oil revenues, Britain's economic decline and the leverage gained from the 1967 Six Day War shifted power dynamics in the shah's favour. In late 1966, Ambassador Denis Wright noted signs that the shah was 'seeking to pursue a more 'independent' foreign policy,' referencing a potential arms deal with the Soviet Union.[331] In this context, the shah's push for independence from British interests became evident. In conversations with EA Bayne in *Persian Kingship in Transition*, the shah emphasised Iran's 'need to achieve international dignity' and 'independent nationalism,' rooted in sovereignty, dignity and economic development.[332] His quest to position Iran as a formidable military power conflicted with HMG's goals of control and influence. From 1961 to 1971, British relations

[328] FO 248/1590, Geoffrey Harrison – 'Farewell Audience with the Shah," 11 February 1963.
[329] FO 248/1590, extract from Khandaniha of Tehran, 17 June 1963.
[330] FO 248/1590, Denis Wright to RS Crawford, 16 April 1963.
[331] WO 32/20775, Denis Wright to Foreign Office, 23 November 1966.
[332] EA Bayne, *Persian Kingship in Transition* (New York: American Universities Field Staff, Inc, 1968), 196-214.

with the shah transformed, revealing an ally increasingly unreliable in safeguarding Britain's interests.

3.2 Diplomatic Manoeuvres and Unsettled Alliances: The Shah's Brinkmanship and British Apprehensions, 1961 – 1971

In the 1966 annual review of Anglo-Iranian relations, Ambassador Wright described the shah's manoeuvring as 'disquieting,' and his brinkmanship as a 'brilliant performance…that paid off handsomely,' but warning of the 'obvious dangers when this game is played too often by an authoritarian ruler of mercurial temperament.'[333] The shah's repeated forays in brinkmanship in financial aid and Consortium negotiations pushed diplomacy 'perilously close to the point of no return,' jeopardising not only 'his own position' but also, the interests of the British government.[334] From 1961 to 1971, brinkmanship and tactical posturing became trademarks of the shah's diplomacy. Though initially lauded as impressive, these tactics strained the relationship, shaping the perception of the shah as a mercurial and unreliable ally.

The Early-to-Mid-1960s: Perfidious Albion and the Shah

As the decade progressed, the shah's brinkmanship and extractive diplomacy became bolder. In 1962, he used HMG as leverage to secure increased military funding from the US, by threatening to stand down as Commander-in-Chief of the Iranian Armed Forces, warning that the 'country would collapse within a few years.'[335] The incident began with sources close to the shah reporting that he was 'very depressed and pessimistic' about the military budget, signalling that 'a crisis was brewing in the shah's relations with the West.'[336] Seeking a 60%

[333] FCO 17/351, Iran Annual Review for 1966 – Summary, 23 January 1967.
[334] Ibid.
[335] PREM 11/3845, Geoffrey Harrison to Foreign Office – Conversation with the shah, 5 March 1962.
[336] Ibid.

increase in the US military funding, the shah was bluntly refused. Threatening to step down, and thus place HMG's oil interests at risk, he suggested the Americans 'had better take over the country altogether,' emphasising that they failed to understand that the monarchy was 'the only thing' holding Iran together.[337]

Frustrated by what he saw as American ignorance of Iran's strategic value, the shah mused about making 'friends with the Russians,' after all, 'if the Russians gained control of Iran, they would dominate the Middle East and gain a bridgehead into the Horn of Africa.'[338] After a vehement diatribe against the Americans, he turned to the British Ambassador for intervention, warning of 'extremely grave consequences' if financial military aid was not forthcoming.[339] British archival documents revealed uncertainty among officials about the shah's threats, though they acknowledged the serious implications for Western interests in the Gulf. They also sensed a familiar undertone of 'indirect blackmail,' reminiscent of the shah's 1959, flirtation with a Non-Aggression Pact with the Soviets, which had eroded British trust.[340] Despite reservations, the shah's tactics worked, and the US presented a financial aid package within weeks.

In April 1963, Denis Wright, returning to Iran as Ambassador, received a warm and revealing welcome from the shah, who greeted him as an 'old friend.'[341] What was intended as a customary fifteen-minute meeting stretched into a record-setting hour. The shah fondly recalled his 'last meeting' with Wright at a farewell dinner in October 1955. However, Wright noted

[337] Abrahamian argues that one of the lasting impacts of the 1953 coup was the collateral damage it inflicted on the armed forces. As the Pahlavi monarch had both created and expanded the modern armed forces, making it the central pillar of its rule, and owed its 1953 survival partly to them, the general public saw the two as inseparable – 'No shah, no army.' (Abrahamian, *The Coup*, 219.)
[338] Ibid.
[339] Ibid.
[340] Ibid.
[341] FO 248/1590, Denis Wright's minutes on discussion with shah, 16 April 1963.

with curiosity, that the shah 'made no reference to our later and not unimportant meeting here in January 1959,' when he was sent to Iran to prevent the shah from signing the Non-Aggression Pact with the Soviets.[342] Wright had urged the shah to not sign with the Russians and with tears rolling down the shah's cheeks, he 'prophesied that if he did so, he would eventually lose his throne.'[343] The shah had not forgotten his mistaken dalliance, but he was happy to cast aside the moment when his diplomatic gamble in brinkmanship had faltered.

In the early to mid-1960s, HMG's relations with the shah were marred by deep-seated suspicions, particularly from the shah himself. Wright, in private correspondence, described dealing with the shah's 'sudden suspicions' of accusations that had 'blown up' in his 'torturous mind,' accusing the British Embassy of 'intriguing against him.'[344] The shah even blamed HMG for a 'very unexpected anti-government vote' against one of his bills.[345] To resolve this, Wright decided to 'have things out with the shah' and in a heated hour-long meeting, going 'hammer and tongs,' Wright dismantled all the shah's 'base suspicions' and they departed as 'the best of friends.'[346] No sooner had Wright reassured him than the shah's distrust renewed over HMG's reluctance to share contingency plans for the Persian Gulf, believing the British were indifferent to a full take-over in Iraq.[347] Wright, constrained by Britain's lack of plans and its imperial decline, noted that what 'galls' the shah is that 'we are not prepared to discuss any plans with him.'[348] Despite dispelling the initial suspicions, Wright found it 'annoying' and

[342] Ibid.
[343] Wright Memoirs vol. 2, 315-6, as quoted in Milani, *The Shah,* 316.
[344] MS 12226/13, "Postcards and Letters of Sir Denis Wright" Denis Wright, The Bodleian Libraries.
[345] Ibid.
[346] Ibid.
[347] The shah was also suspicious that the British had engineered the coup in Iraq. The first thing he asked Geoffrey Harrison in his farewell audience was if the British had had a role and despite assurances that this was not the case, the shah was 'obviously suspicious.' FO 248/1590, Geoffrey Harrison Farewell Audience with Shah, 11 February 1963.
[348] FO 248/1600, Tehran to Foreign Office, 24 October 1964.

'frightening' how 'quickly and easily the shah can be influenced' against the British.[349] HMG's relations with the shah stood on unstable foundations, with the shah believing *perfidious Albion* was responsible for 'anything that goes wrong' in Iran. Reflecting on his confidence that he had 'laid that ghost' to rest, Wright ended the letter with a disheartened, 'Apparently not!'[350]

Tensions with the shah were never far away, but this time they originated in a Kensington coffee bar. On the morning of April 10, 1965, the shah commenced his daily routine at the Marble Palace when a conscript bodyguard opened gunfire just 40 metres away. The shah narrowly escaped the rain of bullets and locked himself in his office. By chance, the shah had exited from his car at a different spot, avoiding the direct line of fire. Although the shah continued with state business as usual, meeting the Prime Minister soon after, public reaction was one of 'fear and shock,' and the bazaar was 'paralysed.'[351] Even regime critics expressed 'relief at his escape,' fearing the consequences if he had been killed.[352] The revelation that the plot to kill the shah 'began in a London coffee bar' – with five of the six alleged plotters being British university graduates – strained relations further.[353] However, British officials were relieved that 'rumours were not running riot' alleging a British hand in the plot.[354]

Relations deteriorated a month later when forty-nine Labour Members of Parliament signed a letter to the Iranian Ambassador, Ardeshir Zahedi, urging a fair trial for the Iranian graduates of British universities. Published in *The Times* the letter outraged Iranians, tarnishing the shah's reformist image, and disregarding Iran's legal system that was also based on habeas corpus. Zahedi condemned it as 'an act of interference' and denounced it as 'deplorable' that British

[349] MS 12226/13, "Postcards and Letters of Sir Denis Wright"
[350] Ibid.
[351] FO 248/1608, Denis Wright to Foreign Office, 24 April 1965.
[352] Ibid.
[353] "Plot to Kill shah 'began in London coffee bar'" *The Observer*, May 9, 1965.
[354] FO 248/1608, Draft letter to W Morris – signed only as 'C,' undated.

MPs would sign a letter 'based solely on rumours and allegations' claiming Iranians were being tortured.[355] In response, fifty-eight *Majles* deputies drafted a letter expressing 'genuine surprise and deep concern' that the MPs would publish the letter without verifying the facts and with disregard for Iran's legal system which 'guaranteed… a fair and just trial.'[356] The MPs' actions, at a time of heightened tensions, displayed a lack of sensitivity to a relationship long haunted by British interference.

HMG's relations with the shah languished abysmally, as Wright reported to the Foreign Office that 'the shah was not only angry but deeply hurt…and particularly incensed.'[357] Officials close to the shah were similarly upset, and 'a good deal of feeling [had] been stirred up' – an unfavourable scenario given the historical complexities that shaped the relationship. With Britain's declining global role and the shah's rising influence fuelled by oil revenues, Britain could ill-afford to let diplomatic ties be undercut by the spectre of its imperial past. The shah, already contending with a life-threatening incident, now faced an ally who did not view him as an equal partner. Wright admitted that 'damage has certainly been done to Anglo – Iranian relations' and in a conciliatory gesture, recognising the 'shah's extreme sensitivities on matters of this kind,' offered to inquire on the possibility of the British Prime Minister making 'a statement in the House of Commons' to rebuke the misbehaving MPs.[358]

The Iranian press launched a harsh campaign, attacking the British 'meddlers.' *Ettela'at* accused the British government of deliberately harming the Iranian people, branding the forty-nine Labour MPs as either 'real communists or paid agents.'[359] *Kayhan* questioned whether

[355] "Iran Protests to British MPs" *The Times,* May 11, 1965.
[356] FO 248/1608, Letter from Majles Deputies to House of Commons, 21 May 1965.
[357] FO 248/1608, Tehran to FCO, 1 June 1965.
[358] Ibid.
[359] FO 248/1608, Copy of *Ettela'at* article "Outside Meddlers," 5 June 1965.

their actions stemmed from 'ill-will or stupidity,' calling it 'unwarranted meddling' that Iranians could not tolerate, viewing it as interference and an insult.[360] The acrimonious past perpetually lingered in British government relations with the shah, continuously retold and remade in the reflection of whatever current issue threatened to dislodge the delicate equilibrium.[361] By the mid-1960s, relations were hurtling towards a nadir and as Wright astutely acknowledged, 'this upset will rankle for a long time…the shah never forgets and rarely forgives.'[362]

The Mid-to-Late-1960s: A Changing Tide in Relations

Ahead of the shah's 1965 visit to London, Denis Wright cautioned the Foreign Office that if relations persisted as they were, 'we may be inviting a repetition' of the 1959 Soviet episode.[363] Wright urged that during the shah's visit, the British government have 'fully dressed discussions' on the Gulf and the threat from Nasser, hoping that treating him as an ally would dissuade him from further brinkmanship.[364] By March 1965, relations were improving, with HMG recognising the shifting power dynamics and the need to secure the shah's support. This shift was reflected in the UK's new objective to ensure 'Iran's continued pro-Western alignment,' and to reassure the shah that, as a Central Treaty Organisation (CENTO) ally 'he enjoys our confidence and support,' despite occasional disagreements.[365]

British Foreign Secretary Michael Stewart and Prime Minister Harold Wilson followed the brief diligently. Meeting the shah on March 2, 1965, Stewart showered him with compliments

[360] FO 248/1608, Copy of *Kayhan* article "Ill-Will or Stupidity?" 5 June 1965.
[361] Following international pressure, the shah commuted the two death sentences originally handed down to the student leaders involved, in what became known as the Marble Palace Shooting Incident. A total of fourteen students faced charges of plotting to assassinate the shah and of membership in a communist party.
[362] FO 248/1608, Tehran to FCO, 17 June 1965.
[363] FO 248/1600, Minutes of meeting with Shah, Tehran to FO, 23 October 1964.
[364] Ibid.
[365] PREM 13/409, Brief to Prime Minister Wilson, 23 February 1965.

on the White Revolution, expressing how 'impressed' HMG was with his reforms. Stewart assured the shah that Labour had 'no illusions' about Nasser and would not 'sacrifice their friends to win his goodwill.'[366] After receiving such flattery and reassurance, the shah left Stewart's office 'relaxed and friendly,' primed for his meeting the following day with the Prime Minister. Wilson praised the shah's 'programme of liberalisation and modernisation,' comparing it to Tsar Alexander II's reforms but noting the shah's went further by providing 'not only freedom, but economic security and proprietorship' to the peasantry.[367] Once praise had been sufficiently given, the conversation shifted to the Gulf. The shah expressed that he wanted 'Britain to stay,' but was 'looking forward to the day when the situation might change.'[368] Wilson agreed, acknowledging that Iran was becoming 'a strong and modern country,' who could 'play her part in defending the same principles and interests,' affirming that Britain and Iran were 'natural allies and old friends.'[369] The shah left reassured that Britain saw him as an equal partner and ally in defending the Gulf against Nasser's 'hostile influence.'

The shah's March 1965 visit marked a turning point in relations, as the British government sought to influence him through incentives rather than coercion. Aware that the shah would arrive 'suspicious and dissatisfied,' efforts focused on mollifying him to secure Iran's pro-Western alignment.[370] The shift reflected regional changes amid the Cold War, with Iran's role in CENTO critical as a 'containing factor of Soviet ambitions.'[371] The Foreign Office viewed CENTO's survival as crucial for countering Soviet influence and sustaining the shah's regime, which relied on his control of the armed forces.[372] Arms sales became another key aspect. The

[366] PREM 13/409, Foreign Secretary to Prime Minister - notes on meeting with the shah, 2 March 1965.
[367] PREM 13/409, Record of conversation between Prime Minister and the Shah, 3 March 1965.
[368] Ibid.
[369] Ibid.
[370] FO 371/180802, Steering brief on visit of the shah, undated.
[371] FO 371/180802, Brief on future of CENTO, undated.
[372] Ibid.

shah expressed interest in purchasing tanks, missiles, and aircraft, noting that 'American prices were lower.'[373] Prime Minister Wilson, having just launched a commercialisation of the arms drive the year prior, encouraged the shah to 'see if there were some items which Britain could supply.'[374] Wilson envisioned Britain assuming a prominent role in the international arms trade, projecting influence amid gradual imperial decline.[375] With rising oil revenues and military ambitions, Iran became an attractive partner and treating the shah as an equal, capable of purchasing arms on credit rather than relying on aid, marked a departure from the past.

By the time Minister of State Goronwy Roberts visited Iran in late 1967, the power dynamics had shifted significantly. Armed with 'defensive briefs' from the Foreign Office, Roberts addressed key issues, including Iran's aspiration to be considered as the 'heir-apparent' after Britain's withdrawal from the Gulf.[376] With the shah's growing influence in the region and Britain's weakened domestic position, the shah suggested that 'Iran should assume the British role' in case it withdrew.[377] Roberts, intent to 'disabuse the shah of the idea,' argued that the Gulf states 'should work closely together to preserve peace and stability.'[378] Geopolitical concerns over the Gulf were 'even more on Iranian minds than oil.'[379] Despite no official British decision to leave the Gulf, rumours in the British press led the Iranian government to believe otherwise.[380] Ironically, Roberts reassured them that there was no set time for a British withdrawal.

[373] PREM 13/409, Record of conversation between Prime Minister and the Shah, 3 March 1965.
[374] Ibid.
[375] Mark Phythian, *The Politics of British Arms Sales Since 1964* (Manchester: Manchester University Press, 2000), preface.
[376] FCO 17/366, Foreign Office to Tehran, 6 October 1967.
[377] FCO 17/366, Tehran Embassy Brief, 12 November 1967.
[378] Ibid.
[379] FCO 17/366, Wright to FO, 20 November 1967.
[380] Ibid.

Press coverage on Robert's visit was 'cautiously welcoming and friendly,' and reflected the shah's conviction that Iran alone was 'capable of filling the vacuum' left by the British.[381] The critical *Khak va Khoun* newspaper, however, condemned British presence in the Gulf as 'unnecessary and undesirable,' lambasting the Minister for his 'imperial designs.'[382] Meanwhile, *Paygham-e Emruz,* contended that the Gulf would 'continue to be a source of profit for the British.' A consensus emerged that given Iran's growing regional power, oil revenues and military strength, Britain's presence was becoming less necessary. Despite the candid rhetoric, Wright concluded that Anglo-Iranian relations were enjoying one of their 'better periods.'[383] Roberts' visit was successful, but 'nothing could be taken for granted' in a country with 'plenty of pitfalls.' Encouragingly, the shah emphasised his willingness to cooperate. However, HMG remained cautious, recognising that while 'Iranian performance may not always match Iranian promise,' the Iranians placed 'fundamental importance' on being taken seriously. By the late 1960s, the shah was increasingly able to demand serious consideration.

Strategic brinkmanship permeated the shah's dealings with the British government, moulding him into an unreliable and untrustworthy ally. Initially, his dissatisfaction with CENTO led to threats of withdrawal, citing Iran's strategic significance. Wright called his bluff, noting that the shah is 'sufficiently shrewd and well informed' to realise his need for great power allies. Wright also pointed out that many of the shah's supporters, while indifferent to CENTO, 'doubted the capability of Iran to go at it alone.'[384] By 1966, the shah's tactics escalated into perilous risk-taking. He told *Financial Times* correspondent Andrew Alston, that he was ready to go 'over the brink,' admitting that while he sometimes acted deliberately, he could become

[381] FCO 17/366, Wright to FO, 15 November 1967.
[382] Ibid.
[383] FCO 17/366, Wright to FO, 20 November 1967.
[384] FO 371/186689, Tehran to FO, 14 April 1966.

'genuinely emotionally involved,' losing control.[385] Alston questioned the shah's self-restraint, underscoring the importance of perception as much as reality.

The shah's dalliance with the Soviets in February 1967 demonstrated his willingness to use coercive diplomacy when he felt Iran was not getting its due. Frustrated by insufficient oil production increases and a lack of US industrial and arms support, the shah threatened to seek sensitive weapons from the Soviet Union, warning it would soon be 'too late' for other offers.[386] Wright urged his Washington counterpart to 'meet the shah's blackmail,' emphasising the disastrous consequences of Soviet arms sales.[387] The Soviet's delay in responding gave Wright time to emphasise the dangers of buying sensitive weaponry such as surface-to-air missiles (SAM) from them, resulting in only $110 million worth of non-sensitive Soviet equipment being purchased.[388] The shah's tactics paid off and he secured shortly after: Consortium concessions, Hawk missiles, and F4 Phantom jets from the Americans at bargain prices.[389] Nonetheless, relations still came close to the precipice as the Soviet Union sold to Iran several hundred armoured personnel carriers, anti-aircraft guns, military trucks, and various small arms.[390] This marked the first time the Soviet Union sold weapons to a Western-aligned country, underscoring a power shift that highlighted the shah's audacity and the changing dynamics in his favour.

Between 1961 to 1971, power dynamics between HMG and the shah fluctuated as both parties asserted their foreign policies. The decade commenced favourably for HMG, but economic

[385] FO 17/356, FO's notes on lunch with Economist's Andrew Knight, 25 January 1967.
[386] FO 371/186701, FO to Tehran, 29 July 1966.
[387] FO 371/186701, Wright to FO, 2 August 1966.
[388] FCO 17/351, Iran Annual Review for 1966, 11 January 1967.
[389] Ibid.
[390] Alexander J. Bennet, "Arms Transfer as an Instrument of Soviet Policy in the Middle East," *Middle East Journal* 39, no. 4 (1985): 763.

decline exacerbated by the 1967 sterling devaluation, eroded its influence. Controlling the shah, particularly over oil, became increasingly challenging as Britain's power waned. Meanwhile, the shah's pursuit of sovereignty, self-reliance, and robust economic development to place Iran as a formidable military power, accelerated at the expense of Britain's ebbing influence.

The seismic shift in power dynamics was palpable in diplomatic exchanges between British and Iranian officials. Anticipating Britain's withdrawal, Iran accused British foreign policy of 'shilly-shallying' and threatened 'a rupture of diplomatic relations or of all commercial relations' unless Gulf issues were resolved.[391] This posed a significant threat to Britain, which was in the process of finalising arms deals with the shah, deals critical for securing jobs and stabilising the Treasury's balance of payments. Ambassador Wright attempted to reassure Iran of their friendship, but inadvertently stumbled when he remarked that 'Iranians sometimes became overly emotional on issues which did not turn out anything like as badly as they expected.'[392] This was poorly received by Foreign Minister Ardeshir Zahedi, who upon being handed a paper on communist activities, curtly remarked, 'We now no longer regard the Russians as our enemies,' implying, as Wright observed, 'that the British now occupied that role.'[393] This role risked being reaffirmed by the British National Archives, which under the thirty-year rule, were set to release documents exposing 'derogatory comments' on the shah's father, 'strictures on the Iranian character,' and the 'boldness' of British national interests, particularly oil, which would 'undoubtedly smack of 'colonialism'' and reveal a 'constant…interference' in Iranian domestic affairs.[394] Wright noted that 'the imagination boggles at the harm it could do to Anglo-Iranian relations,' contemplating 'the dynamite there

[391] FO 248/1650, Tehran to FCO – minutes on meeting Zahedi, 30 March 1968.
[392] Ibid.
[393] Ibid.
[394] FO 248/1663, Wiggin to FCO, 14 February 1969.

must be lying around in the archives,' citing Reader Bullard and Mossadegh as just two examples.[395]

While the political dynamics increasingly favoured the shah, the mythic power of British influence endured in the eyes of the Iranian public. Denis Wright reveals in private correspondence that during the shah's coronation, he and his wife 'had the best possible seats,' strategically placed in the front row, alongside the Crown Prince, 'in the direct line of fire of the cameras…much in evidence to Iranian viewers.'[396] This desire to be seen as equal to the British reflected a nuanced relationship - simultaneously seeking validation, while harbouring a deep-seated suspicion of their actions. Nowhere were these suspicions more perilous than in oil relations, the main stage of the power play between the shah and HMG.

3.3 Oil: The British Government, the Consortium and the Dove who turned Hawk

Growth, Defence, and the Role of Oil in British Relations with the Shah

In December 1963, Kermit Roosevelt, the former CIA operative behind the 1953 coup and now an executive for Gulf Oil, visited his old friend, the shah. Defying his advisors, the shah pushed oil companies to the brink, demanding increased financial contributions and higher production, threatening unilateral action if his terms were not met. Confiding in Roosevelt, the shah declared, 'Bargaining is what the companies and governments will have to live with for a number of years to come.'[397] The dove had turned hawk, marking a pivotal shift in the global oil economy of the 1960s. A persistent glut, rising competition, and growing assertions of national control over resources, eroded the dominance of major oil companies.[398] While

[395] FO 248/1663, Wright to FCO, 19 February 1969.
[396] MS 12226/13, "Postcards and Letters of Sir Denis Wright"
[397] Brew, *Petroleum and Progress in Iran,* 183.
[398] Ibid.

companies retained authority to cut oil prices, such moves had significant financial consequences for the oil-producing governments reliant on their operations. As the decade unfolded, oil majors faced escalating demands for higher national production and revenues, leading to intense political bargaining. Middle Eastern states pushed for increased oil output, but meeting these demands risked oversupply. Production became a matter of pro-rationing and exerting political leverage on the oil companies, either directly or through the parent governments of these corporations.[399]

Oil was the backbone of Iran's economy, underpinning the shah's ambitions for sovereignty, self-reliance, and military strength. Oil revenue, constituting over 60% of Iran's five-year development plans, grew at an annual growth rate of 18% from 1963 to 1969.[400] As the shah's political leverage grew, he increasingly pressured the Consortium, dissatisfied that despite Iran's rapid oil output growth, it still ranked third behind Saudi Arabia and Kuwait in Middle Eastern production.[401] The shah found it incomprehensible that the 'barren, under-populated sand wastes' received more oil revenue, displaying 'an incomprehensible lack of judgement' by the oil companies.'[402] His bold bargaining put immense strain on the Consortium, with HMG caught in the crossfire. As his desire for advanced weapons intensified, the shah was prepared to sacrifice OPEC's unity to meet his goals. The link between oil and defence grew stronger, especially after HMG announced its withdrawal from the Gulf. The shah warned the Consortium that unless higher targets were met, he would be 'forced to take very unpleasant steps.'[403] Consortium relations with the shah increasingly came to be seen as a threat to Middle Eastern security.

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[399] James Bamberg, *The History of the British Petroleum Company, Volume 2 – The Anglo-Iranian Years, 1928 – 1954* (New York: University of Cambridge, 1994), 162.
[400] Amuzegar and Fekrat, *Iran: Economic Development under Dualistic Conditions,* 107.
[401] Bamberg, *The History of the British Petroleum Company,* 174.
[402] Ibid.
[403] Ibid., 177.

The period from 1962 to 1971 was dominated by yearly crises between the Consortium, the shah, and the British government. Each crisis, promised to be the last, was soon eclipsed by new demands and threats of unilateral action. The Consortium feared that yielding to the shah's 'avalanche of escalating demands' would disrupt the Middle East's delicate balance. The period can be divided into three phases. The first, from 1961 to 1964, saw the shah acting as a 'moderating force' within a disunified OPEC, for which British officials thanked him for averting a crisis with OPEC while he concurrently made 'reasonable demands' of the Consortium.[404] The second phase, from 1965 to 1968, saw the shah's demands escalate, transforming bargaining into brinkmanship. HMG observed an increasingly unreliable ally, with a Consortium executive likening the situation to having a 'pistol held at our head.'[405] The third phase, 1969 to 1971 marked the full consolidation of the Pahlavi petro-state, beginning with the Zurich Dolder Grand showdown where the shah demanded $1 billion under threat of nationalisation, and ending with 1971 Tehran Agreement - the crowning jewel for OPEC, where the shah secured unprecedented gains.

British power, once underlining the position of half of the Consortium, was no longer a guarantee of security. By the decade's end, industrialised countries grew more dependent on oil imports as the oil majors' share of global crude production fell from 90% to 70%. Meanwhile, OPEC's membership grew to ten countries, controlling over 80% of global oil trade.[406] The signing of the landmark 1971 Tehran Agreement - which raised the posted price by nearly 50 cents per barrel – tangibly demonstrated the profound shift in the balance of power

[404] Brew, *Petroleum and Progress in Iran,* 212.
[405] Bamberg, *The History of the British Petroleum Company,* 175.
[406] Ibid., 177.

and dealt a staggering blow to the economies of oil-consuming nations. As Kissinger noted, oil had become the 'Achilles heel of the West.'[407]

1961 – 1964: The Shah - OPEC's Weakest Link and the 'Mad Men's' Moderating Force

As the Riyadh OPEC Conference approached in December 1963, the shah privately remarked to Fuad Rouhani, his former adviser and OPEC's Secretary General, with a sly grin, 'probably they will tell us that we are traitors.'[408] Within twenty days, the shah's stance crumbled under pressure from the Consortium and HMG, who convinced him that jeopardising ties with either the Consortium or Britain was not in Iran's best interest.[409] Rouhani's efforts to secure an additional 11 cents per barrel disintegrated, sabotaged by the shah, who once championed him. The Iraqi delegate wept upon hearing of the shah's abrupt reversal.[410] Nonetheless, OPEC remained the shah's bargaining instrument, with Iran's immediate interests overshadowing any collective future gain.

A year earlier, in a candid dinner with Kermit Roosevelt, the shah confided his ambition to leverage OPEC for his own agenda.[411] The Consortium, viewing Iran as OPEC's 'weak link,' anticipated the shah's defection in pursuit of a more lucrative deal with the oil majors.[412] Despite Rouhani's bold declarations, Iran's position was fragile, as the oil companies skilfully guided the shah towards destabilising OPEC from within, with HMG discretely manoeuvring behind the scenes to maintain control over oil flows. In collusion, the shah and HMG devised a 'formula to guide Iranian action at the next OPEC meeting,' driven by the shah's desire 'to

[407] Ibid.
[408] Guiliano Garavani, T*he Rise and Fall of OPEC in the Twentieth Century* (Oxford: Oxford University Press, 2019), 152.
[409] Ian Skeet, *OPEC: Twenty-five years of prices and politics* (Cambridge: Cambridge University Press, 2019), 31.
[410] Garavani, T*he Rise and Fall of OPEC in the Twentieth Century,* 152.
[411] Brew, *Petroleum and Progress in Iran,* 203.
[412] Ibid., 202.

avoid any adventurous measures which might lead to trouble with the oil companies' or to the 'break up of Iran.'[413] The shah knew he did not have the upper-hand to outmanoeuvre HMG and the Consortium. As Asadollah Alam confided in British Ambassador Harrison, the shah's true goal was simply 'gaining more money,' and if he could secure it, 'he would be perfectly prepared to let OPEC and Rouhani go hang.'[414]

OPEC and the oil majors entered negotiations on tax royalties expenses that tested OPEC's unity. Member states negotiated with their concessionaires to fix royalty payments at a fair, fixed rate, excluding them from tax deductions, while OPEC urged its members to not accept oil prices lower than pre-August 1960 levels.[415] These negotiations, which lasted two years, frequently reached deadlock, straining OPEC's unity – further exacerbated by the shah's wavering commitment. In return for his support, the shah demanded an 'equitable sharing of profits,' a demand met with resistance as oil majors cited 'market realities' and hesitated to reward a difficult autocrat.[416] The shah countered that unless he got what he wanted, Iran would cease to act as a 'moderating influence' in OPEC, allowing the 'wild men' to take over and push for nationalisation.[417]

The shah navigated a precarious middle ground, hoping to retain the goodwill of the Consortium, whilst preserving his reputation as a petro-nationalist. By positioning himself as a moderate within OPEC, he aimed to secure concessions while reinforcing his nationalist credentials. The stalemate persisted until BP Chairman Maurice Bridgeman's conciliatory stance led to a gentlemen's agreement agreeing to boost investment in Iran, including a new

[413] FO 248/1590, Minutes – Farewell audience with the Shah, 11 February 1963.
[414] Brew, *Petroleum and Progress in Iran,* 203.
[415] Ian Seymour, *OPEC: Instrument of Change* (London: Palgrave Macmillan, 1980), 44.
[416] Brew, *Petroleum and Progress in Iran,* 202.
[417] Ibid.

export terminal at Bandur Mashur and a crude terminal on Kharg Island.[418] In November 1963, the shah softened his stance, assuring Bridgeman that his days of 'ultra-nationalism were over' and Iran could be relied upon to 'behave reasonably.'[419] Despite OPEC preparing to vote on unilateral action at the December 1963 Riyadh Conference, the shah's volte-face weakened OPEC's unified position. His undermining of Rouhani revealed OPEC's infancy in shaping global oil policy.

By 1964, emboldened by Iran's White Revolution reforms needing capital, the shah permitted Rouhani to press the oil companies to their limits over royalty expensing. The shah's rhetoric became more assertive, telling a press conference that Mossadegh's folly was thinking a single country 'could bring the oil companies to their knees' – OPEC, acting together, was 'a great power' that could secure better terms for all oil-producers.[420] This boldness, invoking the memory of nationalisation and urging Rouhani to threaten punitive action against the oil companies, revealed a more confident shah, intent to test the limits. However, archival materials reveal that the shah's position was undermined by the Prime Minister Alam, who, resenting Rouhani's influence, began feeding Iran's OPEC strategy to the British Ambassador.[421] With insider knowledge, HMG and the Consortium exploited divisions in the Pahlavi regime. The shah ultimately accepted the 3.5 cents per barrel offer from the Consortium, admitting that Iran only wanted 'more money,' while OPEC's goals were just window dressing.[422] Additionally, the Consortium agreed to capitalise drilling and exploration expenditures, resulting in an effective increase of 6 cents per barrel. Although this cost the Consortium little, it allowed the shah a chance to claim victory while saving the oil companies

[418] Ibid., 204
[419] Ibid.
[420] FO 371/170416, Wright to FO, 17 October 1963.
[421] Brew, *Petroleum and Progress in Iran,* 206.
[422] Ibid., 209.

from sanctions. Meanwhile, OPEC struggled to achieve any kind of pro-rationing of oil, as the oil companies capitalised on divisions, pitting member countries against each other. By identifying the shah as the 'weak link,' they succeeded in further fracturing OPEC's unity.

By November 1964, at its seventh conference, OPEC teetered on dissolution. The conference ended without resolution, leaving members to individually accept the companies' terms on royalty expenses in December. The oil companies effectively exploited OPEC's disunity through delaying tactics and strategic impasses.[423] The year marked a significant shift in the concept of equitability, with oil-producing states increasingly seeking full control over profits. The 50:50 profit-sharing model was dead, and by the following year, it was not a matter of if, but when states would claim full profits.[424] British reports lauded the shah as a 'moderating force' in OPEC, relieved he had safeguarded their oil interests.[425] Though perceived as 'demanding' and 'fickle,' the shah remained a more reliable oil source than other nationalist countries.[426] From 1961 to 1964, the shah evolved from a cautious player into a price hawk, framing modest increases as major victories, and subtly shifting the balance of power.

1965 – 1968: 'Moral Promises' and the Threat of a 'Second Mossadegh Era'

The often overlooked second stage (1965-1968), emerged as the crucible for HMG's relations with the shah, cementing his image as an unreliable ally. Victories against the Consortium and OPEC, coupled with rising oil revenues, shifted regional power dynamics, enabling the shah to use brinkmanship and tactical posturing to challenge British control and oil interests. The 'ferocity of the battle' in 1966 led HMG to speculate that they were facing a 'second

[423] Mohammed Ahrari, *OPEC: The Falling Giant* (Lexington KY: University Press of Kentucky, 1986), 31.
[424] Brew, *Petroleum and Progress in Iran,* 209.
[425] Ibid., 204.
[426] Ibid., 212.

Mossadegh era.'[427] The shah's escalating annual demands on the Consortium intensified pressure on HMG, underscoring a pivotal geopolitical power shift and reflecting his pursuit of sovereignty, self-reliance, and economic development. By 1968, Consortium officials were too 'nervous' to confront the shah, who declared to the *Financial Times* his intolerance for any corporate manoeuvres aimed at usurping Iran's rightful wealth.[428] The tides had turned, and fortune, at long last, favoured the shah.

In October 1966, tensions peaked in London as Manouchehr Eghbal, NIOC's Chairman, pressed the Consortium to either ramp-up oil production or allow NIOC to purchase oil at cost. The shah's ultimatum was clear: comply or risk Iran's withdrawal from the 1954 Consortium Agreement, a move with far-reaching implications.[429] With growth projections at 11% - far below Saudi Arabia's 20% - the shah's dissatisfaction grew.[430] Although consistent with regional trends, Iran's growth failed to meet the shah's ambitious agenda for economic and social reform, which demanded significant investment and faced a looming foreign exchange crisis. The Consortium rejected Iran's demand for 17% growth or a $60 million interest-free advance, arguing such terms would breach their agreement and set a dangerous precedent.[431] Instead, they offered a modest 12% growth over four years, insisting Iran's oil income was 'sufficient to provide for a very reasonable development programme' and citing constraints of supply and demand.[432] Wright's urgent message, 'We are faced with a serious crisis now,' heightened the sense of alarm as the situation escalated.[433] HMG, aware the shah was 'not averse to blackmail,' and intent on being 'seen [to] pursue independent policies,' feared the

[427] FCO 54/15, Wright to George Brown, 10 February 1967.
[428] FCO 54/19, Draft letter to Eghbal, 26 February 1968.
[429] FO 371/187622, Report by JT Fearnley 'Iran and the Oil Consortium,' 23 October 1966.
[430] Ibid.
[431] Ibid.
[432] Ibid.
[433] Ibid.

shah might publicly condemn the Consortium Agreement, the Consortium or even Britain, risking an irreversible course.[434] As tensions mounted, HMG navigated the crisis by negotiating with both the Consortium and the shah, noting that the shah had previously skirted 'near to the brink of a serious breach,' a situation only averted by 'serious talking by his friends…particularly Britain.'[435]

By November 1966, the Consortium and the shah were on a 'collision course.' Scribbled at the end of a Foreign Office report, officials acknowledged the dilemma: 'The shah is blackmailing the Consortium; but our political interest in him and the majority of the British companies in the Consortium, oblige us to treat with him.'[436] Wright, seeking to avert a crisis, was urged to warn the shah against 'drastic action' that risked derailing Iran's economic progress.[437] Wright, valuing the shah's reforms for regional stability, would remind him as 'old friends' of the 'very great danger' present in their standoff.[438] Yet, Wright, sensing a growing 'Gaullist' inclination, doubted there was 'room for manoeuvre,' as the shah was 'dreaming of flooding Eastern Europe with Iranian oil.'[439] Without substantial concessions from the Consortium, the outcome remained uncertain. Britain's interest in averting unilateral action was clear, chiefly due to BP's key role in the Consortium and its impact on the UK's balance of payments. Maintaining an image of non-intervention was crucial, though behind closed doors, British diplomacy remained deeply engaged behind the scenes.

Amid escalating tensions, Alam leveraged his rapport with the Ambassador to gain insight into the Consortium's response to the shah's demands. Wright, safeguarding sensitive information,

[434] Ibid.
[435] Ibid.
[436] Ibid.
[437] FO 371/187622, 'Talking Points' attached to the 'Iran and the Oil Consortium' Report, 23 October 1966.
[438] Ibid.
[439] FO 371/187622, Wright to FO, 1 November 1966.

assured him that the companies would 'do their best,' but admitted that the Consortium was 'fed up' with being 'harassed with fresh demands,' questioning if this crisis would end the pressure.[440] Alam promised a five-year respite, insisting the Consortium Agreement would hold, but Wright remained sceptical, noting that five years was little comfort given that thirteen years remained on the agreement. Alam revealed that the shah was an 'excellent poker player,' who 'would not lead his country over the precipice.'[441] However, the shah's tactics, including the threat to procure sensitive Soviet weaponry, signalled a precarious powershift, placing British interests at imminent risk for the first time since 1953.

By late November 1966, the shah's strategic gambits bore fruit as he secured a 'package deal' from the Consortium. It promised a 12% production increase over two years, two million tonnes of royalty oil for NIOC at discounted rate for Eastern European sales (rising to six million tonnes by 1971), and the relinquishment of 25% of the Agreement area, mainly in Lorestan and Fars.[442] Knowing Iran's strategic importance, the shah managed to wrest significant gains from the Consortium. He took particular satisfaction in the land concession, fully aware of its monumental 'political and psychological' impact, irrespective of its oil reserves.[443] This concession reinforced the shah's legitimacy and his assertion that 'Iranians were the true masters of its underground wealth.' While a significant victory for the shah, it set a dangerous precedent for the Consortium, exposing them to similar exploitation in the future.

The crisis underscored the disparity between the shah's perception of HMG's influence and the reality. He attributed to them a 'greater degree of 'intervention'' than was warranted.[444]

[440] FO 371/187622, Wright to FO, 8 November 1966.
[441] Ibid.
[442] PREM 13/2729, Tehran to FO, 28 November 1966.
[443] Ibid.
[444] FCO 54/15, Report by Wright to George Brown, 10 February 1967.

Wright sought to capitalise upon this misconception, no matter how 'inequitable or unreal' it might be, recognising the need to 'strike a balance' between showing 'sympathy for Iranian aspirations' and ensuring the shah did not believe he could enlist HMG's support 'against the companies.'[445] This strategy was crucial for the UK to maintain influence over the shah and the flow of oil. Despite the relief after the December 1966 agreement, the Foreign Office knew it 'could not rest on its laurels for too long.' Christian O'Brien, Chairman of the Iranian Oil Operating Companies, pinpointed the 'real problem': the shah expected 'oil income to rise automatically every month.'[446] Wright noted that the deal had 'bought two years grace,' a window for strategic consolidation and development, but the Six Day War soon upended this fragile equilibrium.[447] The resulting windfall profits led the shah to insist on maintaining the 'high rate of production,' and by July 1967, Joseph Addison, Chairman of the Consortium, warned the shah's pressure campaign had resumed and they 'could not afford to ignore [him].'[448]

The outbreak of hostilities on June 4, 1967, between Israel and its Arab neighbours, sent shockwaves through the oil industry. Iran capitalised on the Arab League's embargo of oil to nations backing Israel, including the UK. With a surge in oil off-take, Iran's oil revenues increased by 23% from the previous year – surpassing the shah's already ambitious targets. The Ambassador observed, 'the Iranians are nothing if not quick to seize openings.'[449] The Six Day War revealed two key insights for the shah: the Consortium had the capacity to increase production at will, and Iran's 'excellent cooperation' during the crisis warranted significant rewards.[450] The Iranians simply could not be 'weighed in the same balance as the Arab oil

[445] Ibid.
[446] FCO 54/15, FCO Notes by Wiggin on meeting O'Brien, 21 February 1967.
[447] FCO 54/15, Report by Wright to George Brown, 10 February 1967.
[448] FCO 54/15, Wright to FCO, 12 July 1967.
[449] FCO 17/351, Iranian Annual Review for 1967 Report by Wiggin, undated.
[450] FCO 54/15, telegram to FO from unknown, 22 August 1967.

producers.'[451] The aftermath of the war set the stage for the escalating conflict between the Consortium and the shah, testing British diplomatic resilience. The shah's demand for increased oil revenue intensified, complicated by two factors: the NIOC Chairman's obfuscation of actual offtake and export capacity and, the destabilising effects of sterling's devaluation. As the shah held firm, Britain's control over oil faced yet another challenge.

In September 1967, Wright was urgently summoned by Prime Minister Hoveyda, who delivered a scathing rebuke over Iran's unmet expectations from the bi-annual talks in London. Hoveyda disparaged the Arab states for their 'iniquity and unreliability,' and hinted at future tensions by remarking, 'If a husband (the Consortium) kept on running off to his mistresses (the Arabs), whenever they chose to beckon, he must not be surprised if the wife (Iran) cut up rough.'[452] Wright saw this as a 'warning shot,' while O'Brien doubted that 'the wife' had all the facts.[453] Confusion arose when NIOC Chairman Manouchehr Eghbal, counting on a 'moral promise' from the Consortium of off-take of 2.9 million barrels per day – integral to his $6.34 billion development plan – realised no such promise had been made.[454] As tensions rose, British policy remained to not capitulate to the shah's 'bluster,' convinced he would neither nationalise nor force the Consortium to take oil at inflated prices - after all, they reasoned, 'What would the Consortium do with it? Pour into the sea?'[455]

The core of the dispute was a mismatch in expectations: the figures presented to the Iranians were predicated on capacity, a metric that differed from off-take.[456] The shah demanded a daily

[451] FCO 54/15, Wright to FO, 12 July 1967.
[452] FCO 54/16, Tehran to FO, 5 October 1967.
[453] Ibid.
[454] FCO 54/16, Tehran to FCO, 19 September 1967.
[455] FCO 54/16, Scribbled notes on paper, no specific date – October 1967.
[456] 'Off-take' refers to the act of purchasing crude oil, whilst 'capacity' refers to the maximum amount of oil that can be produced, stored and processed.

off-take of 2.9 million barrels, but even 'with the best will in the world' the Consortium's upper limit was only 2.3 million barrels.[457] Negotiations highlighted this confusion, with the NIOC Chairman insisting that the shah had been promised a capacity increase to 6 million barrels a day, a claim that nearly led the Consortium Chairman to accuse the shah of lying.[458] In an effort to bridge the gap, Iran's Finance Minister, Jahangir Amouzegar, pressed the Consortium to recognise Iran's strategic significance, and 'almost pleadingly' asked for assistance in resolving the issue.[459] When it became clear his appeals were being ignored, Amouzegar ominously suggested Iran might need to 'learn from the Arab countries' and abandon its 'reasonable approach.'[460] By November 1967, HMG grew increasingly concerned, fearing an imminent 'serious collision' with the Iranian government.

Two months after announcing his most ambitious development plan, the shah remained resolute. The prospect of retreating and explaining to his people why 'the Consortium was allowed to imprison these reserves' was 'unthinkable.'[461] Following the Six Day War, when Iran's cooperation should have been rewarded, the constrained liftings felt like 'discrimination against Iran.'[462] His ultimatum was clear: if off-take and capacity fell short, he would appeal directly to the public. While not seeking to sever ties with the Consortium, he warned that any half-measures would force decisive action. Evoking Mossadegh's memory, he warned this time would be different as Iran's fortunes had improved.[463] By December 1967, as negotiations teetered on the edge of collapse, the devaluation of sterling endangered it further.

[457] The Iranian government demanded the following off-take targets: 1967 – 2.4 million b/d, 1968 – 2.8 million b/d, 1969 – 3.25 million b/d, 1970 – 3.75 million b/d, 1971 – 4.35 million b/d, and 1972 – 5 million b/d. (FCO 54/16, 'Copy of telex message from Addison,' 19 October 1967.
[458] FCO 54/16, "Iran's oil production and relations with the Oil Consortium"
[459] FCO 54/16, Addison to FCO, 19 October 1967.
[460] Ibid.
[461] FCO 54/17, Minutes – Discussions with Iran/NIOC, 1 December 1967.
[462] Ibid.
[463] Ibid.

Upon receiving the last quarter's revenue payment, the Iranian Foreign Minister initially mistook it for a 'bad joke'- the figure fell short by £6 million.[464] The shah's patience wore thin, declaring he would 'not tolerate this.'[465] The Consortium attributed the shortfall to cargoes lost post-October 1 and sterling's devaluation on November 18, 1967.[466] Yet, with tensions high, the shah's 'blood was up' and he would 'brook no compromise,' warning that failure to resolve the devaluation issue would force him to act in ways that would 'cost them more times the value of the sum in dispute.'[467] The crux of the dispute hinged on whether royalties and taxes for oil sold before, but paid for after the devaluation, should be calculated using the old rate as the shah contended, or the new rate.[468] The Consortium sought clarity on their legal standing and potential 'implicit or explicit' support from HMG.[469] While British officials believed in the Consortium's case, they were acutely aware of their waning sway over the shah, noting that any residual influence, 'would be lessened as and when the shah became aware of the decreased prospects of our permanence in the Gulf.'[470] Thus, a delicate balance had to be maintained, with the British and the Consortium, 'reserving their strength for the more serious argument about offtake.'

The shah, suspecting the Consortium were trying to 'defraud him,' confided to Wright that a sovereign state could not be treated like a 'business concern to be outmanoeuvred.'[471] By December 29, 1967, the shah was 'dug-in' and refused to meet Addison, the Consortium

[464] FCO 54/17, Tehran to FCO, 18 December 1967.
[465] FCO 54/17, Tehran to FCO, 20 December 1967.
[466] FCO 54/17, Tehran to FCO, 18 December 1967.
[467] FCO 54/18, Tehran to FCO, 3 January 1968.
[468] Payments were based on posted prices set in dollars. After the devaluation, converting these to sterling required a 14.3% increase in sterling received by NIOC for the same quantity of oil. The timing was crucial – NIOC argued that even for oil sold before the devaluation but paid afterward, the higher sterling rate should apply. This hinged on the interpretation that the exchange rate should be determined by the payment date rather than date of sale.
[469] FCO 54/18, TW Garvey to FCO, 22 December 1967.
[470] FCO 54/18, Garvey's note for the Secretary of State, 31 December 1967.
[471] FCO 54/18, Tehran to FCO, 3 January 1968.

Chairman, warning that unless his terms were met, he would take the matter to the *Majles* the next day to legislate against the Consortium. The British were horrified, when just five days after the shah's threat, the Consortium capitulated within ten minutes, agreeing to additional payments to Iran pegged to the post-devaluation sterling.[472] Irked by the Consortium's 'clumsy' handling of the situation, HMG felt they had unnecessarily escalated matters to the brink, creating needless work and anxiety. Moreover, they were cognisant that capitulating at the last moment under threat of unilateral legislation, set a dangerous precedent, only emboldening the shah's brinkmanship. The crisis underscored a profound power shift, with the shah now holding increased leverage over both the oil majors and HMG. Wright observed that the shah was deeply sensitive to 'Iran's prestige' and 'authority' as an 'independent sovereign state,' viewing it as distinct from 'another oil company.'[473] Determined to not be 'swindled' again, the British Ambassador correctly anticipated that the Iranians might regard this episode as a blueprint for future negotiations.

The Participant's Agreement, the Threat of Walter Levy and the Shah's 1968 Demands

The Consortium's clandestine 'Participant's Agreement,' established in 1954 after Iran's oil nationalisation, set the backdrop for the crises of the 1960s, dictating Iran's growth not by its own needs but at the discretion of the Consortium members.[474] The 'Aggregate Programmed Quantity' formula (APQ), designed to prevent market saturation, also functioned as a punitive mechanism – a reminder that 'crime does not pay.'[475] As the decade unfolded, this agreement verged on public exposure, threatening to expose the discriminatory practices against Iranian oil liftings and penalties for exceeding off-take.

[472] FCO 54/18, Tehran to FCO, 10 January 1968.
[473] Ibid.
[474] As quoted by Anthony Sampson, *The Seven Sisters*, 145.
[475] FO 248/1574, Minutes by CD Wiggin, 26 January 1956.

The threat to the Consortium's secrecy came from Walter Levy, a distinguished oil policy consultant with an extensive portfolio of advising governments and corporations. Born in Germany in 1911, Levy's life was marked by the tragedies of the Holocaust - his mother perished in Auschwitz, whilst his sisters survived. After seeking refuge in Britain, he initially served in the Ministry of Economic Warfare, but with the outbreak of war in 1939, he was interned as an enemy alien. Known for his integrity, Levy became a trusted international petroleum consultant, hailed as 'the real oracle of state' in oil matters.[476] He played a pivotal role in shaping the Marshall Plan's petroleum sector and was a key architect in the 1954 Consortium Agreement. His advice to the British to 'camouflage' the agreement and 'dilute' its power within a newly formed operating company, led to the creation of the Iranian Oil Operating companies.[477]

Levy regarded the Participant's Agreement as a 'millstone around the Consortium's neck,' markedly inequitable to the Iranians.[478] When NIOC solicited Levy's expertise for an independent survey on Iran's crude production and marketing prospects in November 1966, British officials grew anxious. Levy's extensive commitments placed him in a 'delicate position,' and he confessed that conducting a survey without feeling 'he had betrayed his conscience' would be challenging.[479] He admitted he might be 'compelled to take drastic action' by revealing the existence of the APQ formula if the oil companies remained obdurate, clarifying that he could do so using only published information, without breaching any confidences.[480] Amidst the tense atmosphere of the late 1960s, Levy hinted at 'seriously

[476] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Free Press, 2009), 441.
[477] Ibid.
[478] FO 371/187622, Letter Wiggin to JT Fearnley, 10 November 1966.
[479] Ibid.
[480] Despite the confidential nature of the Participant's Agreement, its substance was inadvertently made public on two occasions: first, when Dr. Penrose received the text by mistake from a junior Consortium employee, and

considering blackmailing' the oil majors, threatening to disclose the Participant's Agreement if necessary.[481] Wright noted that such a revelation would be 'political dynamite,' adding fuel to an already volatile situation.

Throughout 1967 and 1968, the threat of Walter Levy disclosing the Participant's Agreement loomed over the British government, threatening to derail negotiations. During Minister Goronwy Roberts' 1967 visit to Iran, he asserted the Iranians gave 'every indication' that they knew about the clandestine agreement and that it would become the 'Achilles heel' of relations.[482] Even as devaluation tensions eased, the off-take issue persisted throughout 1968. BP Chairman Maurice Bridgeman foresaw 'darker aspects' and urged his American counterparts to liberalise the off-take arrangements.[483] Though the shah acknowledged the newly liberalised terms that mirrored ARAMCO's pricing structure, he nonetheless castigated the projected off-take figures as 'totally unacceptable.'[484] Resolute in his stance, the shah maintained that the oil was the 'property of the Iranian nation,' and found it inconceivable that the Consortium's lacklustre off-take projections would hinder Iran's development ambitions.

On January 31, 1968, nestled in the affluent suburbs of northern Tehran, the shah received the Consortium principals alone at the Saheb Gharanieh Palace. In a marathon audience spanning ninety minutes, he outlined Iran's formidable challenges: hostile Arab states, the financial demands of the Fourth Development Plan, and the spectre of Communist encroachment casting

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second, through the publication of J.E. Hartshorn's book *Oil Companies and Governments*. Notably, although the Iranians regularly voiced complaints about the Consortium's structure and marketing arrangements, which they argued placed them at a disadvantage against ARAMCO, they did not capitalise on this information leak. By sheer luck, the disclosure did not escalate into a major controversy. (FO 371/187622, Letter Wiggin to JT Fearnley, 10 November 1966)

[481] FO 371/187622, Letter Wiggin to JT Fearnley, 10 November 1966.

[482] FCO 17/366, Tehran to FCO, 20 November 1967.

[483] FCO 54/18, Tehran to FO, 20 November 1967.

[484] The newly liberalised arrangements allowed for Consortium members to lift oil over their equity share at a quarter way price.

a ‘red crescent’ shadow over Egypt. Iran, he asserted, was the sole bulwark of regional stability, contingent on being ‘equipped both militarily and economically.’[485] This prologue culminated in a stark ultimatum: the shah would settle for no less than $5.9 billion in revenue from the Consortium over the next five years or threatened to seize the reins of Iran’s oil exports.[486]

Meanwhile, the corridors of the British Foreign Office buzzed with news that the shah was privy to the APQ formula, openly acknowledging this particular aspect of the Participant’s Agreement for the first time.[487] HMG now faced the unvarnished truth of their diminishing influence with the shah, as they faced the obsolescence of a Consortium seen as ‘too antiquated,’ ‘too careless of Iranian needs,’ and bound by an Oil Agreement deemed ‘too colonial.’[488] Preserving Britain’s economic and strategic interest now required a recalibrated approach – becoming ‘more selective as to when, how and to what extent we [the British government] take up the cudgels on the Consortium’s behalf.’[489] With the sting of the devaluation crisis still fresh and the shah’s rising revenue demands, the British braced for another gruelling year of negotiation.

As oil revenues surged, so did the shah’s appetite for diplomatic brinkmanship. In 1967, Iran secured £265 million in oil revenue (equivalent to £4 billion today), marking a phenomenal 22.4% increase from the previous year and positioning it alongside Saudi Arabia’s oil wealth.[490] The shah emphasised the urgency of increased oil revenue to finance his Fourth Development Plan, a venture he deemed of ‘vital importance to the nation’ and to the stability

[485] FCO 54/18, Attachment A to P. Note No. 320, ‘Audience with HIM The Shah on 31st January 1968,’ undated.
[486] Ibid.
[487] FCO 54/16, FCO to Tehran, 20 October 1967.
[488] FCO 54/18, Wiggin to FCO, 29 January 1968.
[489] Ibid.
[490] FCO 54/18, Report on Relations between the Oil Consortium and Iran – 1968, 29 January 1968.

of the Middle East.[491] He vowed to not permit the Consortium to 'stand on our throat and choke us' by dictating Iran's rate of development.[492] For 1968, the shah ambitiously targeted 20% growth, eclipsing the Consortium's conservative 8.5% projection.[493] HMG, viewing the $5.9 billion target over five years as a 'magic figure,' remained cautious. By February 1968, convinced that the shah's influence was waning amid tensions with Arab neighbours and increasing distrust of Soviet manoeuvres, the Consortium unanimously rejected his demands. The shah was incensed by this defiance, while Britain, adopting a posture of strategic reticence, chose to 'to lay low,' keenly observing the unfolding geopolitical chess game.[494]

As the Iranian New Year approached in March 1968, incendiary press editorials targeted the oil companies. Prime Minister Hoveyda stood before the *Majles*, accusing the Consortium of challenging Iran's sovereignty and brandishing the threat of nationalisation.[495] Shortly thereafter, in Esfahan, the shah ceremoniously laid the cornerstone for a new steel mill in partnership with the Soviet Union, praising the 'spirit of cooperation and understanding,' which for him, marked the new dawn of an expanded Soviet economic partnership.[496] The Foreign Office viewed his speech as a veiled reminder of perceived, past blackmail tactics, with the *Financial Times* reporting it as a signal that Iran would no longer tolerate any unilateral decisions by Western oil companies regarding development.[497] The shah invoked the image of former Prime Minister Mohammed Mossadegh, famed for governing in his grey wool pyjamas from his bed, asserting that his threats of unilateral action were 'not a bluff' and not issued

[491] FCO 54/18, Letter from NIOC to Addison, 3 February 1968.
[492] FCO 54/19, Note on audience with the shah, 20 April 1968.
[493] FCO 54/19, Tehran to FCO, 21 February 1968.
[494] FCO 54/19, Tehran to FCO, 28 February 1969.
[495] FCO 54/19, Tehran to FCO, 2 March 1968.
[496] *Financial Times*, "Shah Warns on Oil Interests as Crucial Talks Resume," March 14, 1968.
[497] Ibid.

'from a sick bed under a blanket.'[498] He stood firm, warning that should he be pushed to the brink, nationalisation would look and feel very different to 1951.

As relations deteriorated, HMG, grappling with an increasingly formidable yet temperamental shah, curated a list of terms deemed too provocative for use. Words such as, 'brinkmanship,' 'blackmail,' and 'pistol point' were to be strictly avoided, alongside 'illegal' and 'unacceptable.'[499] Additionally, the delicate issue of Iran's sovereign rights was noted as 'sensitive' yet 'difficult to define.' Charles Wiggin, a seasoned British diplomat in Tehran, observed that the Iranians, fiercely protective of their oil ownership, were 'extremely touchy' about any suggestion that a 'sovereign government' could be treated like 'just another commercial company.'[500] This nuanced understanding came as British influence over the shah waned. Levy echoed this sentiment, reporting to the British Embassy in Washington the shah's keen awareness of HMG's 'very vulnerable position.'[501] During a chance encounter on the ski slopes of St Moritz, the shah expressed indignation at the 'accelerated British withdrawal' and the emergent Emirates federation, which he considered the 'the last straw' and an 'intolerable provocation.'[502] Levy's counsel to HMG was stark: the shah was not bluffing, and another Arab-Israeli conflict resulting in an oil embargo could spell economic disaster for the UK, forcing a second devaluation of the pound and potentially dragging the dollar down with it, with consequences so dire that they were 'not easy to contemplate.'[503] By April, British officials fully grasped their vulnerability, recognising the peril of relying on the shah and the potential repercussions of his wrath.

[498] Ibid.
[499] FCO 54/19, Wiggin to Addison, 19 March 1968.
[500] Ibid.
[501] FCO 54/19, British Embassy Washington to FCO, 29 March 1968.
[502] Ibid.
[503] Ibid.

The shah's tactics of brinkmanship culminated in a decisive agreement on April 20, 1968. The Consortium conceded an additional $20-$30 million for 1968, partially covering the $65 million shortfall and committing to the shah's $5.9 billion revenue target over five years (equivalent to $52 billion today). The shah was momentarily appeased by the victory, and the British Foreign Office felt a sense of relief, believing they had averted disaster. The years 1965-1968 had set a dangerous precedent, reinforcing the shah's belief that brinkmanship was an effective strategy. The respite proved ephemeral. Nine days after the agreement, Walter Levy warned of an 'autumn showdown,' predicting the shah would 'appear in battle dress.'[504] His prediction was chillingly accurate. As the year drew to a close, rising tensions signalled renewed conflict. Iran's dwindling foreign exchange reserves, combined with the ballooning demands of the Fourth Development Plan and increasing defence expenditures, left HMG bracing for another diplomatic confrontation as they prepared to defend their waning political influence.

1969 – 1971: The Dolder Grand Showdown – '$1 Billion, or Else'

Perched on the hills overlooking Zurich, the stately Dolder Grand Hotel stood as a silent witness to a meeting between the Consortium and a sovereign force, culminating in a pivotal turning point in the trajectory of oil diplomacy. The morning of January 31, 1969, unfurled with the unassuming tranquillity of a Swiss winter, as the shah welcomed the Consortium principals to his suite for a meeting that for the first hundred minutes was 'extremely pleasant and amicable.'[505] The final ten minutes saw a dramatic turn when David Steel of BP tactlessly informed the shah that the coveted $1 billion mark was out of reach by $100 million. The shah 'reacted violently,' seeing this as a mere 4% increase to $900 million against the projected

[504] FCO 54/20, British Embassy Washington to FCO, 29 April 1968.
[505] FCO 67/221, Attachment to Addison's letter, 3 February 1969.

revenue for the Iranian calendar year of 1347 (March 1968-1969).[506] Dismissive of Steel's justifications, which cited logistical issues such as high freight rates and operational shutdowns at Kharg Island, the shah saw only a Consortium reluctant to 'put in enough capacity.'[507] His anger was palpable as he accused the Consortium of breaking their 'promise,' tapping his temple in a menacing gesture he warned, 'I will remember this.'[508] Contemptuous of their justifications, he dismissed their explanations with fury: 'It is unthinkable that my plans should have to be altered because you sit on my oil wealth and refuse to produce the oil.'[509] The shah made it unequivocally clear that any austerity measures imposed upon Iran would be met with reciprocal actions against the Consortium, vowing to take 'appropriate measures' in retaliation. The meeting ended with a 'very sombre and threatening atmosphere,' as Addison ruefully noted that it was the 'old story of best endeavours' in the Iranian mind becoming binding 'guarantees.'[510]

Amid escalating tensions, the Foreign Office intensified its efforts to navigate the unfolding crisis.[511] Wright assessed the shah's predicament, noting his lack of 'room for any manoeuvre,' and recommended that HMG pressure the Consortium to meet the fiscal targets for 1347, if feasible. Attaining this benchmark was deemed critical for its 'great psychological importance,' offering a potential respite. The issue of oil off-take, a longstanding focal point of Anglo-Iranian relations, was further complicated in 1969 by the transition from the Gregorian to the Iranian calendar. By the Iranian calendar, revenues reflected only a 4% growth, while the same

[506] Ibid.
[507] Ibid.
[508] Ibid.
[509] Ibid.
[510] Ibid.
[511] Alam's diaries reveal that Wright came to see him on February 17, 1969 'upset' by the events in Zurich and the day after the American Ambassador came with a similar message, 'alarmed' by the discussions and 'afraid' if Iran took any unilateral action, 'all the Middle Eastern countries would follow suit.' (Alam, *The Shah and I*, 34-35).

numbers under the Gregorian calendar showed a 9% increase.[512] Table 1 outlines NIOC's oil revenue expectations of the Consortium - figures reached without the Consortium's input, with earlier figures based on an estimate on capacity rather than off-take.[513]

NIOC's Oil Revenue Expectations of the Consortium

Iranian Year	Gregorian Calendar	Amount (£ Million)	Growth (%)
1347	March, 68 - 69	865	-
1348	March, 69 - 70	1,000	15.6
1349	March, 70 - 71	1,155	15.5
1350	March, 71 - 72	1,345	16.5
1351	March, 72 - 73	1,555	15.6

Table 1: Figures provided by NIOC to the Consortium. [514]

The Consortium's inability to meet the shah's growth demands was thwarting his ambition to become the Middle East's largest oil producer. Table 2 illustrates Iran's significant upsurge in oil extraction, mirroring the region's upward trend. However, the off-take records reveal sizable variations: a sharp 21.9% increase in 1967 contrasted to a more modest 7.5% in 1965, trailing the regional norm. The final column highlights the shah's growing influence and grip on the oil sector, as Iran's export volumes steadily rose to comprise a quarter of the Middle East's total by the decade's end.

Projecting forward, assuming a linear growth, Iran was on track to reach 2,171 million barrels by 1975.[515] However, the shah's demands escalated sharply, calling for immediate yearly

[512] FCO 67/222, Tehran to FCO, 8 March 1969.
[513] FCO 67/225, Consortium's 1968 Annual Report, 17 July 1969.
[514] Ibid.
[515] The projection assumes a linear growth rate of 12.79%, calculated as the average annual growth offtake from 1957 to 1968. This rate is applied uniformly to estimate future offtake volumes through 1975.

increases of 16-17%, far exceeding the previous year's 9.5% growth.[516] In the recurring 'familiar annual showdown' described by *Petroleum Intelligence Weekly*, a $100 million gap remained between Iran's unwavering demand for $1 billion and the Consortium's cap of $900 million.[517] The stakes were high for the shah; miscalculations in the Fourth Development Plan's budget had spiralled, with some costs ballooning by 240%, plunging Iran into serious financial difficulties. The shah implored HMG to 'use their influence' with the oil companies, seeking a diplomatic salve to 'save…[his] face.'[518]

Consortium's Iran Off-take Compared to Total Middle East Off-Take

Year	Consortium Agreement Offtake		Total M.E. Exports		Total Iran Exports (including non-Consortium Exports) as % of Total M.E. Exports
	Million Barrels	% Growth	Million Barrels	% Growth	
1957	245.3	-	1,242.5	19.7	19.7
1958	277.9	13.3	1,503.1	21.0	18.5
1959	314.1	13.0	1,623.9	8.0	19.3
1960	356.2	13.4	1,850.1	13.9	20.3
1961	397.5	11.6	1,986.3	7.4	20.1
1962	448.0	12.7	2,182.7	9.9	20.6
1963	499.8	11.6	2,403.2	10.1	21.0
1964	570.2	14.1	2,708.0	12.7	21.4
1965	610.5	7.5	2,957.6	9.2	21.8
1966	697.2	14.1	3,329.2	12.6	21.9
1967	849.6	21.9	3,538.3	6.3	25.2
1968	930.5	9.5	3,986.5	12.7	24.5

Table 2: Off-take from Iran under the Consortium Agreement compared with total Middle East offtake.[519]

By February 1969, Wright warned that the Zurich Dolder Grand Showdown had precipitated the most dangerous situation yet.[520] HMG found itself precariously balancing between supporting the shah and the Consortium, keenly aware that overzealous defence of the latter

[516] FCO 67/221, Report on Level of Oil Offtake from Iran by the Consortium, 21 February 1969.
[517] FCO 67/222, Oil Department to FCO, 7 March 1969.
[518] FCO 67/222, Wright to FCO, 20 March 1969.
[519] FCO 67/221, Report on Level of Oil Offtake from Iran by the Consortium, 21 February 1969.
[520] FCO 67/221, Wright to FCO, 26 February 1969.

could jeopardise national interests. A Foreign Office memo from that month vividly articulated the stakes: if the shah's fourth plan were to be seen failing, it could have a catastrophic impact on his power base, undermining his regime, and by extension sour the shah's policies towards Britain. Any weakening of the shah's authority could imperil British strategic interests and its vital commercial contracts, highlighting it placed the Rapier deal at particular risk.[521] Alam, the shah's Minister of Court, concurred with Wright on the potential for 'disastrous consequences,' acknowledging the shah's readiness for a confrontation given his weariness of the endless 'continual horse-trading.'[522] Alam suggested that the shah might push for a compromise 'well over the halfway mark.'[523] The threat of 50% nationalisation of the Consortium caused panic among British diplomats, leading to a flurry of secret meetings with Dutch and American counterparts, strategic discussions with Consortium executives, and diplomatic efforts with the shah and his ministers – all aimed at breaking the deadlock. Britain aimed to bide time, granting the shah sufficient latitude for strategic manoeuvring, with hopes that, as before, the Iranians would 'accept last minute compromises.'[524]

For three gruelling months, negotiations dragged under the looming threat of the shah's brinkmanship. After three days of intense discussions, the British managed to ascertain that while $1 billion for 1348 (March 1969 - April 1970) was non-negotiable, the method to achieving it was open for discussion, i.e. a mixture of actual lifting revenue and prospective advances. The shah warned that any shortfall would precipitate a currency crisis, threatening to blame the oil companies for Iran's fiscal ruin.[525] Alam reiterated the message to O'Brien in simple terms: the first course of action available to the Consortium is that it 'falls in with [the

[521] FCO 67/221, FCO Memo, 21 February 1969.
[522] FCO 67/221, Wright to FCO, 26 February 1969.
[523] Ibid.
[524] Ibid.
[525] FCO 67/223, Wright to FCO, 15 April 1969.

shah's] wishes' and saves 'a lot of worry,' or the Consortium, 'disobeys him' and it could 'kiss goodbye to thousands of millions of dollars.'[526] Negotiations reached a nadir during what Consortium members called a 'disgusting' meeting, where Prime Minister Hoveyda crudely joked about hanging some of the Consortium's Iranian staff.[527] Further confusion arose from a calendar mix-up, leading to Iranian false expectations of a $960 million offer – a misunderstanding the team struggled to clarify despite strenuous efforts.[528] HMG's suspicions of the shah's readiness to escalate tensions were confirmed when he told Kermit Roosevelt on the Swiss ski slopes that he would not hesitate to take over half the Consortium.[529] The Consortium and HMG were 'fed up' with the shah's threats.[530] Britain now faced an increasingly mercurial and unreliable ally, whose actions were steadily undermining the foundations of trust.

Amidst the tension-wrought backdrop of 1969, the British Foreign Office, with a blend of urgency and finesse, brokered a deal that would etch itself into the annals of oil diplomacy. On May 13, the Consortium conceded, agreeing to a 10% production increase to $930 million, and advancing $80 million from the next year's revenue to satisfy the shah's demand of $1 billion.[531] Although the shah had leveraged brinkmanship to his advantage, wresting further control from Consortium and HMG, he remained 'elated but still not satisfied,' reluctant to trust the Consortium.[532] The shah confided to Alam the day before that there is 'no point trusting their promises,' citing that the previous year they promised $865 million, but in practice, Iran only received $846 million.[533] In his push to safeguard Iran's sovereignty and

[526] Alam, *The Shah and I,* 35.
[527] FCO 67/222, From C. Brant to Ellingworth - Iran: Consortium Negotiations, undated.
[528] Ibid.
[529] FCO 67/222, Gallagher to Wright, 21 March 1969.
[530] Alam, *The Shah and I,* 37.
[531] PREM 13/2729, FCO to Downing Street, 4 June 1969.
[532] Alam, *The Shah and I,* 62.
[533] Ibid.

self-reliance, the shah was determined in the future to take oil production into his own hands and control the output sold to the companies.[534] Nonetheless, under his threats of nationalisation, the Consortium met his demands against the backdrop of Britain's fragile economy, which was unable to withstand another confrontation.[535] Through strategic manipulation, the shah tipped the scales of fortune in his favour, forcing Britain to confront the resolve of an assertive power.

By 1970, the shah had set a formidable precedent, and each spring, HMG found itself caught in the annual confrontations between him and the Consortium over operational strategies and production outlook.[536] By that spring, the Consortium was once again at the mercy of the shah's 'avalanche of escalating demands,' now seeking $1.115 billion in liftings.[537] The shah intensified his coercive diplomacy, threatening nationalisation, a secret pact with the Soviets, or the increase of posted prices.[538] After two months of dogged negotiations, the Consortium conceded to a $1.03 billion revenue target, 'modified bookkeeping' allowing thirteen monthly instalments, and the commitment to procure an additional $100 million for Iran from the banks.[539] No sooner had the ink dried, than the shah came back with renewed demands in light of Britain's withdrawal from the Gulf, seeking more funds for Chieftain tanks. The British government, at least in 1970, was unwilling to 'take barter oil in exchange for tanks.'[540]

[534] Ibid.
[535] Within three days of securing the coveted $1 billion, the shah, after a late-night party, instructed Alam at 2am to insist to the British Ambassador that he persuade the smaller Consortium shareholders to sell their shares to Iran. Alam suspected that the shah had been tipped off by a reliable source, suggesting he could have obtained a better deal. (Alam, *The Shah and I,* 63).
[536] FCO 67/409, "Relations between Iran and Iranian oil operating consortium", 1970, TNA.
[537] Bamberg, *The History of the British Petroleum Company,* 447.
[538] FCO 67/409, Report – Iran – Consortium Relations, undated April 1970.
[539] FCO 67/409, Tehran to FCO, 6 May 1970
[540] FCO 67/411, FCO Memo on the Background of Iran-Consortium Relations, 21 September 1970.

By October, the Iranian press was admonishing oil companies to increase production to fund national development, emphasising Iran's robust economic growth and resolve to seek alternative partnerships if their demands were not met.[541] The shah intensified the stakes, announcing that the coming weeks would bring 'definite talks of destiny with the oil Consortium' where Iran would again battle for its legitimate rights.[542] The agreement reached on November 15, 1970, favoured the shah's once more, granting Iran an extra 5% tax on oil net income and a 9-cent increase per barrel in the posted price of heavy crude.[543] The shah further consolidated control over the oil narrative, positioning himself as the unchallenged authority.

Building on his earlier successes and deep understanding of Consortium negotiations, by February 1971, the shah clinched a monumental victory for OPEC that altered the very sinews of the global oil industry. The Tehran Agreement heralded a new age, with an immediate 35-cent rise in posted prices per barrel, annual 5-cent increases, 2.5% for inflation adjustments, and the abolition of royalty expensing.[544] These changes drove crude prices up by 50 cents a barrel – a catastrophic outcome for the oil majors and a blow to the industrialised oil-consuming nations. The balance of power had shifted - commodity prices soared, and producers claimed a greater share of profits. Oil was now at the heart of global commerce, and the shah stood at its centre.

[541] FCO 67/411, Wright to FCO, 7 October 1970.
[542] FCO 67/411, Tehran to FCO, 3 November 1970.
[543] FCO 67/411, FCO to Shell, 16 November 1970.
[544] Bamberg, *The History of the British Petroleum Company,* 460.

Conclusion

Through masterful brinkmanship, the shah methodically diminished HMG's and the Consortium's control over annual oil negotiations. With unyielding tenacity, he advanced Iran's agenda, leveraging threats of nationalisation, potential alliances with adversaries, and aggressive pricing to shift the balance of power in his favour. Each standoff throughout the 1960s and early 1970s elevated his stature while marking the decline of British and Western influence. The evolution of HMG's control over sterling oil was on precarious ground by the end of the decade, and as will be demonstrated in the following chapter, began to intertwine with British arms. Amid this period of economic reorientation and oil diplomacy, Britain's strategic withdrawal from the Gulf symbolised the broader retreat of empire, as the shah's power surged with unstoppable momentum.

CHAPTER 4

Britain's Withdrawal from the Persian Gulf and the Beginnings of the Oil-Arms Nexus

4.1 Britain's Withdrawal from the Persian Gulf, 1968 – 1971

Britain's Fall from Grace and 'the acrid aroma of fait-accompli'

Sterling's 1967 devaluation had profound strategic repercussions. Whitehall's 1966 proclamation of Britain's exit from Aden upon Southwest Arabia's 1968 independence, sparked concerns about HMG's role in Gulf security, but by late 1967, British forces fled Aden at gunpoint, abandoning plans for an orderly departure. Foreign Minister Goronwy Roberts reassured the shah and the Gulf sheikhdoms that Britain would honour its treaty obligations and remain as 'long as necessary' to ensure peace.[545] Yet, just two months later, Harold Wilson declared to the world on January 16, 1968, that the British government intended to withdraw all forces from east of Suez, including the Persian Gulf, by the end of 1971. Foreign Secretary, George Brown was dispatched to forewarn Britain's closest ally. Seated in the office of Secretary of State Dean Rusk, he found himself rehashing arguments to Rusk that he had been vehemently opposed to in Cabinet just weeks earlier; Britain's presence was more 'divisive than unitary…withdrawal was important for its own sake, and this was the right moment for it.'[546] Rusk fumed at HMG's preference to safeguard its social welfare programmes at the expense of its global influence - 'He could not believe that free aspirins and false teeth were

[545] FCO 8/142, Brief for Roberts, undated November 1967.
[546] W. Taylor Fain, *American Ascendance and British Retreat in the Persian Gulf Region* (New York: Palgrave Macmillan, 2008), 141.

more important than Britain's role in the world!'[547] The usually gracious Rusk seethed that he was 'profoundly dismayed' at Britain's retreat to a Little England posture, emphasising that the United States could not pick up Britain's responsibilities.[548] Rusk barked at Brown, 'For God's sake, act like Britain!'[549] In a later memorandum, Rusk described his conversation noting he smelled 'the acrid aroma of a fait-accompli.'[550] Britain's closest ally felt not just the sting of betrayal but the arrival of isolationism. As the denouement of the tumultuous sixties unfolded, the unrelenting economic and political exigencies within Britain mandated draconian measures. No longer could Britain maintain the façade of imperial grandeur, its unravelling was laid bare – a poignant manifestation of a once formidable empire succumbing to the inexorable forces of internal disarray.

Economic constraints and the repercussions of the Six Day War had forced the British Labour government to announce on January 16, 1968, their withdrawal from the Gulf by 1971. British military presence in the Gulf had been a regulatory force – maintaining the peace and warding off other powers. The impending British withdrawal set the precarious stage for oil negotiations between the Shah and the Consortium, serving as a catalyst in reshaping the power dynamic between the British government and the shah. Withdrawal signified two crucial developments – it exposed Britain's waning influence and control in the Gulf, while presenting an opportunity to Iran, the 'obvious heirs,' to assert its territorial claims against the British-protected states of Bahrain, Sharjah (Abu Musa and Siri) and Ras al-Khaimah (the Tunbs).[551] The shah declared that he was in the struggle to the end, zealously concerned with who would control the Gulf.[552] The eventual seizure of Abu Musa and the Tunbs in November 1971 thus encapsulated the

[547] Ibid., 142.
[548] Ibid.
[549] Ibid., 141
[550] Memorandum of Conversation, FRUS, 1964 – 1968, Vol. XII, 603-608, as quoted in Galpern, *Money, Oil and Empire in the Middle East,* 273.
[551] Fain, *American Ascendance and British Retreat in the Persian Gulf Region,* 175.
[552] FO 1016/870, Morris to FCO, 27 November 1968.

broader transformation in Anglo–Iranian relations: Britain, constrained economically and strategically, acquiesced to Iranian ambitions in order to preserve its vital oil and arms interests. The episode validates the thesis argument that by the early 1970s, Britain's policy toward Iran was increasingly defined by dependence—trading political leverage for economic partnership within the emerging oil-arms nexus.

HMG's policy aimed to control the flow of oil while exerting political and economic influence over the shah. Central to this effort was the need to control the Gulf and the strategically vital Straits of Hormuz. The Gulf accounted for 40% of Britain's oil supplies, with 40% of that oil under British control, constituting a staggering £1 billion in foreign investment.[553] This capital infusion made a 'substantial' contribution to the country's balance of payments, amounting to 'around £200 million a year.'[554] However, HMG's pursuit of power and control reached a pivotal juncture with their impending withdrawal, creating an opportunity for the shah to consolidate the shifting power dynamics in his favour. Buoyed by surging oil revenues and skilful manoeuvring in oil negotiations, the shah was determined to fortify Iran's sovereignty, self-reliance, and robust economic development, with the ultimate aim of building a formidable military force.

This chapter posits that the imminent British withdrawal from the Gulf acted as a catalyst, sparking demands for increased oil revenue, and fuelling the shah's arms drive. It represented the final piece in the shah's consolidation of regional power. This section delves into the flux of power dynamics between the British government and the shah, focusing on the case studies of the disputed islands and Bahrain. Here, the consequences of shah's brinkmanship would

[553] Fain, *American Ascendance and British Retreat in the Persian Gulf Region,* 170.
[554] Ibid.

resonate throughout the 1970s and ultimately undermine his relationship with Britain in 1978-79.

The Future of the Persian Gulf: Heirs, Suspicions and the 'Stirring of a Hornet's Nest'

The shah had been anticipating Britain's withdrawal since as early as 1966 when, in an interview with *Kayhan International*, he proclaimed that Britain's departure from Aden marked 'the beginning of the end.'[555] He emphatically asserted that Iran must prepare itself, as it was 'only a matter of time before the United Kingdom got out of the Gulf too.'[556] In discussions with Wright, he gave HMG five years.[557] The shah envisioned Iran as being the 'heirs-apparent' and as early as 1965 wanted to begin long-term planning with the British for this eventuality, a suggestion that was swiftly rebuffed as the British adamantly insisted they had no intention of leaving.[558] Nevertheless, the shah pressed to expedite arms procurement in the late 1960s to equip the Iranian forces, ensuring their readiness to counter any Nasserite threat.[559] The shah received the news of Britain's withdrawal with calm resolve on January 7, 1968, having already concluded that Britain's 'days in the Gulf were numbered.'[560] However, he was taken by surprise by the subsequent announcement on February 27, 1968 revealing that the seven Trucial Sheikhdoms, along with Qatar and Bahrain, were contemplating a federation or union.[561] This development incited a fervent response in Tehran. Wright noted that it 'stirred up a hornet's nest' for him, as it was inconceivable to the Iranians that the British would 'leave to others an inheritance' that 'she severed from Iran by force and fraud.'[562] Foreign Minister Zahedi vowed

[555] FO 371/186729, Tehran to FCO, 30 June 1966.
[556] Ibid.
[557] MS 12226/22, "Letters and Correspondence of Sir Denis Wright" 1953 – 2004, Denis Wright, The Bodleian Libraries
[558] PREM 13/409, Brief to PM Harold Wilson, 23 February 1965.
[559] FCO 17/351, Iran Annual Review for 1966, 23 January 1967.
[560] FCO 17/849, Annual review of Iran, 1968, 14 January 1969.
[561] Ibid.
[562] MS 12226/22, "Letters and Correspondence of Sir Denis Wright"

to not 'tolerate this bullying and historical injustice.'[563] Immediately suspicions were aroused that HMG was the driving force behind these developments, causing strain in relations as the Iranians grappled with the uncomfortable alternatives of either recognising the union and abandoning their historic claim to Bahrain, or opposing it.[564] Wright left no room for ambiguity, making it clear that if the shah chose the latter and took action over the islands, it would lead to a direct confrontation with HMG.[565]

As the year progressed, the shah remained 'suspicious of [British] intentions' accusing HMG of showing favouritism towards the Arabs at Iran's expense.[566] Relations deteriorated as the shah contended that HMG was 'playing with fire,' undermining its own interests by equating 'petty Arab sheikdoms with Iran' and thwarting Tehran's dominance in the Gulf.[567] The pervasive mistrust of *perfidious Albion* was reignited, re-establishing its role as 'éminence grise, a bogeyman, an invisible hand behind the scene.'[568]

The shah vehemently asserted that the Persian Gulf was vital for Iran - 'a matter of life and death,' and declared, with dramatic flourish, that 'so long as our hearts beat and there is any strength left in us, we shall do our utmost to keep it a free zone and a stable one.'[569] The impending British withdrawal stirred nationalist sentiment across Iran, as the perceived power vacuum presented an opportunity to assert sovereignty and demonstrate self-reliance. A sudden surge of newspaper articles emphasised not only Iran's readiness to 'defend its legitimate rights' but also portrayed a sense of victimhood. Iran had, they emphasised, risen as 'the tower

[563] Ibid.
[564] FCO 17/849, Annual review of Iran, 1968, 14 January 1969.
[565] FO 248/1662, FCO to Tehran, 16 March 1968.
[566] FO 248/1662, Tehran to FCO, undated.
[567] Ibid.
[568] MS 12226/22, "Letters and Correspondence of Sir Denis Wright"
[569] Fain, *American Ascendance and British Retreat in the Persian Gulf Region,* 176.

of strength' to protect the smaller islands, only to receive nothing in return for its goodwill.[570] Prime Minister Hoveyda declared that 'Britain's exit from one door, must not result…in British re-entry in a new form.'[571] Yet, behind closed doors, archival documents unveil a different facet of the shah – one that was less assertive and self-assured than his public comments suggested. In April 1969, he confided in Conservative party leader, Edward Heath, expressing deep regret regarding the British decision to withdraw which he viewed, 'as an incomprehensible loss of will power.'[572] The imminent British withdrawal posed a substantial risk of reshaping the power dynamics in the region, leaving a delicate void, especially given the U.S.'s engagement in Vietnam and Iraq's territorial claims over Shatt al-Arab.

Amidst growing Iranian discontent, the Foreign Office was crafting its own Persian Gulf policy, which conflicted with the shah's interests. In June 1968, Deputy Under Secretary of the Foreign Office, Denis Allen advised Wright that any attempt to accommodate the shah's ambitions would not only destabilise the Gulf but also incur 'major ill will from the Arabs.'[573] Furthermore, it would fail to 'earn us any permanent dividends from the shah.'[574] HMG recognised that while Iran would emerge as the most dominant littoral power after their departure, they were concerned that the shah's aspirations might provoke Arab hostility. This, in turn, could jeopardise Britain's economic interests in the Gulf and create an environment ripe for exploitation by the Soviet Union. British sentiments towards Pahlavi Iran and their support for Saudi Arabia as part of Gulf security were evident in a report by British Ambassador to Saudia Arabia William Morris. He characterised King Faisal as 'a true Conservative, by nature cautious and pessimistic,' in contrast to the shah whom he likened to 'our Middle East

[570] FCO 8/25, Document ME/2683/D/1 – Tabatabai on the Gulf Question, 29 January 1968.
[571] *Financial Times*, "Iran Prepared to Help in Gulf Security," January 29, 1968.
[572] Fain, *American Ascendance and British Retreat in the Persian Gulf Region,* 176.
[573] Roham Alvandi, "Nixon, Kissinger and the Shah: The Origins of Iranian Primacy in the Persian Gulf" Diplomatic *History* 36, no. 2 (2012): 337-372.
[574] Ibid.

de Gaulle' - 'restless, bold, innovative, radical.'[575] Morris went on to criticise the shah as 'the son of an illiterate Persian sergeant, self-consciously masquerading as heir to the 3,000 years old Achaemenid monarchy.' In contrast Faisal, was depicted as someone who 'dislikes pomp, ceremony and luxury.'[576] To avoid ceding too much control to the shah, HMG aimed to strike a delicate balancing act upon its departure, whereby the proposed union of the Trucial states would play a pivotal part in this strategic approach.

The Proposed Arab Union, 'an Intolerable Provocation' and a Dose of Brinkmanship

HMG's policy was primarily driven by the imperative to control the flow of oil and exert political and economic influence over the shah, with its Gulf policy vividly reflecting this objective. In 1967, the Foreign Office defined Britain's long-term Gulf policy as 'encouraging an indigenous balance of power,' obviating the need for a military presence.[577] The proposed solution was to persuade the British protected islands to join together in a single Arab federation, while urging Saudi Arabia to play a more active role in the Gulf, countering the shah's regional ambitions.[578] It contended that such a balance of power must be constructed and sustained, especially given the shah's territorial aspirations in the Gulf, which posed a threat to the British-protected islands of Bahrain, the Tunbs and Abu Musa. In February 1968, when the seven Trucial states, Qatar and Bahrain convened in Dubai to announce their intention to form a federation of Arab emirates, the shah viewed this with suspicion, seeing it as an 'intolerable provocation,' harbouring a conviction that *perfidious Albion* was behind it.[579]

[575] Ibid.
[576] Ibid.
[577] Ibid.
[578] Ibid.
[579] FCO 54/19, British Embassy Washington to FCO, 29 March 1968.

As these geopolitical developments unfolded, Anglo-Iranian relations were strained by the concurrent oil negotiations. The shah was convinced that the Consortium were 'swindling' him out of £6 million following the devaluation of sterling.[580] To justify Iran's demand for £5.9 billion increased oil revenues, he argued these funds were necessary to support Iran's military expansion.[581] The proposed union posed a multifaceted threat to the shah's ambitions – sovereignty, self-reliance, and strategic economic interests. Notably, the Tunbs and Abu Musa, strategically located at the chokehold of the Straits of Hormuz, were invaluable for ensuring the uninterrupted flow of Iranian oil. The shah went so far as to threaten that if he did not get the islands, 'he would torpedo the proposed Union.'[582]

The Foreign Office sprang into action in March 1968 following numerous reports from Wright indicating that the shah might occupy the islands.[583] The Foreign Secretary urgently dispatched a telegram to the shah, delicately stroking his ego, expressing hope that Iran, with its 'large and developing resources,' would assume a 'leading and stabilising role' in the region.[584] While the telegram reiterated that the meeting of the Trucial states was convened 'entirely on their own initiative,' the shah persistently pressed HMG to find a solution for transferring the islands to Iran.[585] Wright grappled with the dilemma, advocating that the islands' sale to Iran would expose HMG to 'hostility from the entire Arab world.'[586] Conversely, maintaining their position in support of the sheikhdoms' claims risked 'permanently alienating the shah' and relinquishing their influential position of influence, where they held 'great actual and potential commercial and strategic interests.'[587] The situation was exacerbated with HMG's decision to

[580] FCO 54/18, Tehran to FCO, 10 January 1968.
[581] FO 248/1696, Notes on Maurice Bridgeman's meeting with the Shah, 12 January 1968.
[582] Fain, *American Ascendance and British Retreat in the Persian Gulf Region,* 190.
[583] FCO 8/26, Wright to FCO, 30 March 1968.
[584] FCO 8/26, Telegram Foreign Secretary to Shah, 28 March 1968.
[585] Ibid.
[586] FCO 8/26, Record of call – Wright with Secretary of State, 26 March 1968.
[587] Ibid.

restore relations with Egypt, and even more concerning to the shah were press reports of a loan to Nasser and re-establishing ties with Iraq.[588] These converging geopolitical developments heightened the shah's latent suspicions of HMG's good faith and reinforced his 'perennial suspicions that HMG are ready to sacrifice Iranians interests and friendship for that of the Arabs.'[589]

The balance of power between HMG and the shah shifted unmistakably, tipping decisively in the shah's favour during the contentious islands dispute. The FCO, acknowledging its own 'apparent present weakness at home and abroad,' now stood in stark contrast against the shah's own growing confidence in his strength.[590] During the critical years from 1968 to 1971, the shah calculated a showdown with HMG as less perilous than one with the Arab states post-1971, betting that HMG, hamstrung by its own balance of payments woes and significant stakes involved, would not risk war with Iran over the islands. Aware of its vulnerability, the FCO acknowledged the shah's 'remarkable success with brinkmanship.'[591] Anticipating another display of his tactical prowess, it hesitated to challenge the shah, fully cognisant of the stakes at play. As the year progressed, the shah escalated his campaign of pressure and brinkmanship, leaving the FCO in suspense over the lengths he would pursue to secure the Tunbs and Abu Musa. His threats came unabashedly: physical occupation of the islands, punitive economic measures against the UK, severing diplomatic relations, cancelling major arms deals, and discrimination in future business.[592] The transformation in power dynamics was undeniable – as Iran's nationalistic zeal intensified, with newspapers lambasting Britain for its 'deception' and 'intention to hand over territories to the puppets they have themselves created,' HMG grew

[588] FCO 8/26, Wright to FCO, 2 April 1968.
[589] Ibid.
[590] Ibid.
[591] Ibid.
[592] FCO 8/26, Wright to FCO, 2 April 1968.

conscious of 'the increasingly dangerous position' entangling its relations with Iran. The shah, in no uncertain terms, informed Wright that the islands were Iranian, and both for 'reasons of security and prestige, must remain Iranian,' reinforcing the new reality of power in which HMG found itself ensnared.

Wright harboured a deep-seated pessimism regarding the fate of the disputed islands, firmly believing the shah 'would go for the islands as soon as we left.'[593] Wright's foresight missed the mark by just a day. Although the shah did not make good on his threat to torpedo the federation, on the eve of the scheduled British departure on December 1, 1971, Iran seized the disputed islands.[594] In a single masterstroke, the shah redirected Arab ire towards the British and inflicted acute embarrassment upon them. Nonetheless, British withdrawal continued as planned with a full departure from the Persian Gulf completed by mid-December. The shah's calculated takeover of the disputed islands on the cusp of British departure not only validates the hypothesis that Anglo-Iranian relations were primarily driven by the dynamics of oil and influence but also brings into focus the study's main question regarding the interplay of economic power and political strategy. The incident reflects Iran's growing financial strength from oil revenues, pertinent to the sub-questions on oil trade's influence on arms negotiations and illustrates a pivotal shift in the balance of power, affirming the shah's strategic acumen in leveraging geopolitical events. This manoeuvre, while embarrassing for Britain, underscored the complexity of their relationship. It suggested a partnership of convenience, shaped by the

[593] In a letter to his mother, Wright expressed his belief that the shah was determined to seize the islands by force, noting that HMG's only hope was that the shah refrain from doing so while the UK is still bound by treaty obligations to defend them. (MS 12226/26, "Letters and Correspondence of Denis Wright, 1989 - c.2004, Denis Wright, The Bodleian Libraries).

[594] The shah's manoeuvre was tactically astute. Wm. Roger Louis, in *The British Withdrawal from the Gulf*, highlights that by postponing action until the day before the protective treaties expired, the shah made a calculated gamble. He anticipated that, while still technically responsible, HMG would be unable to mount any meaningful response. Sir William Luce, British diplomat and former Commander-in-Chief in Aden, later articulated the quandary, stating 'HMG could not reasonably be expected to defend the islands for one day, and then to withdraw.' (FCO 8/1777, Record of meeting with representatives from Kuwait, 3 December 1971.)

era's economic realities and the shah's assertive foreign policy, aligning with the study's hypothesis of a nuanced and complex rapport between HMG and the shah. A complexity that was further highlighted in the fraught negotiations over Bahrain, where the shah colluded with HMG to save-face, while concurrently wielding it as political leverage to secure the islands. This duality illustrates the persistent challenges and ambitions of the shah's regional designs, interlaced with British strategic interests.

Bahrain: the 'Millstone around the Shah's Neck' and of Blondes and Brunettes

During his 1967 visit to Iran to reaffirm Britain's commitment in the region, the Minister Goronwy Roberts inadvertently precipitated a diplomatic crisis by raising the contentious issue of Bahrain, which quickly escalated into a strategic blunder. Foreign Minister Zahedi reacted 'explosively, violently and incoherently,' indicating the sensitivity on the topic of sovereignty.[595] In rapid succession, he unleashed a tirade against HMG, accusing them of continuous hostility towards Iran, duplicity and of 'fudging records.'[596] In a crescendo of outrage, Zahedi thundered, 'If this is the way you are going to behave, I shall resign, take a gun, sail there, and fight for the beloved.' Wright, barely muffling his amusement and well-versed in Zahedi's extracurricular pursuits, bit back a mischievous quip, 'Is she blonde or brunette?'[597] The question of Bahrain remained 'complex' and 'delicate,' erupting with renewed intensity in 1968. The shah was incensed by Bahrain's proposed inclusion in the union – convinced that the British had 'fixed the whole thing.[598] Zahedi declared that he could not accept that 'Bahrain as much a piece of Iran, as Sussex was of England,' should be included in

[595] FCO 17/366, Record of visit of Goronowy Roberts to Tehran, 20 November 1967.
[596] Ibid.
[597] Ibid.
[598] FO 248/1650, Tehran to FCO, 19 March 1968.

such a union.[599] Alam, in a private exchange with Wright, suggested that the predicament required a 'Machiavellian' solution, to be navigated through secret diplomacy.[600]

Bahrain lingered as a dormant issue for decades, with Wright observing that under the aegis of Pax Britannica in the Gulf, the shah was 'happy to let sleeping dogs lie,' knowing he was getting his own 'defence on the cheap.'[601] Yet, he occasionally 'teased' HMG with reminders of Iran's territorial assertions, such as in 1957 when the *Majles* passed a bill declaring Bahrain a 14th province of Iran, leaving two seats perpetually empty for its phantom deputies.[602] Over the years, the shah sporadically broached the subject with Wright, admitting that with the depletion of pearls and dwindling oil reserves, acquiring Bahrain held little interest.[603] Nevertheless, he could not be remembered as the king who had abandoned his heritage without good cause. In essence, he sought a face-saving device to relinquish the 'millstone of Bahrain' around his neck.[604] This undercurrent of seeking a face-saving solution would resonate throughout all subsequent discussions, as he strived to extricate himself from this legacy.

The subsequent twenty-six months were dominated by secret negotiations to relinquish Iran's claim without appearing to surrender Iranian territory under British collusion. The Bahrain question was charged with emotion, touching a nerve against the backdrop of Iran's deep-seated political and economic scars from British imperialism. From 1968 until March 1970, talks focused on several plans, such as a plebiscite in Bahrain and presenting Iran's withdrawal as a magnanimous act honouring Bahraini self-determination instead of surrender.[605] To

[599] FO 248/1650, Tehran to FCO, 30 March 1968.
[600] FO 248/1650, Wright to FCO, 5 April 1968.
[601] MS 12226/22, "Letters and Correspondence of Sir Denis Wright"
[602] Ibid.
[603] Ibid.
[604] FO 248/1663, Wiggin to FCO, 3 August 1968.
[605] For a detailed account of the Bahrain question, see Roham Alvandi, "Muhammad Reza Pahlavi and the Bahrain Question, 1968 – 1970," *British Journal of Middle Eastern Studies* 37, no 2 (2010): 159-177.

safeguard the shah's credibility and prevent a domestic fallout, a UN mission was proposed to ascertain the wishes of the Bahraini people. Concurrently, the shah attempted to leverage Bahrain in negotiations over control of the islands, adamant that Bahrain's resolution be contingent on first settling the islands' status.[606] Yet, the archival narrative bristles with contradictions. Asadollah Alam, confidant and counsel to the shah, noted that Wright had assured him once Bahrain was addressed, 'Iran might as well occupy Abu Musa in the interests of joint security in the Gulf.'[607] Alam went as far to suggest that Wright had pledged that Iran could 'depend on the support from the British, should this happen.'[608] A stark departure from Wright's own recently disclosed notes at the Bodleian, which emphatically denied any quid pro quo - 'There was never any deal between HMG and Iran linking a Bahrain settlement with the cession of the other islands.'[609] As the negotiations concluded and the UN's findings endorsed Bahrain's independence aspirations, the shah's response was one of 'smug, self-congratulations.'[610] Yet, in the quiet retreat of St Moritz, enroute to the slopes, the shah turned to Alam, to voice a private worry: 'Between ourselves, do you suppose that we are acting as traitors?'[611] Despite the meticulous crafting of a face-saving exit, the shah's concern over how history would remember him lingered.

As the final British ships vanished beyond the horizon of the Persian Gulf, a chapter in the annals of imperial history was irrevocably concluded. The strategic vacuum left by Britain's departure heralded a new era of uncertainty, but also one of opportunity for the shah. This period of transition was marked by the shah's adept navigation through complex geopolitical

[606] FCO 8/943, Wright to FCO, 20 March 1969.
[607] Asadollah Alam (ed. Trans. Alinaghi Alikhani and Nicholas Vincent), *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969 – 1977* (New York: St Martin's Press, 1992), 45.
[608] Ibid.
[609] MS 12226/22, "Letters and Correspondence of Sir Denis Wright"
[610] Ibid.
[611] Alam, *The Shah and I*, 129.

landscapes, nimbly leveraging the oil boom to fortify Iran's influence and growing arms procurement. The shah's statesmanship on the Bahrain question and the disputed islands, underscored by his assertive diplomacy, resonated as a testament to Iran's rise and the shah's role as a formidable architect of a new Middle Eastern order, one that would challenge the legacy of Pax Britannica and shape the geopolitics of the Gulf. Britain's retreat from the Persian Gulf marked a seismic shift, signalling not just the ebbing tide of its power and control over the shah, but heralding the twilight of empire itself. In a strategic gambit to safeguard its economic and geopolitical stakes in the Gulf, HMG deftly manoeuvred to reinstate its influence through the recycling of petrodollars via British arms sales, a dynamic fusion this thesis coins as the oil-arms nexus.

4.2 Arms: The Beginnings of the Oil-Arms Nexus, 1961 – 1971

The shah epitomised 'the salesman's dream' – a passion for aviation, a pilot's licence and a subscription to Aviation Weekly, kept him abreast of the latest in aircraft, missiles, and warships.[612] However, beyond this zeal lay three pivotal forces: an insatiable appetite for advanced arms to consolidate Iran's status as a preeminent military force, a relentless drive for sovereignty and self-reliance to be achieved through the purchase of arms, and a surging oil revenue to finance it all. During the 1960s, Iran transitioned from a low-priority military aid recipient to a military credit purchase partner.[613] This transformation occurred in 1965 with Iran's intent to purchase three Destroyers from Britain, which was further solidified in 1967 by an accelerated British drive to sell to Iran following the Stokes Report, and fully crystallised in

[612] Anthony Sampson, *The Arms Bazaar: From Lebanon to Lockheed* (New York: Viking Press, 1977), 14 and 245.
[613] Stephen McGlinchey, "Lyndon B. Johnson and Arms Credit Sales to Iran 1964–1968," The Middle East Journal 67, no. 2 (2013): 229–47.

1971 when oil, arms and geopolitics converged into the genesis of an oil-arms nexus, with Britain engaging in the once unfathomable practice of bartering arms for oil.

The under-explored evolution of HMG's arms trade relationship with the shah, exposes the reconfiguration of power that occurred, forcing British diplomats to the stark realisation that 'Britain needed Iran more than Iran needed Britain.'[614] This nexus altered political dynamics, compelling HMG to yield to the shah to protect commercial interests. Yet, it simultaneously cast the shah as an untrustworthy ally, particularly when he brandished the prospect of an arms deal with the Soviet Union in 1967. The arms trade served as a backdrop to the shah's brinkmanship during precarious oil negotiations, securing substantial concessions that were channelled directly into armament expenditures. It also shaped negotiations following Britain's announced withdrawal from the Gulf, forcing HMG to adeptly manoeuvre its diminishing influence against a shah, who had prudently amassed naval might in anticipation.

Scholarly discourse has often overlooked the rapport between HMG's arms trade with the shah in the 1960s, overshadowed either by the allure of the American arms trade with the shah or focusing on the dramatic surge of British arms to Iran in the 1970s, a time when Iran was allocating 80% of its defence budget on arms.[615] A thorough dissection of Britain's arms dealings with the shah during the 1960s is crucial for a nuanced understanding of the shifting power dynamics between them and the subsequent intertwining of oil and arms in the following

[614] Gilby, *Deception in High Places*, 58.

[615] Halliday, *Iran,* 94. Few academics have explored the British government's arms relationship with the shah during the 1960s. Nicholas Gilby's *Deception in High Places: A History of Bribery in Britain's Arm Trade* briefly addresses Shapoor Reporter's role in the 1960s, though primarily as an introduction to relations in the 1970s. Fred Halliday's *Iran: Dictatorship and Development* provides a short overview of pre-1970s arms dealings but focuses on US military sales. Anthony Sampson's *The Arms Bazaar* also touches briefly on Britain's role in the arms trade, but with a greater focus on US arms. This lack of coverage can be attributed to the recent availability of archival material on HMG's arms trade with the shah. Moreover, the Cold War context favoured a focus on the shah's arms purchase from the US, which after Nixon's 'blank cheque,' became 'out of control.'

decade – an intersection that profoundly transformed their alliance. Through a lens focused on the arms trade, it is apparent that the relationship between HMG and the shah was not emblematic of a robust friendship but rather an alignment of tactical convenience. It traces this pragmatic association back to 1959 when the shah's flirtation with a Non-Aggression Treaty with the Soviets sent ripples through the diplomatic fabric. HMG's arms sales to the shah in the 1960s, and more aggressively in the 1970s to recycle petrodollars, was less an act of alliance and more a strategy to maintain control through an oil-arms nexus, especially given sterling's stability precariously dependent on the steady flow of oil.

British Arms Policy: Commercialising the Arms Drive and the Stokes Report

In the 16th century, England, under economic pressure and enriched by the influx of skilled iron workers possessing specialised arms manufacturing knowledge, transformed from an importer of arms to a prominent exporter.[616] The international arms trade, once presided over by private entities, branded the 'Merchants of Death,' saw a paradigm shift post-World War I. The cataclysm of the war ignited public disdain for the arms trade and fostered the conviction that profit from arms transactions must be expunged to safeguard peace, prompting governments to seize control of the arms trade. The arms trade in the twentieth century evolved from the clandestine dealings of the 'Merchants of Death' in small arms to colossal, state-directed exchanges, mirroring a transition from individual profiteering to strategic, ideologically driven exchanges – precisely the transformation President Eisenhower warned of when he coined the term 'Military-Industrial Complex.'

[616] Rachel Stohl and Suzette Grillot, *The International Arms Trade* (New Jersey: John Wiley & Sons, 2013), 12.

By World War II, governments had deepened their involvement, promoting arms exports through government offices, agencies, and publications, and dedicating substantial funds to research and development.[617] Britain was heralded as the 'workshop of the world.'[618] Following the war, the massive distribution of arms laid the foundation for Cold War-era alliance building, with arms serving as the diplomatic tools to transform proto-alliances into steadfast defence systems. The 1960s ushered another quantum expansion of arms, with the UK pioneering in the provision of defensive weapons systems that were tailored to the country's exact requirements by providing defence advisers to foreign militaries.[619] This innovation led to the development of package deals, which were customised to meet the strategic needs of the purchasing nations. Governments and manufacturers became collaborators, with the former facilitating, monitoring, and exerting control over the international arms trade.[620]

In the aftermath of the Second World War, Britain emerged as one of the preeminent powers in the global arms market, an era hailed as the 'golden age' for British arms exports.[621] Amid years of austerity and imperial withdrawal, arms sales became a lucrative channel for replenishing the nation's coffers. A pivotal 1955 White Paper enshrined Britain's diplomatic stance: arms sales were to be governed 'primarily by political and strategic considerations,' with economic interests considered only after these were met.[622] Yet, the 1960s, ushered in a period of sobering recalibration for Britain. Confronted with economic downturns and the rising importance of human rights, Britain had to rethink its strategy for projecting influence in a changing world. For Harold Wilson's Labour government in 1964, this recalibration meant

[617] Ibid., 16.
[618] Phythian, *The Politics of British Arms Sales Since 1964,* 2.
[619] Stohl and Grillot, *The International Arms Trade,* 16.
[620] Ibid. 17
[621] Sampson, *The Arms Bazaar,* 107.
[622] Andrew J. Pierre, *The Global Politics of Arms Sales* (New Jersey: Princeton University Press, 1982), 101.

commercialising the arms export drive. This strategy not only positioned Britain at the forefront of the international arms trade but also aligned with the 'one basic objective' of its defence policy, as outlined by Defence Secretary Denis Healey: 'to ensure that the British balance of payments does not suffer unfair damage simply because of Britain's contribution to the security of the free world.'[623]

The publication of the Stokes Report in 1965 marked the Wilson Government's initial thrust to commercialise the arms trade, cementing the belief that 'the sale of conventional arms to friendly overseas countries is desirable and necessary, and secondly, it is vital.'[624] The seminal document advocated a radical overhaul in arms policy and strategy, urging the Ministry of Defence (MOD) to 'become a genuine selling organisation' that embraced commercial practice, rather than merely a 'supplier of repayment'.[625] Stokes proposed the creation of 'a small but very high-powered central arms organisation in the MOD,' to be led by an individual 'with a strong personality, drive, organising ability, experience of exporting and an instinct for business.'[626] The implementation of the Stokes Report's recommendations not only redefined Britain's arms trade core but recalibrated its defence and foreign policy strategy. Arms sales became an extension of British diplomacy, from the 1960s through the 1980s, a 'cost-effective way' to bolster pro-Western regimes in regions critical to British political and economic interests where direct military aid was not feasible.[627] Nonetheless, this strategy harboured inherent contradictions. Despite HMG assigning the 'highest importance' to arms control and disarmament, the UK remained committed to capturing 'its rightful share of this valuable commercial market.'[628] The Labour government thus spearheaded the commercialisation drive

[623] Phythian, *The Politics of British Arms Sales Since 1964*, 10.
[624] Ibid., 58.
[625] FO 248/1626, Stokes Report – Export of Defence Equipment, 12 November 1965.
[626] Ibid.
[627] Phythian, *The Politics of British Arms Sales Since 1964*, 35.
[628] Hansard, 25 January 1966, col. 64 as quoted in Phythian, *The Politics of British Arms Sales Since 1964,* 1.

of the arms trade, founding the Defence Sales Organisation (DSO) and establishing the British Army and Royal Navy Equipment Exhibitions. By the 1960s, Britain was in a desperate situation, and the expansion of the arms export market was indispensable to not only sustain its indigenous defence industry, but to also secure foreign exchange and promote industrial activity and employment. Iran, and the Commonwealth, would become the lynchpin for this strategy.

Arming the Shah – the shah's 'shopping list'

Upon the arrival of spring in April 1964, within the confines of the Royal Stables, Denis Wright's ostensibly casual conversation with the shah unveiled an air of despondency - 'some depression' – betraying a tangle of underlying unease.[629] The shah was pessimistic for the future – Iran's army had 'poor and obsolete equipment,' with inadequate ground defences, exacerbated by the UK's dwindling military bases.[630] Furthermore, the shah maintained that the Arab states were uniting against both Israel and Iran, and the shah faced the stark reality of Iran's defensive vulnerabilities.[631] Yet, the stakes were poised to change profoundly for the shah. Within the space of a decade, HMG's arms policy towards the shah underwent a radical change, from adamant reluctance in 1964, to welcoming Iran as Britain's premier arms client by the 1970s, accounting for 25% of all its exports.[632] The dramatic pivot in policy found its genesis in a tapestry of geopolitical shifts that played to the shah's advantage: a surge in Iranian oil revenues, the weakening of the British economy, compounded by its strategic missteps during the 1967 Six-Day War precipitating sterling's devaluation, and ultimately, Britain's strategic retreat from the Persian Gulf – all unfolding against the backdrop of the Cold War.

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[629] FO 371/175733, Wright to FCO, 18 April 1964.
[630] Ibid.
[631] Ibid.
[632] Nicholas Gilby, *Deception in High Places: A History of Bribery in Britain's Arms Trade* (London: Pluto Press, 2014), 58.

Britain's armament of the shah played a pivotal role in reshaping their political rapport and tipping the balance of power decidedly in his favour. It facilitated Iran's transformation from a low-priority military aid recipient to a credit purchase partner – a change set against a backdrop of oil negotiations riddled with strategic brinkmanship, dynamics that similarly permeated the myriad negotiations over commercial arms contracts. There was a marked shift in Britain's arms policy toward the shah in 1965, following HMG's commercialisation drive and the realisation that Iran's surging oil wealth could finance its military expansions. By 1967, HMG's eagerness to sell arms was palpable, driven by a desire to appease the shah and a keen awareness of the importance of these contracts for Britain's balance of payments, especially after the sterling devaluation in November 1967. By the decade's end, the power equilibrium had shifted unmistakably, epitomised by the British Aircraft Corporation's (BAC) sealing of the £48 million Rapier missile package deal in July 1969 (equivalent to £665 million today). An FCO memo starkly captures this transformation: 'If the shah wants Rapier…he will have it, and if he intends to repay, the city will lend him the money.'[633]

From Reluctance to Eagerness: Britain's Arms Diplomacy with the Shah, 1964 – 1968

In May 1964, a pivotal meeting was convened between the British Ministries of Defence and Aviation to deliberate on the shah's inquiries about British armaments, including surface-to-air-missiles (SAMs). Internal discussions were fraught, marked by a reluctance driven by the Ministry of Defence to supply the shah with SAMs.[634] The FCO harboured scepticism regarding the shah's financial capacity to procure any missile systems, including the sophisticated Bloodhound and Thunderbird that cost £10 million, which would conceivably be

[633] FCO 17/861, Memo on Rapier Deal, 15 October 1969.
[634] FO 371/175734, P Cradock to Wright, 9 June 1964.

offered to Iran.[635] The deliberations also considered the shah's interest in acquiring two Destroyers priced between £750,000 – £1.25 million each, 200 Chieftain Tanks amounting to £27 - £28 million, and 200 Saracen armoured vehicles totalling £4 million.[636] The British departments were reluctant to even furnish preliminary information, strategically planning to navigate the conversation towards dissuading the shah, citing the potential repercussions on Iran's economy and reform initiatives, as well as doubts about Iran's capacity to assimilate and operationalise such advanced military technology.[637] Despite these reservations, the information was ultimately relayed to the Iranians, albeit with a calculated intention to 'spin out discussions in the hope that the shah's enthusiasm cooled.'[638]

Within the space of twelve months HMG radically revised its estimation of the shah's purchasing power, recognising that Iran's swelling oil revenues, projected at £150 million for 1965, meant that 'finance should not be considered a limiting factor' in the sale of British arms.[639] Archival records reveal a shift in HMG's stance, with British officials acutely aware of the potential consequences if the shah were denied arms he was willing to pay for. They concluded he would 'resent [it] very sharply,' especially given that the British had just sold large quantities of arms to Iraq, which would 'undoubtedly' be used in an attack on Iran.[640] By late 1965, the decision was made to grant Major General Hassan Toufanian of the Iranian Forces, and its Chief of Plans, 'VIP treatment.'[641] Toufanian's advocacy for Iran's procurement of $200 million in British military equipment, including 'two or three destroyers,' was rooted in the historical fact that the British had 'founded' the Iranian Navy and Air Force.[642] However,

[635] FO 371/175734, FCO to Tehran, undated May 1964.
[636] Ibid.
[637] FO 371/175734, P Cradock to Wright, 9 June 1964.
[638] FO 371/175734, FCO to Tehran, undated May 1964.
[639] FO 371/175733, Supply of Arms to Iran, undated.
[640] Ibid.
[641] WO 32/20775, Wright to FCO, 16 November 1965.
[642] Ibid.

for HMG to clinch this arms deal, it would have to offer better credit terms than the Americans, as these were 'more important to Iran than prices.'[643] The Foreign Office, while cautious not to encourage the shah's 'overspending on arms' and mindful of his still 'obscure' intentions, recognised the opportunity 'of picking up some crumbs from the American table' as Iran explored military purchases beyond the American market.[644] With the convergence of Iran's surging oil revenue and Britain's own economic vulnerabilities, the FCO resolved to engage in arms negotiations with the shah, conceding that the UK stood to gain nothing from lecturing the shah on his military expenditure.[645]

In 1966, arms contract negotiations and MOD visits to Iran took centre stage, though British officials remained wary of being caught in what they termed the 'usual Iranian tricks' – tactics HMG suspected were aimed at securing more favourable credit terms with the Americans.[646] Simultaneously, there brewed an Anglo-American anxiety over the shah's flirtations with purchasing sensitive military equipment from the USSR.[647] When the British Navy Department delegation arrived in Iran in April to advise on the modernisation of the Imperial Iranian Navy, they discovered the shah's growing 'shopping-list,' born from his vexation with American dependency.[648] The shah was developing his famous insatiable appetite for advanced weapons, to consolidate Iran's status as the dominant military force in the Gulf, a resolve intensified by the UK's February announcement of its impending military withdrawal from Aden.

The Navy Department, with the Admiralty Board's endorsement, recommended that Iran should acquire an arsenal that included Corvette Vickers-Vospers Mark V pocket destroyers,

[643] Ibid.
[644] FO 248/1629, FCO to Tehran, 4 February 1966.
[645] WO 32/20775, FCO to Tehran, 22 November 1966.
[646] FO 248/1629, Minutes of discussion with Stoddart, 22 March 1966.
[647] Ibid.
[648] Ibid.

British Hovercraft 7 destroyers equipped with the Tigercat SAMs, and urged for the establishment of a Naval Academy by the British Navy.[649] Post-mission, Ambassador Wright's interactions with the shah reflected a notable pivot in HMG's approach, now actively spurring the shah towards British military acquisitions.[650] In a bid to sweeten the deal, HMG offered to outfit the Vickers-Vosper Destroyers with surface-to-surface missiles, a feature that the Israelis and Germans had failed to secure for their fleets, a prospect that 'somewhat tickled' the shah.[651] Wright emphasised directly to the shah that the British were 'most anxious to sell naval equipment.'[652] The balance of power in the relationship was beginning to shift, and the shah, known as a 'sharp, rugged trader,' was well aware, wielding this knowledge to extract more advantageous credit terms.

In a decisive shift, HMG recalibrated its arms policy eager to sell military equipment to the shah and prepared to acquiesce to Iranian demands. Iranian negotiators, recognising the magnitude of the deals, insisted on better credit terms that reflected the 'big business' at stake. They demanded more favourable conditions than the 5.5% interest rate, which was disadvantageous compared to the American 4%. Additionally, they sought to halve the initial down-payment for the Vickers-Vospers destroyers from 30% to 15%, extend the repayment period from 11¼ years to 12 years, ease the repayment schedule for the Tigercat system, and eliminate the Royal Navy's 2% fee.[653] HMG negotiated with Vickers-Vospers and successfully secured terms more amenable for the shah, including a reduced down-payment of 25%, a Tigercat repayment period extended by an extra 2 ½ months, and the elimination of the Royal

[649] FCO 17/386, Background on General Toufanian, undated.
[650] FO 248/1629, Wright's minutes on meeting, 9 May 1966; Wright to FCO, 21 July 1966.
[651] FO 248/1629, Wright's minutes on meeting, 9 May 1966.
[652] Ibid.
[653] FO 248/1626, Note on discussion between the defence secretary and the Iranian ambassador, 1 August 1966.

Navy's fee.[654] These efforts culminated in August with Iran's issuance of letters of intent for a substantial purchase totalling £25 million: four Corvette Vickers-Vosper Mark V destroyers from Vosper Ltd., six British Hovercraft Mark 7 destroyers from British Hovercraft Corporation Ltd., the Tigercat including 18 launchers and 270 missiles from Short Bros and Hurland, and a reconditioned destroyer HMS Sluys.[655] This triumph represented a significant success for the British arms industry and the country's balance of payments.

The triumph was emblematic of the UK's intensified commercialisation drive, a campaign crystallised by the Foreign Affairs Secretary's declaration that the UK must actively sell its technological innovations. HMG, he asserted, was not merely an 'arms salesman,' it was engaged in actions deemed 'essential and right.'[656] This rationale was echoed by the Defence Secretary, who emphasised the arms trade's critical role in sustaining domestic employment and earning invaluable foreign exchange.[657] Within a mere two-year span, HMG had dramatically shifted its policy from a reluctance to engage in arms sales to the shah, to being 'particularly anxious' to not sell equipment that falls short of the shah's exacting expectations.[658] The shah was particularly enthusiastic about the ordered Mark 7 destroyers, barely concealing his delight that the Iranian Navy would be the first to be equipped with the hovercraft - a testament to his vision of a modernised maritime force.[659] The power dynamic in the shah's relationship with HMG had irrevocably altered in his favour, and as the Pahlavi monarch confided to *The Guardian*, these arms were 'vital' for Iran.[660]

[654] Ibid.
[655] FO 248/1626, FCO to Tehran, 24 August 1966.
[656] FO 248/1626, Speech by Secretary of State for Foreign Affairs, 6 October 1966.
[657] FO 248/1626, Memo FCO, 27 October 1966.
[658] FO 248/1626, Wright to FCO, 10 December 1966.
[659] FO 248/1626, Extract of record of meeting between Shah, Chief of Aur Staff and HE, 5 November 1966.
[660] Clair Hollingworth, "New arms 'vital' for Persia" *The Guardian,* August 28, 1966.

The shah's strategic acumen often veered into the realm of brinkmanship, especially as he navigated negotiations to secure more favourable credit terms from the British, all while engaging in a high-stakes standoff with the Consortium to clinch a 12% hike in oil revenues.[661] Amidst this, he leaked to a pair of American journalists that the Soviets had extended an offer of anti-aircraft missiles on 'fairly generous terms,'[662] with the Russian Chargé d'Affaires assuring him of their readiness to 'supply the arms…no strings attached.'[663] The *Financial Times* noted the shah's historical penchant to 'use arms purchases as a political lever,' a manoeuvre that was hardly surprising. [664] Yet, Wright had a blunter description for these tactics – 'blackmail.'[665] The shah toyed with purchasing sensitive Soviet military equipment, and it was only a chance Russian hesitation in responding that allowed the severity of the situation to be brought to bear on him by Wright.[666]

Nonetheless, the shah still purchased $110 million worth of military equipment from the Soviet Union in February 1967, including armoured troop carriers and anti-aircraft guns, marking the first instance of the Soviet Union selling to a country within the Western alliance.[667] Wright noted the shah's mastery over the arms issue as 'disquieting,' his 'brilliant brinkmanship' reaping 'handsomely' beneficial results.[668] However, he expressed concern over the 'obvious dangers' when this 'game was played too often by an authoritarian ruler of mercurial temperament.'[669] It was becoming clear to HMG that a shift in power was underway, their once

[661] In addition to the shah trying to secure better credit terms from HMG and improve oil revenues from the Consortium, Wright argues that this bid of brinkmanship was also vis-à-vis American unwillingness to offer military supplies, notably Hawk missiles and F4 Phantom supersonic fighters, at bargain prices. (FCO 17/351, Iran Annual review for 1966, 11 January 1967).
[662] *Financial Times,* "Iran orders UK arms" 28 August 1966.
[663] FO 371/186701, Wright to FCO, 21 August 1966.
[664] 'Iran orders UK arms' *The Financial Times,* August 26, 1966.
[665] FO 371/186701, Wright to FCO, 2 August 1966.
[666] FCO 17/351, Iran Annual Review for 1966, 11 January 1967.
[667] For a more detailed analysis on this purchase see Section 3.2 in Chapter 3.
[668] FCO 17/351, Iran Annual Review for 1966, 11 January 1967.
[669] Ibid.

formidable influence over the shah diminishing. With Britain's national interests in the Gulf and the crucial oil flow upon which the country's balance of payments depended on at stake, HMG recognised the imperative to forge a new avenue of influence.

As the 1960s waned, the balance of power continued to shift in the shah's favour with government records revealing that HMG played a substantial role in encouraging and facilitating the sale of British arms to the shah.[670] HMG became deeply entrenched in orchestrating favourable credit facilities for the shah, engaging directly with British arms companies and strongly advising them on suggestions to put forward to him, such as urging Rover to convert ambulances to provide vehicles for small bodies of men, all while taking meticulous note of the shah's grievances.[671] Collaboration between the FCO and MOD was intensified, orchestrating 'goodwill visits' to Iran, which signalled a growing British commitment to supplying defence equipment and exploring answers to the pivotal question, 'How can we help them?'[672] The MOD's Director of Army Sales demonstrated a particular zeal in seeking a unifying theme for collaboration, advocating a focus on armoured vehicles and their associated ammunition, aiming to solidify HMG's relationship with the shah.[673]

The shah's considerable acquisition of British arms coupled with his audacious use of Soviet offers as leverage, marked a seismic shift in the geopolitical landscape.[674] The magnitude of these arms acquisitions from Britain, unprecedented in their scale, illustrated a bold reconfiguration of traditional alliances, casting the shah not merely as a buyer in the arms

[670] FCO 17/386, MOD Director of Sales to FCO, 13 March 1968.
[671] FCO 17/386, Report – Visit by D. Army Sales to Tehran 12-14 February 1967, undated.
[672] FCO 17/386, MOD Director of Sales to FCO, 13 March 1968.
[673] Ibid.
[674] The shah also employed similar threats when negotiating with the Americans. Unhappy with a US offer on military procurement he instructed Alam to tell the American Ambassador that 'unless an alternative is forthcoming, we shall have no choice but to turn to the Soviets…to us it hardly matters whether our weapons are made in the USA or Russia.' (Alam, *The Shah and I*, 170).

market but as a strategic architect shaping the regional balance of power. By successfully manoeuvring HMG to accommodate his demands, the shah deftly turned the tables, inverting a historical narrative that once saw him under threat by the same power on a similar topic.[675] The shah's gambit in 1967 to purchase non-sensitive military equipment from the Soviet Union underscored the altered dynamic of power now tilted perceptibly in his favour, compelling HMG to view the shah as an unpredictable ally. However, the significant sale of British arms to Iran and future possible commercial arms contracts, also revealed the weight of the shah's newfound leverage. The shah's adept negotiation, straddling the precipice of brinkmanship and veering towards political extortion, not only secured favourable arms contracts but also fundamentally redefined the geopolitical discourse, signalling an epoch in which traditional paradigms of alliance and influence were vulnerable to the daring calculations of an empowered sovereign.

Britain's 'Mini-Nixon Doctrine' and the shah's 'Military Industrial Complex,' 1969-1971

On a refuelling layover in Guam on July 25, 1969, President Richard Nixon, with a few remarks ushered in a new era of foreign policy, placing arms transfers at the forefront of international relations. This marked the dawn of the Nixon Doctrine, a strategy that sought to exert influence in the form of military and economic assistance to friendly regimes. By 1971, this tactic had taken a distinctly British hue, as the UK flooded Iran with weapons. *The Times* declared with a sense of finality that HMG was embracing its own version of a 'mini–Nixon Doctrine.'[676] The scope of armaments supplied was so vast that *The Times* asserted Britain was not just an

[675] In a similar gambit in 1959, the shah in a bid to force the British to meet his military requirements was considering signing a Non-Aggression Treaty with the Soviet Union. The situation was so tense and relations on the precipice until British Ambassador, Denis Wright, was able to persuade the shah against signing, along with a threatening letter from President Eisenhower. The incident ended in the shah stating, with tears rolling down his cheeks, that if he did not sign the Pact 'he would eventually lose his throne.' (Wright Memoirs vol. 2, 315-6, as quoted in Milani, *The Shah,* 316.)

[676] "Britain helps Iran to build up its military strength," *The Times,* January 8, 1971.

ally, but a patron, anointing Iran as the 'main military guarantee' in the Persian Gulf. Upon reading the article, a civil servant pencilled in the margin, 'this is a bit off the mark,' as selling arms to Iran was primarily about business and sterling. [677] As the 1970s dawned, the UK was significantly engaged in equipping Iran with a comprehensive industrial military infrastructure. This period witnessed an inadvertent but critical intertwining of two geopolitically sensitive commodities: Britain's arms trade and Iran's oil revenues. The intersection of these interests would have far-reaching implications in the geopolitical landscape.

In July 1969, the BAC secured a landmark arms deal with Iran, orchestrating the sale of Rapier surface-to-air missiles at a monumental £48 million – its largest arms deal with Iran then to-date.[678] The Rapier, a paragon of British engineering, boasted an optical guidance system that steered missiles with near-unerring precision via radio link. The technological achievements of Rapier not only marked a leap in defensive capabilities but also symbolised a pivotal shift in British foreign policy – HMG was prepared to, in its own words, put all its 'oil eggs in one basket,' ready to extend credit with unprecedented liberality, as declared by the promise to 'lend as much money as he wants' and at 'favourable rates whenever he wants it.'[679] By the end of the 1960s, HMG's stance had evolved dramatically from its initial reluctance to share arms procurement details with the shah. This transformation was driven by the potent combination of Iran's burgeoning oil wealth, Britain's declining economic position, and the strategic imperative to align with powerful regional allies. As the decade reached its zenith, HMG was ready to acquiesce to Iran's demands. The stance was unequivocal: 'If the shah wants Rapier…he will have it, and if he intends to repay, the City will lend him the money.'[680] This declaration was a clear indication that Britain was willing to back its commitment with

[677] FCO 17/1519, annotations to the copy of *The Times* article aforementioned, undated.
[678] Equivalent to £665 million today
[679] FCO 17/861, Memo on Rapier Deal, 15 October 1969.
[680] Ibid.

substantial financial support, recognising the mutual benefits of a deepened military and economic partnership.

By 1971, with Britain's formal departure from the Gulf, oil and arms finally converged in the sale of Chieftain tanks to Iran, which would be paid for by the increased lifting of oil.[681] The Chieftain was considered an 'evocative word.'[682] Launched in the 1960s, it was the era's most formidable main battle tank, a Leyland Motors masterpiece that had been expressly withheld from Israel three years prior.[683] Iran, under the shah's directive, procured 330 of these steel behemoths, along with requisite ammunition, for a hefty £52 million in 1970.[684] The following year, the shah's ambition expanded, manifesting in the acquisition of an additional 470 Chieftain Tanks, priced at £67.4 million.[685] These twin deals monopolised British ordnance production, side-lining other international commitments and setting back delivery schedules.[686] The MOD, hand-in-hand with the enigmatic Millbank Technical Services (MTS), from which Iran would go onto purchase all its British arms from in the 1970s, entered into intricate negotiations with Sir Shapour Reporter, a personal envoy of the shah, after the shah grew suspicious of Toufanian.[687]

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[681] FO 248/1694, Tehran to FCO, 12 August 1970.
[682] FCO 17/1519, Evans to Sir Philip Adams, undated.
[683] Ibid.
[684] FCO 17/1521, Roger Facer (Head of DS) to RM Tesh (Head of Defence Department), 18 May 1971.
[685] Ibid.
[686] David Fairhall, "Britain to re-equip Iran with tanks," *The Guardian,* July 15, 1971.
[687] Millbank Technical Services (MTS), a subsidiary of the Crown Agents - a state entity responsible for procurement on behalf of the British colonies - operated as a legitimate corporate entity. Its primary role was to facilitate credit arrangements and act as a 'handy conduit' for arms transactions and bribery, providing Whitehall with plausible deniability. The *BAE Files* reveal MTS' involvement in the more covert aspects of arms deals, where it was 'willing to do the dirty work.' MTS would purchase tanks from the MOD in a paper transaction, ship them to the Iranian military, and issue invoices that concealed bribes within the cost. An investigative piece by *The Guardian* concluded that the 'trickery of the MTS scheme was approved in Britain at the highest level.' (David Leigh and Rob Evans "The BAE Files – Millbank Technical Services*" The Guardian,* June 9, 2007). Shapour Reporter emerged as a pivotal figure, assuming the role of gatekeeper for all military and commercial contracts between the UK and Iran, while also serving, like his father, as an operative for the British Secret Intelligence Service. He earned a commission of 1% on each contract he successfully concluded, a practice that nearly triggered a scandal in 1977, with the potential to tarnish the shah's reputation and destabilise existing arms agreements. During the 1970 Chieftain Tank negotiations, Reporter advised the MOD and MTS that his commission would contribute to the 'Shah's Fund.' This fund was ostensibly linked to philanthropic endeavours,

During these negotiations archival documents reveal HMG's readiness to yield even further. Initially, the deal hinged upon the construction of a tank factory in Iran, a move that would breach the longstanding British policy against escalating the regional arms race.[688] Not only was HMG prepared to build such a factory but it was also prepared to assure the shah that they would not inhibit the Iranian sales effort once the factory was built (fortunately the shah changed his mind and requested more Chieftain tanks instead of a factory).[689] That HMG was willing to adapt its policy on arms in the Middle East is indicative of the change in the power balance between themselves and the shah. Equally, HMG was acutely aware of the negative impact the Chieftain deal would have on its relations with the Arab states, who perceived the deal as a military build-up of CENTO.[690] The FCO rationalised, calculating that 'what we should lose on the swings of Arab suspicions, we should gain on the Iranian roundabout.'[691] Despite the geopolitical calculus, discretion was paramount and HMG went out of its way to ensure all publicity on the deal was kept to an absolute minimum.[692] Ultimately, the Chieftain deal represented the first concrete melding of oil and arms in British foreign policy, with the UK tacitly endorsing a barter of armaments for oil. This underpinned the shah's negotiations for greater oil output from the Consortium, a strategic play that would reverberate through the corridors of power in both Tehran and London.

including the endowment of the Chair of Persian Studies at the University of Oxford's St Antony's College and the financing of the New Library at the London School of Economics. (DEFE 24/1690, "Lt Col David Randel: court case concerning corruption in defence sales to Iran," 1977, TNA). FO 248/1694, FCO to Tehran, 4 December 1970.

[688] FO 248/1694, Cabinet committee memo on strategic exports, undated.

[689] Ibid.

[690] FCO 17/1519, Evans to Sir Philip Adams, undated.

[691] Ibid.

[692] Ibid.

The Chieftain Tank deal marked the genesis of the oil-arms nexus but also represented the first time a direct link was made between the arms trade and foreign policy. Archival documents reveal the Chieftain deal was 'very much in HMG's interest,' securing Britain's stature in Iran as the major supplier of military equipment. The move was strategic, aimed to barricade Russian penetration of the Iranian armed forces and also, 'increase our influence' in Iran.[693] Documents from this period delineate a deliberate strategy: by holding the reins over ammunition, spare parts, and manufacturing, British officials recognised they could 'control the use of this equipment.'[694] The Chieftain deal highlights the evolving power dynamic between HMG and the shah. While the British government sought to redefine its influence over the shah, he in turn, wielded considerable leverage over HMG, fully aware that the UK's balance of payments was heavily reliant on these commercial contracts.

Conclusion

In conclusion, by dissecting the interplay between the shah and HMG through the prism of the arms trade, a profound shift in the balance of power is evident by 1971. The shah's insatiable appetite for advanced arms and his showmanship in oil negotiations with the Consortium for higher revenues to fund it, did not occur in a vacuum but against a backdrop of Britain's waning hegemony. HMG's policy from 1955 to 1960 was primarily driven by the aim to control oil flows and reassert influence over the shah, whilst ensuring it was safeguarded from Soviet encroachment. Yet, as the 1960s unfolded, Iran transitioned from a low-priority military aid recipient to a military credit purchase power. The geopolitical environment of Britain's physical withdrawal from the Persian Gulf set the stage for the expansion of the shah's arms purchases. Britain's physical withdrawal also reflected a growing domestic economic

[693] FO 248/1694, Cabinet committee memo on strategic exports, undated.
[694] Ibid.

vulnerability – it needed to sell to the shah. The shah's significant arms purchases from the UK not only amplified this leverage but also set the stage for the convergence of oil and arms by 1971, with the Chieftain deal marking the genesis of the oil-arms nexus. As HMG sought to restore its influence through the recycling of petrodollars via British arms sales, this perilous concoction would be galvanised by the 1973 Oil Crisis and crystalised soon after with lasting repercussions for British policy. Beneath the shah's bold manoeuvres, Britain's once ironclad grip on oil politics and colonial influence dissolved, succumbing to the inexorable tides of time. This epoch underscored a stark revelation: it was not the force of empires, but the capricious price of oil that dictated global power plays. The global order was on the cusp of upheaval.

CHAPTER FIVE

Oil, Arms, and Crisis: Negotiating the New Power Dynamics of 1972 – 1973

5.1 Strategic Realignments and the Reconfiguration of Anglo-Iranian Relations

As the 1973 Oil Crisis erupted, British policymakers grappled with their past miscalculations. The Bank of England sprang into action, alarmed by its 'prime concern' volatility. A staggering $70 billion in oil money sat in Western banks at high interest rates accruing sums disproportionate to the banks' capital base. Sterling braced for the tempest. After a period of economic stagnation and rising unemployment, skyrocketing oil prices triggered a secondary banking crisis. The Bank faced the imminent collapse of several institutions and a rapidly escalating crisis of confidence. The very bedrock of the Western financial edifice teetered on the verge of collapse. The shah's curt response: 'tighten your belts.'[695] Iran had entered the decade with the posted price for oil at $1.80 per barrel, yet the Oil Crisis drove spot market prices to a feverish $23 per barrel. The West was, as Shell's David Barran predicted, 'looking down the muzzle of a gun held by six sheikhs and a shah.'[696] The embargo was reminiscent of the bitter postwar years of deprivation and shortage, threatening Britain's very democratic order. The Chancellor of the Exchequer unveiled a crisis budget, describing it as 'the gravest situation by far since the end of the war.'[697] Meanwhile, the shah stood on the cusp of realising his grand ambitions for Iran: the attainment of the 'Great Civilisation.'

[695] Daniel Yergin, *The Prize: the Epic Quest for Oil, Money & Power* (New York: Free Press, 2009), 608.
[696] Anthony Sampson, *The Seven Sisters: The Great Oil Companies & the World They Shaped* (New York: Viking Press, 1975), 253.
[697] James Bamberg, *British Petroleum and Global Oil, 1950-1975: The Challenges of Nationalism* (Cambridge: Cambridge University Press, 2000), 480.

Before the 1973 Oil Crisis, the balance of power had shifted in the shah's favour during the 1972 and 1973 oil negotiations, marking a significant realignment. Building on the success of the 1971 Tehran Agreement and its higher oil revenues, the shah consolidated regional and internal power to levels 'unthinkable a few years ago.'[698] Emboldened by newfound self-confidence, the shah's negotiations with the Consortium - closely tied to UK relations - evolved from accepting a 'partnership' in 1972, to demanding a 'Purchase-Sales Agreement' by 1973, effectively ending the Consortium's direct control over operations in Iran since 1954. Meanwhile, defence sales surged, British exports to Iran increased by 70% by 1973, as Her Majesty's Government (HMG) sought deeper integration into the Iranian military apparatus, even exploring a Bilateral Agreement for Fixed Oil Pricing by January 1973.[699]

The 1973 Oil Crisis upended the global power dynamics, catapulting the shah into a position of unparalleled dominance. As Henry Kissinger remarked, it 'altered irrevocably the world as it had grown up in the war period.'[700] Oil prices skyrocketed from $1.80 per barrel in 1970, to $2.18 in 1971, soaring to $3.01 by autumn 1973, then $5.12 in October 1973 to a staggering $11.65 in January 1974. The cost of production was $0.12.[701] Iran's oil income surged from $19 million in 1955 to $21.4 billion in 1974. The shah's leadership in the December 1973 OPEC decision to raise postings, was pivotal in sealing HMG's economic and political reliance on arms sales. Kissinger noted that this was 'one of the pivotal events in the history of this

[698] FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972.
[699] The Bilateral Agreement for Fixed Oil Pricing involved linking guaranteed supplies of certain commodities at fixed prices in exchange for guaranteed additional oil supplies at a fixed price. This was an attempt by HMG to stabilise oil prices for its own benefit, while also further interlinking commodities, oil and arms. (FCO 55/1114, Message from Walker to the shah, 20 December 1973.)
[700] Yergin, *The Prize*, 570.
[701] Bamberg, *British Petroleum and Global Oil,* 484.

century.'[702] Oil now lay at the heart of global commerce, with OPEC countries, particularly the shah, emerging as the new masters of the world economy.

The spike in oil prices plunged Britain into economic turmoil, and HMG could not risk diminishing its influence by upsetting the shah. As Foreign Secretary David Owen acknowledged, 'by the mid 1970s the shah's favour was important to us, for we desperately needed to be able to offset the oil price shock by selling arms to Iran.'[703] This profound leverage redefined the political and economic landscape, placing the shah at the helm and leaving HMG scrambling to adapt to this new reality. With its economic order threatened, the British government crafted a strategic remedy: channelling the shah's petrodollars through a surge of arms sales and a foreign policy of 'support for the shah, warts and all'.[704] This blanket policy of support, even procured a shade of what Foreign Secretary David Owen describes as 'deference' before the shah's 'charade of leadership.'[705] Even so, this deference in HMG's policy towards the shah had limits imposed on it by history, as the 'spectre of British interference…was dormant, not dead.'[706] The shah remained 'obsessive over the hidden hand of Britain,' attributing to HMG a role and influence that they had 'never been able to live up to.'[707] The British Empire was more alive in the Iranian psyche than in reality.

Control over Iranian oil revenues was essential to the stability for sterling and the UK's balance of payments, and HMG was determined to reclaim this control, which had significantly diminished following the 1971 Tehran Agreement and was nearly non-existent by 1973 Oil Crisis. By the mid-1970s, HMG's strategic and economic interests were deeply intertwined

[702] Henry Kissinger, *Years of Upheaval* (New York: Simon & Schuster, 2014), 885.
[703] David Owen, *Time to Declare* (Harlow: Penguin Books Ltd 1992), 390.
[704] Ibid., 394-395.
[705] Ibid., 387.
[706] Anthony Parsons, *The Pride and the Fall: Iran 1974 – 1979* (London: Jonathan Cape Ltd.,1984), 18.
[707] Owen, *Time to Declare*, 390.

with those of the shah, whereby British arms sales to Iran surged drastically, effectively recycling its petrodollars back into the British economy. This oil-arms nexus reimagined HMG's influence, in not only bolstering the British economy, but also rendering the shah increasingly reliant on British technical assistance, operation and upkeep. In this respect, the oil-arms nexus prolonged a relationship that would have naturally ended with the British departure from the Persian Gulf.

5.2 The Lead-up to the 1973 Oil Crisis and the Shah's Volte-Face

On July 31, 1973, the shah stood before a rally of his people, his voice charged with emotion and proclaimed 'victory' as he inaugurated a new oil regime in Iran. The Oil Bill he signed earlier that day was his 'gift to the nation,' an historic moment he claimed rivalled the liberation of Azerbaijan from the Russians, and the advent of the White Revolution. It was a crucial step towards the 'Great Civilisation.' The week was a fever of celebrations across the country as the St Moritz Agreement ended the 1954 Agreement, transferring the Consortium's control over direct operations in Iran to NIOC. However, the British Embassy noted the reality behind the rhetoric: in the dispatches, 'control' is placed in inverted commas and the handovers of the refineries remained 'symbolic,' as it still fell short of full independence. Nonetheless, in Iran, 'appearances are what count most.'[708] After months of negotiations, with HMG manoeuvring in the background, the shah boasted of a growth of national self-confidence, and his 'master-minding role' in the agreement, establishing himself incontestably as the economic liberator of his country, hoping to expunge forever the belief that Mossadegh was the true champion.

[708] FCO 8/2071, Ellingworth (Tehran) to Alec Douglas Home, 7 September 1973.

The Eco-Political Landscapes: The Year of Oil & 'Goodbye, Great Britain'

The year 1973 marked the year of oil, a turning point where soaring demand shifted the market from a buyer's to a seller's, fuelling Iran's unabated economic growth as Britain floundered in the throes of crisis after crisis. Edward Heath's government grappled with an energy crisis triggered by coal miners' strikes, while the Troubles in Northern Ireland exploded with Bloody Sunday, and the country reeled under relentless stagflation. The situation worsened with the 'Barber Boom.' Chancellor of the Exchequer Anthony Barber's budget, aimed at a 'dash for growth,' introduced massive tax cuts, leading to skyrocketing inflation. By June 1972, sterling's weakness forced the Bank of England's intervention. The UK witnessed the largest outflow of short-term capital in its history, losing a third of its net reserves in a single day. In a last bid to stabilise the economy, the authorities decided to float the rate for sterling. As Britain struggled through the early 1970s, despair grew, culminating in the Oil Crisis which pushed Britain to the brink of bankruptcy. By April 1975, the Wall Street Journal headlined, 'Goodbye, Great Britain.'[709]

At a time of economic frailty, Iranian oil remained central to Britain's economy. The 'Oil in Iran Report' highlighted that Iran was the UK's fourth-largest crude oil supplier, with BP and Shell producing 90% of Iran's total crude output.[710] Britain's stake in the Consortium was significant: 40% through BP's share in Iran Oil Participants Ltd., and 14% through Shell, valued at $400 million directly, and an additional $140 million indirectly.[711] From 1972, Iran was able to increasingly rely on oil as a principal source of revenue. From 1970 to 1972, Iran's production surged from 3.82 million to 5.02 million barrels per day, with revenues jumping from $1.12 billion to $2.39 billion.[712] As a developing country in the post-war period, Iran was

[709] "Goodbye, Great Britain," *Wall Street Journal*, April 29, 1975.
[710] FCO 8/2073, Wright to Douglas Home, 1 February 1973.
[711] FCO 8/2072, Brief 'Oil in Iran', 20 September 1973.
[712] Robert Graham, *The Illusion of Power* (Oxford: Routledge, 2011), 19.

in a particularly advantageous position, leveraging its rapid development to secure unprecedented industrialisation and infrastructure growth, meeting most targets of its Fourth Development Plan (1968-1973), except in agriculture. In his October speech to the new *Majles*, the shah praised these 'extraordinary and exceptional achievements.'[713]

This economic boom came with significant shortcomings. The economy grew increasingly dependent on oil revenue, with the Fourth Plan relying on it for 63%, rising to 80% by the Fifth Plan (1973-1978).[714] The rapid development set by the plans established patterns that later caused problematic economic trends. These included sectoral imbalances, an expanding urban-rural gap, increasing government involvement in investment and production, and growing reliance on foreign imports.[715] This economic growth, instead of building new structures, grafted onto old ones. A modern sector emerged, parallel and isolated from the traditional, rural economy. This uneven development, exacerbated by a corrupt bureaucracy and poor communication, created significant challenges for the country.[716] By 1973, Iran's economy transformed into an urban, consumption-oriented society marred by contradiction with a stark balance of payment deficit.

The socio-political landscape mirrored the economic contradictions, breeding discontent and conflict. Ambassador Ramsbotham described Iran's 1972 political scene, noting that despite the shah's aspirations for parliamentary democracy and a constitutional monarchy, he was 'inhibited from delegating any real power.'[717] The dichotomy between the shah's idealised

[713] FCO 8/2050, Tehran Embassy translation of shah's opening speech for new Majles session, 6 October 1973.
[714] Graham, *The Illusion of Power*, 38.
[715] Hossein Razavi and Firouz Vakil, *The Political Environment of Economic Planning in Iran* (Colorado: Westview Press, 1984) 61.
[716] Graham, *The Illusion of Power*, 50.
[717] FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972.

European values clashed with his practical view of how 'Iranians must be governed.'[718] This contradiction became evident in the early 1970s as the shah publicly advocated for political participation whilst simultaneously adamant not to lose his position or privilege.[719] This dichotomy bred a 'groundswell of discontent and unhappiness' not seen in a decade.[720] The early 1970s saw rising unrest, the beginnings of a guerilla type opposition to the regime, strikes, campus demonstrations, street gun battles, attempted kidnappings and bombings.[721] The social turmoil prompted the British Embassy to reconsider Iran's position as a 'bastion of stability,' warning of a 'revolutionary situation in the next six years.'[722] The Ambassador noted two perilous developments: first, the shah, surrounded by sycophants, received less truth and more flattery, 'breeding a coterie of toadies' instead of leaders of character.[723] Second, the shah 'sat on the safety valve of political and social expression,' unsure how to release the pressure. The Ambassador concluded that these 'dangers could become more acute for the monarchy within five or six years.'[724]

The Iran of the journalists was a rather different one. When asked if the shah aimed for Iran to become the strongest regional power, the shah replied impassively, 'It is not an ambition. It is inevitable.'[725] The media viewed Iran through the shah's desired lens – an emerging military giant.[726] The 1970s saw a shift in regional power dynamics, with the shah not only bolstering his military, which received 20% of the budget, but also emerging as a key regional donor of

[718] Ibid.
[719] Ibid.
[720] Ibid.
[721] Michael Axworthy, *Revolutionary Iran: A History of the Islamic Republic* (London: Penguin, 2014), 113-116.
[722] FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972.
[723] Ibid.
[724] Ibid.
[725] Richard Johns, "Iran: A Prosperous State in No Doubt of its Role," *The Financial Times,* August 20, 1973.
[726] FCO 8/2279, Service Attaches Tehran – Annual Report 1973, 4 March 1974.

foreign aid.[727] In 1973, he loaned $45 million to Senegal, pledged aid to Tunisia and Jordan, and initiated investment projects in India, the Philippines, and Sudan.[728] Iran replaced Canada on the International Control Commission and intervened in Oman against the Dhofar rebels. The shah sought to replace Britain as the Gulf's gendarme and elevate Iran on the world stage, capitalising on the financial means to do so. Ambassador Ramsbotham declared that 'destiny had ordained a brave future for Iran,' and astutely noted that the shah had assumed a role that would have been 'unthinkable' a few years ago.[729] Despite these successes, the shah confided his sense of a 'growing isolation' and concern over regional instability, viewing the Soviet Union as 'still the maker of storms.'[730] HMG decided to capitalise on this, strengthening their rapport through consultation.[731]

Political Relations: Blushing Ambassadors and 'Support for the Shah, Warts and All'

Alam did not take to Ambassador Ramsbotham, preferring his predecessor Sir Denis Wright, whom he found a more 'likeable man' sharing his love of sport and horses.[732] Alam considered Ramsbotham 'too much of an old woman,' and after the Ambassador's complaints that Alam had never visited his residence, he thought it best to put the 'poor man out of his misery.'[733] Alam pitied the 'forlorn' British, observing that 'nothing interests them these days, save commerce and arms deals.'[734] Over lunch in August 1972, Ramsbotham found himself hastily muttering apologies on behalf of HMG. The shah's shipment of weapons to the army of Oman had been mistakenly turned away by British military advisers. Ramsbotham, eager to salvage

[727] FCO 8/2049, Iran: Annual Review for 1972, 22 December 1972.
[728] FCO 55/1114, Annual Review for 1973, 31 December 1973.
[729] FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972.
[730] Ibid.
[731] FCO 8/2049, Iran: Annual Review for 1972, 22 December 1972.
[732] Asadollah Alam (ed. Trans. Alinaghi Alikhani and Nicholas Vincent), *The Shah and I: The Confidential Diary of Iran's Royal Court, 1969 – 1977* (New York: St Martin's Press, 1992), 227.
[733] Ibid.
[734] Ibid.

relations, insisted the mishap was down to a misunderstanding due to the air base's commanding officer being on holiday. Alam eyed him suspiciously, hinting at lingering distrust, 'Our countrymen sometimes suspect that you would like to hold onto what remains of your vanishing influence at all cost.'[735] The Ambassador insisted it was 'nothing more than human error,' and eager to move on, exclaimed, 'but we have broad shoulders and take criticism without flinching.' The shah laughed upon hearing this, saying, 'Tell him it is not the broadness of their shoulders that marks out the British, but the size of their arse.'[736] The power imbalance between HMG and the shah had never been so stark.

Despite this, and reflecting the complexity of the relationship, despatches from the British Embassy in Tehran in the early 1970s, described robust bilateral relations between HMG and the shah. Britain's commercial drive aligned perfectly with the shah's ambitions for militarily self-sufficiency. The shah believed Britain had a 'major role to play' in the build-up of the Iranian armed forces, particularly in training.[737] However, the FCO and the Embassy had to navigate the shah's mercurial nature, which shifted based on Consortium meetings and press coverage.[738] The Ambassador noted the shah's tendency to accuse HMG of 'breaches of faith,' holding the UK to a higher standard due to its 'deeper experience' and its need for Iranian support.[739] Ahead of the shah's visit to the UK in June 1972, successful oil negotiations led to a profitable meeting with the Defence Secretary, with the shah prepared to buy 'the best equipment…at whatever price necessary.'[740] The speaking points for Prime Minister Heath's dinner with the shah that same day were revealing. He was urged to emphasise the 'excellent state' of bilateral relations, to laud the shah's economic progress and industrialisation

[735] Ibid.
[736] In Persian, 'broad arsed' is an epithet applied to the lazy, hence a play on words.
[737] PREM 15/991, Defence Secretary's notes on meeting with Shah at MOD, 23 June 1972.
[738] FCO 8/1887, Tehran to FCO, 14 June 1972.
[739] Ibid.
[740] PREM 15/991, Defence Secretary's notes on meeting with Shah at MOD, 23 June 1972

achievements, to stress that both countries, as equals, share the 'same problems,' and to underline no obstacles exist to closer collaboration.[741] This marked the beginning of an age of deference towards the shah.

Nowhere was this pandering more evident than in dealing with the media. British press criticisms provoked 'periodic outbursts of imperial rage' that the British Embassy had to navigate cautiously. Ramsbotham would emphasise the BBC and Fleet Street's independence from HMG and flatter the shah by calling Iran the 'most stable' and 'strongest power' led by a 'leader of unparalleled standing.' He would also remind the shah that Britain would not easily jeopardise its relations with Iran, as all its eggs were in the shah's basket.[742] Positive appraisals of his policies in *The Economist* would make the shah conclude that 'the British government still pulls all the strings; one word from their Ambassador and their newspapers are falling over one another to praise us.'[743] Alam's attempts to convince the shah otherwise were futile, and a slight criticism would trigger a tsunami of 'sensitivity and suspicion' from the shah that even Alam found 'quite extraordinary.'[744]

The incident of the Hirst articles in August 1972 plunged Anglo-Iranian relations into disarray, risking the 'cancellation of every commercial deal.'[745] *Guardian* journalist, David Hirst, penned a four-part series on Iran - the shah was pleased with the first three articles, but he erupted with fury upon reading the fourth. Alam received a call on his 'special telephone' from a livid shah, unleashing a torrent of insults: 'the mischief of the very thing defies belief!' The shah demanded that HMG refute the corruption allegations 'at the very highest level,'

[741] PREM 15/991, 'Suggested heading for Prime Minister's remarks after dinner for shah on 23 June 1972' by PR Wright, 23 June 1972.
[742] Alam, *The Shah and I*, 227.
[743] Ibid., 218.
[744] Ibid., 235.
[745] Ibid., 239.

emphasising that every British deal was 'government to government.' The shah branded Hirst 'an utter shit.'[746]

The fourth *Guardian* article, 'Graft, Violence and Good Intentions,' boldly compared the shah to Mao Tse-Tung, arguing that 'corruption and struggle' was at the heart of Iran.[747] Hirst targeted the shah's pride, Aryamehr Steelworks, as a hotbed for corruption, riddled with 'unclean deals' and a 'rich man's corruption' infiltrating the royal family. He exposed the glaring contradictions in Iranian society, despite the shah's claims that, 'his people have never had it so good.' Hirst depicted the entrepreneurial elite as 'dressing their wives in Paris and building better houses than their neighbours,' while the government's low-cost housing, rife with corruption, disintegrated into slums.[748] The shah found the accusations of corruption intolerable (although was fine with the accusations of torture and the 'travesty of justice'), convincing him that HMG viewed Iran as 'second-rate' people.[749] Time did not temper the shah's anger, and within three days, he sent a scathing message to the British Foreign Secretary:

'We were wrong to believe the British are our friends. You are obsessed solely with your own selfish interests and treat us as a people beyond the pale, but your attitude is a matter of profound disinterest. Your democratic system has already erupted in chaos. We shall soon overtake you, and in a decade, you will be struggling in our wake. Perhaps then you will remember how you once treated us.'[750]

[746] Ibid., 235.
[747] David Hirst, "Graft, Violence and Good Intentions," *The Guardian,* August 8, 1972.
[748] Ibid.
[749] FCO 8/1882, Ramsbotham to FCO, 17 August 1972.
[750] Alam, *The Shah and I*, 236.

The Ambassador, maintaining 'admirable calm,' firmly responded that the shah had a choice now that Iran had 'moved into the big league': accept critical commentary or act like a totalitarian regime.[751] However, the shah's suspicions about HMG were quite 'incredible,' seeing their 'secret hand' behind everything. He threatened that unless HMG 'disciplines its media,' he would cancel every commercial deal.[752]

Ramsbotham eventually brokered a 'bargain' to defuse these tensions and safeguard the defence contracts against these 'outbursts of emotion.' The informal agreement stipulated that the shah would first consult the Ambassador on reading something 'unfair, untrue and unjust' in the British press. HMG would address any 'lies and distortions' in a tangible way. Though somewhat patronising, the bargain worked. By September 1973, 'tensions were now over' but it did not stop the shah indulging in playful mockery. He assured the Ambassador he would live into old age and deposit all the 'kickbacks' from his arms deals into a British bank for safekeeping. Confused, the Ambassador asked Alam for clarification. Alam explained it was 'heavy irony,' mocking the press allegations of corruption. The Ambassador, knowing these 'kickbacks' were facilitated by British semi-government entities, blushed scarlet.[753]

By December 1972, relations with the shah were perceived by HMG to be on 'solid foundation,' but were precarious.[754] After 150 years of British influence and interference, Iranians attributed 'almost magical powers to the British,' seeing their 'hidden hand' everywhere.[755] The Hirst incident prompted Frederick Mulley, Secretary of State for Defence, to visit the shah and take 'flattery to levels exceeded only by Jimmy Carter.' In order to

[751] FCO 8/1885, Ramsbotham to the FCO, 24 August 1972, and Alam, *The Shah and I*, 236.
[752] Alam, *The Shah and I*, 239.
[753] Ibid., 240.
[754] PREM 15/1684, Lord Rothschild to the Prime Minister, 4 December 1972.
[755] Owen, *Time to Declare*, 390.

safeguard its commercial deals, British policy became one of deference, flattery and 'support for the shah, warts and all.'[756]

The policy faced challenges due to Iranian sensitivity, such as when Prime Minister Amir-Abbas Hoveyda visited the UK in April 1973, and demanded 'not to be treated as a black prime minister.'[757] The FCO meticulously planned his itinerary to avoid any perceived slight that he might be treated as a 'lowly' minister from a developing country.[758] The relationship's fragility was evident when the *Tehran Journal* published photos of the shah seemingly bowing to the British Foreign Minister, while the Foreign Minister Sir Alec Douglas-Home was clearly bowing to the shah. The shah was infuriated by what he perceived as a suggestion of him yielding to the British. The journalists were imprisoned, interrogated and permanently lost their jobs. Relations with Iran, Britain's second largest trading partner in the Middle East, may have been 'extremely close,' but they were unpredictable.

The British policy of flattery and unconditional support for the shah, coupled with the significance of Iranian arms deals for the UK, led HMG to avoid advising the shah on the deteriorating internal situation, concluding it would be 'unwise.'[759] They feared it would 'seriously prejudice' HMG's position and arouse suspicion of interference. In June 1972, the Embassy's report on 'The Survival of the Persian Monarchy' provided prescient insights and an eerily accurate timeline, raising questions about the potential impact if these had been shared with the shah and heeded.[760] Sir Denis Wright, who could have broached the topic strategically,

[756] Ibid. 394-395
[757] FCO 8/2057, Note for Patrick Wright, Mideast Department, undated.
[758] Ibid.
[759] FCO 8/1882, FCO to Tehran, 30 October 1972.
[760] British diplomatic analysis suggested that the shah's increasing autocracy, isolation, and failure to delegate power or adapt to Iran's evolving social and political landscape posed significant risks to the regime. While immediate revolution seemed unlikely, the analysis argued that the situation could become increasingly precarious

chose not to, adamant it would have no practical effect on the shah's actions; there was no 'possibility of persuading the imperial leopard to change his spots.'[761] However, he did take the opportunity to petition the shah for a contribution to St Antony's College's Middle East Centre, hoping to inject some 'Iranian flavour' into their studies.[762] The shah remarked acidly that he had already contributed to the library at Wadham College, and yet nothing had been done, but he would consider the request.

The policy of 'support for the shah, warts and all' yielded results. By April 1973, after an opulent dinner at Niavaran Palace, the shah confided to Ramsbotham that he felt he had finally 'achieved what he had long desired – a relationship of trust and understanding with Britain.'[763] He was now ready to build on this.

5.3 Oil, OPEC & Participation: 'Can we Screw the Shah?'

Oil was the world stage on which HMG's relations with the shah played out. When HMG had supported the oil companies in securing the Tehran Agreement in 1971, it was meant to stabilise the international oil industry for at least five years. Stability, however, proved ephemeral. It was no longer a question of price, but also power. The early 1970s revealed a buyer's market; oil had become the lifeblood of the world's industrial economies with supply and demand extremely tight. The balance of power had changed.

over the next five to six years due to the shah's inability to address the underlying issues. (FCO 8/1882, The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972.

[761] FCO 8/1882, FCO to Tehran, 9 November 1972.

[762] FCO 8/1882, Notes on Sir Denis Wright's visit to Tehran, 30 October 1972.

[763] FCO 8/2056, Ramsbotham to FCO, 18 April 1973.

Not even six months had passed, and the Saudi Oil Minister, Sheikh Ahmed Zaki Yamani, delivered a eulogy to the 'either dead or dying' Tehran Agreement.[764] Bargaining power was what counted, and OPEC held the stronger hand. In January 1972, OPEC met the companies again in Geneva, demanding more money after the dollar's devaluation. The companies quickly agreed to link the posted price to a basket of currencies, increasing the price by 8.5%. However, OPEC's satisfaction was short-lived, and within weeks, it demanded participation.[765] In his 1971 *Foreign Affairs* article, Walter Levy warned that participation meant 'subservience,' as the oil companies would now be 'held hostage' by the producers.[766] The West was becoming completely dependent on OPEC oil and the companies' strength in dealing with them waned.

The Tehran Agreement proved to the shah that OPEC could be a powerful tool for achieving greater political triumphs. Initially, he viewed OPEC with marginal tolerance, ready to sell it out when needed. However, the success of 1971 changed his perspective, and he realised leadership of OPEC as a significant political advantage.[767] Meanwhile, Saudi Arabia saw 'participation' as their answer to the shah's ambitions. Having kept a relatively low profile in OPEC, this was their chance to assert leadership. The rivalry intensified as the shah, determined to highlight Iran's unique superiority, pursued a route of 'lasting partnership,' which he believed would bring more prestige and material benefit.

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[764] Yergin, *The Prize*, 574. The Tehran Agreement - signed on February 14, 1971, between six Persian Gulf OPEC members and 22 oil companies, outlined a 55:45 profit sharing arrangement and an increase of the posted price of oil by 35 cents a barrel.

[765] OPEC legally defined 'participation' as government involvement in the shareholder ownership of concessionary oil companies operating within their territories. The aim was not merely to *participate* in profit-sharing but to *influence* decision-making, moving beyond the symbolic representation they had previously. Hasan S. Zakariya, OPEC's Chief of Legal, went further to say that government involvement historically amounted to a 'sleeping partnership,' where the governments had representatives on the boards of these companies but held little practical influence over key decisions. The push for 'participation' was intended to shift the governments' role from a ceremonial one, to a more substantive one, where they would gain control 'from within.' (Seijiro Matsumura, "'Participation Policy' of the Producing Countries in the International Oil Industry," *The Developing Economies* 10, no. 1 (2007): 30-44.

[766] Walter J Levy, "Oil Power," *Foreign Affairs*, July 1, 1971.

[767] Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics* (Cambridge: Cambridge University Press: 1991), 74.

Eager to assert his superiority over the Saudis and cement his unique position in OPEC, the shah initiated negotiations towards a 'partnership' with the Consortium. He distanced himself from OPEC's 'participation' bids, arguing that Iran's oil had been nationalised since 1951 and could not be further participated in.[768] HMG, behind the scenes, supported these negotiations, which were spearheaded by the shah. As negotiations faltered, so did relations with HMG. The shah's 'black mood' led him to challenge British policies in the Persian Gulf, questioning whether HMG favoured Arab interests over Iran's.[769] In a sharp exchange, the shah interrogated the Ambassador, suspicious of British involvement in Iraq's oil nationalisation. Despite the Ambassador's reassurances, the shah was searching for reasons to 'accuse HMG of breach of faith,' if the negotiations failed. However, ten days later in St Moritz, much to King Faisal of Saudi Arabia's anger, the shah signed a Partnership Agreement with the Consortium on June 24, 1972, replacing the 1954 Agreement.[770] The shah secured a 40% increase in Iran's oil production capacity by 1976, £400 million in capital investment by the Consortium, control of the Abadan refinery, construction of a new export refinery, and new export arrangements for NIOC.[771]

Saudi Arabia, infuriated, threatened full nationalisation unless participation progressed and soon after, Sheikh Yamani secured a deal for Saudi Arabia which 'maddened' the shah. As participation swept the Middle East, Sir David Barran of Shell deemed it worse than nationalisation.[772] The General Agreement, signed only six months after the shah's, granted Saudi Arabia 25% participation, rising to 51% by 1982, implying control over operations.

[768] Alam, *The Shah and I*, 207
[769] FCO 8/1887, Tehran to FCO, 14 June 1972.
[770] Bamberg, *British Petroleum and Global Oil,* 471.
[771] FCO 8/1887, Brief for PM on shah's discussion, 23 June 1972.
[772] Sampson, *The Seven Sisters*, 246.

Sheikh Yamani had secured the better deal. In stark contrast, Iran's deal allowed the Consortium to retain managerial control of operation. To worsen the affront, Sheikh Yamani boasted on the radio that his deal was 'four times better than the shah's.'[773] The shah was 'burned up' upon hearing this.

Negotiations resumed in a 'distinctly bitter' atmosphere on January 14, 1973, between the Consortium and the shah, who felt his image had been 'badly dented.' Exxon Chairman, John Jamieson's pleas about an 'imaginative approach' for a partnership were abruptly cut off by the shah, who declared, 'the St Moritz spirit was dead.'[774] The atmosphere was 'civil but nasty.' While the Consortium accepted the sales contract in principle, they struggled to elaborate on their ideas, as the shah bridled at the mention of a 50:50 arrangement.[775] He insisted on Iran owning all its oil, selling an agreed volume to the Consortium. The Pahlavi monarch confessed his regret in not seizing control in 1954. Asserting his dominance, he declared, 'I have decided to be master in my own house,' and set a firm deadline of March 15, 1973, for the Consortium.[776] The shah wielded a strong hand; with an energy crisis looming, this audience was in 'no way a negotiation.'[777]

The British government, anxious about the international oil market's stability and unable to afford price hikes, became a silent partner in these negotiations.[778] The British Ambassador juggled meetings between the Consortium companies and the shah's Minister of Court, attempting to find a middle ground by managing expectations.[779] At times, the situation's

[773] Bamberg, *British Petroleum and Global Oil,* 472.
[774] FCO 8/2069, BP to FCO – minutes of private meeting with the shah, 14 January 1973.
[775] FCO 8/2068, Ramsbotham to FCO, 15 January 1973.
[776] Ibid.
[777] Ibid.
[778] FCO 8/2068, Ramsbotham to FCO, 13 January 1973.
[779] Ambassador Ramsbotham was not a 'neutral' observer. Archival evidence reveals that he conducted private meetings with the entire Consortium team, advocated on their behalf to Asadollah Alam, and even phoned Alam

gravity required the Ambassador to privately explain the Consortium's stance to the shah before their next audience.[780] The shah gave the Consortium two options: continue with the current arrangements until 1979 with additional payments to compensate for the benefits conceded to the Arabs, or convert the 1954 Agreement into a long-term sales contract valid for twenty-five years, with NIOC managing operations in Iran.[781] Both options were unacceptable to the Consortium, potentially costing the UK $350 million annually from 1973 to 1982, with declining production leading to a further loss of $250 million thereafter per year. Western leaders, including Richard Nixon, appealed to the shah, emphasising the importance of his constructive role in the stability of the oil industry, and warning that his proposals threatened consumer countries.[782] The British Foreign Minister, echoing these sentiments with added flattery, reminded the shah that Britain relied on him to stabilise oil prices, highlighting his historical 'care and responsibility' in this critical matter.[783]

The shah entrenched his position further in late January 1973, during a speech commemorating the tenth anniversary of the White Revolution, making all the points the FCO had 'wished him to avoid.'[784] He reflected on the fight against oppression and foreign interference, underscoring Iran's struggle for Iranian independence and self-determination. 'Unemotionally,' he addressed oil negotiations, asserting that the oil companies could still be 'good customers' to whom he would offer favourable terms. His speech, brimming with national pride, pledged to defend Iran's 'sacred boundaries.' [785] Quoting Ferdowsi, he vowed: 'If Iran does not exist, let me perish too. Let no person remain alive in this land.'

directly at the exclusive request of Consortium members. (FCO 8/2068, FCO 8/2068, Ramsbotham to FCO, 15 January 1973.)

[780] FCO 8/2071, Tehran to FCO, 22 April 1973.

[781] FCO 8/2068, Patrick Wright summarising the problem in Iran/Consortium relations, 17 January 1973.

[782] FCO 8/2068, Memo on incoming message from US President, 18 January 1973.

[783] FCO 8/2068, Douglas Home (Secretary of State) to Shah, 18 January 1973.

[784] FCO 8/2069, Tehran to FCO, 24 January 1973.

[785] FCO 8/2069, Translation of shah's speech, 23 January 1973.

The newspaper *Ettela'at*, reflecting the shah's guiding line, declared the Consortium had 'no alternative but to bend the knee.'[786] The shah's position hardened, rejecting any Consortium proposal for 'participation' or 'partnership.' Accepting the shah's terms would wreck the participation agreements with the Arab OPEC members. Negotiations continued, with the Consortium offering 'sweeteners,' but often ending on 'uncomfortable notes.'[787] The shah bristled at the Consortium's assertion of 'rights' to Iran's national resources, retorting that they had squandered them in the past and should not enjoy privileged access in the future.[788] The Iranian Ministry of Finance responded with a letter asserting Iran's 'inalienable' sovereign rights, listing sixteen failures by the Consortium justifying the termination of the 1954 Agreement.[789] With the threat of nationalisation, tensions escalated, putting HMG's interests at serious risk.

The faltering oil negotiations had significant detrimental effects on British business. Whitehall's corridors buzzed with activity as departments scrambled to safeguard the country's interests. However, a meeting between the FCO, the Department for Trade and Industry (DTI), and the oil companies concluded that diplomatic approaches would be futile. Any attempt to influence the shah might only 'irritate him.'[790] Ambassador Ramsbotham believed they still had a chance, musing that the shah 'might not fully realise the serious situation he created.' To underline the severity, he proposed sanctions once the companies had settled on their course of action, as a means to show the shah that there could be 'a bite as well as a bark.'[791]

[786] FCO 8/2069, Tehran to FCO, 27 January 1973.
[787] FCO 8/2071, Tehran to FCO, 22 April 1973.
[788] Ibid.
[789] FCO 8/2070, Letter from Iran's Ministry of Finance to Consortium members on 27 January 1973, 1 February 1973.
[790] FCO 8/2069, Douglas Home to Tehran, 25 January 1973.
[791] FCO 8/2069, Tehran to FCO, 24 January 1973.

The balance of power with the shah had shifted so considerably that it was hard to find a bark, let alone a bite. Incoming Ambassador Anthony Parsons' letter to Patrick Wright, Head of the Middle East Department at the FCO, highlighted the UK's dependence on Iran. The subject itself was revealing: 'Can we screw the shah?' Anticipating being 'quizzed' by the oil companies on how HMG might be used as a 'lever' against the shah, Parsons outlined the limited options. HMG could not halt arms supplies to Iran as it would 'only damage ourselves.' Trade restrictions were equally unfeasible, as they would harm British business, with their 'competitors licking their lips.' Cutting off technical assistance was dismissed as a 'meaningless irritant.' A diplomatic freeze, though considered, was rejected; it would only make the shah 'more bloody-minded,' risking commercial deals.[792] The only option - a tepid bark - would be to threaten the end of CENTO, the most tangible expression of Western support for the shah. However, even this was considered ineffective. It was 'distressingly clear' that HMG had very few means of exerting pressure on the shah. The UK's influence had waned rapidly in the past five years; it could no longer 'screw the shah.'

The dynamics shifted dramatically with the arrival of Shapoor Reporter.[793] As the liaison officer for the shah, Reporter, despite his controversial history, accelerated negotiations by communicating expectations. The shah expressed his desire for a 'friendly, long-term relationship with the oil companies,' and aimed for an early settlement to maintain his leadership.[794] Revealingly, through Reporter, the shah conveyed his desire to know in advance,

[792] FCO 8/2070, Parsons to Patrick Wright, 'Can we Screw the Shah?' 26 January 1973.
[793] Shapour Reporter emerged as a pivotal figure, assuming the role of gatekeeper for all military and commercial contracts between the UK and Iran, while also serving, like his father, as an operative for the British Secret Intelligence Service. Reporter was well recognised for his strong ties to the Pahlavi establishment but alleged to have also worked as a British intelligence agent in Iran during the 1953 coup. Denis Wright however, described him as 'the shah's man.' ("Great Britain VI. British Influence in Persia, 1941-79" https://iranicaonline.org/articles/great-britain-vi).
[794] FCO 8/2070, Tehran to FCO, 9 February 1973.

rather than be 'confronted at the meeting,' about any elements, which the Consortium 'genuinely could not accept.' This approach allowed the shah to find ways to circumvent these objections without altering his core or losing face. Saving face had been a recurrent theme for the shah, especially vis-à-vis the West, as he sought to distance himself from Iran's past humiliations. Within thirteen days of Reporter's arrival, the principles of the agreement were reached.

The shah was in a relaxed mood when he met the Consortium members at the Suvretta Villa in St Moritz for a two-hour audience. Exxon's Chairman proposed creating a new company to manage Iran's oil, owned 50:50 by NIOC and the Consortium oil companies. The shah had no objection, even allowing 100% ownership by the members, as long as they did not 'show themselves too much in Iran.'[795] Clearly, for the shah, it was about saving face rather than 'substance.' When discussing capital provision, the Consortium offered to put up only half, and the shah nonchalantly responded that he had no objection, as he could 'get as much money as he liked out of the UK.'[796]

On May 24, 1973, the Heads of Agreement, a comprehensive six-volume bundle of documents, was signed between the Consortium and NIOC, replacing the 1954 Agreement. This twenty-year pact designated NIOC as the owner and operator of Iranian oil, facilitated through a service contractor company set up by the Consortium members.[797] NIOC agreed to sell oil to the Consortium members under terms financially equivalent to the General Agreement, and production capacity would be developed from 5.5 million to 8 million barrels per day. The shah could claim to have secured a better deal than Sheikh Yamani, as NIOC was in 'control' of

[795] FCO 8/2070, Notes on audience with shah, 22 February 1973.
[796] Ibid.
[797] Skeet, *OPEC*, 80.

Iranian oil, as opposed to having just 25% control. The shah was delighted, declaring, 'the directing hand of London has forever been removed from the control of our oil resources.'[798]

The 1973 agreement and the shah's volte-face, which the FCO attributed to his refusal to be 'second banana,' marked a new stage in Anglo-Iranian relations.[799] The FCO believed that nurturing Iranian self-assertion, would dispel 'old suspicions,' unlocking 'enormous trade opportunities.'[800] This new era, secured with 'intelligent direction from London,' promised a 'more comfortable' future for HMG and its finances. However, it also exposed a dramatic shift in the balance of power. The influence that once allowed Britain to exert control over the shah had dissipated, leaving its economic and political interests vulnerable throughout the negotiations. The shah's drive for sovereignty, self-reliance and robust economic development was nearly fully realised, further tilting the scales in his favour and diminishing Britain's leverage.

Meanwhile, oil demand skyrocketed. By the summer of 1973, it surpassed even the wildest predictions. For the first time since OPEC's creation, market prices rose above the posted price.[801] OECD oil consumption was set to double by 1985, raising questions about the West's ability to afford such prices and OPEC's use of its revenues.[802] As whispers of an 'energy crisis' emerged, BP's Chairman telephoned the Foreign Minister warning that HMG faced a 'double squeeze' from the shah and the Arabs, threatening a 'very severe attack on profits, and thus the balance of payments.'[803] Moreover, the Chairman could not guarantee the security of oil supplies. With Britain's stake in Iranian oil surpassing 50%, coupled with domestic

[798] FCO 8/2071, Ellingworth (Tehran) to Douglas Home (Foreign Secretary), 7 September 1973.
[799] Ibid.
[800] Ibid.
[801] Sampson, *The Seven Sisters*, 254-255.
[802] Skeet, *OPEC*, 83.
[803] FCO 8/2073, Wright to Douglas-Home, 1 February 1973.

economic turmoil and a looming energy crisis, HMG found itself precariously vulnerable to the shah's mercurial decision-making.

To stabilise oil prices and boost commercial transactions, HMG eagerly embraced a proposal from the shah. The shah offered linking fixed-price supplies of certain commodities with additional oil supplies, also at fixed prices. This offered a modicum of hope amid economic turmoil and rising oil prices. The shah, 'glad to be in a position to help Britain,' acknowledged the dire consequences for the Western world if Britain's economy 'collapsed.'[804] The British Prime Minister aimed to secure 10 million tonnes of oil in exchange for scarce industrial products that Iran urgently needed.[805] Insisting on not settling for less than 6 million tonnes, HMG highlighted the 'considerable sacrifice' involved. Ultimately, they only secured 5 million tonnes of oil. The tides had turned. The Bilateral Agreement for Fixed Oil Pricing also included the possibility of the shah investing extra funds in the UK, up to 66% of additional revenue and further funds invested into BAC and the British Steel Corporation. The FCO, adhering to a policy of deference, praised the gesture as both 'magnanimous and imaginative,' that would be of 'great help' to the UK, and took pride that the proposal had not been put to 'any other government'; it insisted that the shah had singled out the UK because of its 'special relationship.'[806] The Bilateral Agreement for Fixed Oil Pricing effectively bartered oil. Britain's fragile economy led it to accept bartered oil for goods, as seen two years earlier with the sale of Chieftain tanks to Iran. HMG revised its long-standing policy of avoiding oil barter exchanges, and with it the oil-arms nexus was rooting itself into fertile ground.

[804] FCO 55/1114, Tehran to FCO, 20 December 1973.
[805] PREM 15/2185, Oil for Commodities Deal – Briefing for PM on conversation with Prime Minister Hoveyda, undated.
[806] FCO 55/1114, Notes on Secretary of State meeting with the Iranian minister of Economy Dr Ansary and Dr Fallah, 17 December 1973.

5.4 The Arms Trade and the Embryonic Phase of the Oil-Arms Nexus

Britain eagerly sought to capitalise on Iran's burgeoning wealth. In 1972, UK exports to Iran exceeded £100 million, a 49% increase from the previous year.[807] During the Foreign Minister's visit to Iran in June 1973, he emphasised the 'excellent state' of relations and the UK's keen interest in large-scale civil projects in Iran's Fifth Development Plan, including the new Tehran airport, the Tabriz oil refinery, the Tehran metro and Iran's first nuclear power station. Central to HMG's policy was to increase its military exports to Iran, which accounted for 22% of its total overseas defence sales in 1972.[808] The shah, who was the UK's 'best customer,' expressed his intention to keep buying from Britain.[809]

The shah was determined to strengthen his armed forces amidst growing regional instability. While the air force remained under American influence, the army and the navy offered vast opportunities for the UK. By the early 1970s, two contracts had been signed for the supply of 800 Chieftain Tanks, the most heavily armed battle tank of the era, with spares and support worth £130 million (equivalent to £1.5 billion today). BAC's surface-to-air Rapier Missiles, valued at £43 million, were set for delivery, alongside the Mark V Destroyers, 'Saam' and 'Zaal.'[810] Additionally, IIS 'Rostam' and 'Faramaz' were scheduled to arrive in 1973, valued at £18 million. In 1972, Iran's armed forces grew significantly with British defence equipment, including two British frigates that expanded the Iranian Navy.[811] Further orders were placed with Yarrow for two support ships of the Sir Lancelot and Sir Gawain type, valued at £10 million.[812]

[807] FCO 8/2060, 'Visit of Secretary of State Foreign Affairs: Talks with the Shah. Commercial Points' by Ramsbotham, 23 May 1973.
[808] FCO 8/1885, FCO to Tehran, 12 December 1972.
[809] FCO 8/1887, Brief for the Prime Minister on Shah's Discussion, 23 June 1972.
[810] PREM 15/1684, 'Visit of the Shah of Iran - Major Current Sales – Annex B,' undated.
[811] FCO 8/2049, Iran: Annual Review for 1972, 22 December 1972.
[812] PREM 15/1684, 'Visit of the Shah of Iran - Major Current Sales – Annex B,' undated.

After the shah's June 1972 visit to the UK, the MOD secured a contract for 250 light reconnaissance Scorpion vehicles, armed with 76-millimetre guns, spares, necessary training and maintenance support, valued at £16 million.[813] Additional negotiations included an improved fire control system for the Chieftain (£55 million), the purchase of Mine Counter Measure Vehicles (MCMV), and the establishment of the Military Industrial Complex (MIC) in Esfahan. The MIC, negotiated with HMG's Millbank Technical Services (MTS), aimed to manufacture all spare parts and ammunition for the Chieftain, valuing the UK's involvement at over £100 million (equivalent to £1.2 billion today). [814] The securing of the MIC following the shah's visit was not merely of financial importance. By embedding itself deeply in Iran's military expansion, Britain aimed to 'cash in' on its favourable relations while simultaneously making Iran reliant on the UK for training and support.[815]

Britain's support of the shah's massive rearmament provoked an international backlash, with Russia and India deeming the build-up 'sinister.'[816] Yet, these considerations were sidelined by the lucrative opportunities for Britain. During the shah's 1972 visit to the UK, he expressed to the Defence Minister that he saw, 'Britain playing a major role in the build-up of the Iranian armed forces.'[817] The shah was 'most anxious' to advance defence contacts with Britain and sought British training support. Despite asserting that Iran had 'no aggressive designs,' he emphasised the necessity of self-reliance. On meeting the Prime Minister later that day, the shah confided that he would welcome an increased British presence in Iran, anticipating at least 10% growth over the next five years.[818] The opportunity was irresistible for the UK.

[813] PREM 15/990, MOD to PMO, 24 July 1972.
[814] PREM 15/1684, 'Visit of the Shah of Iran - Major Current Sales – Annex B,' undated.
[815] FCO 8/2049, Iran: Annual Review for 1972, 22 December 1972.
[816] FCO 55/1114, Annual Review for 1973, 31 December 1973.
[817] PREM 15/991, Defence Secretary's notes on meeting with Shah at MOD, 23 June 1972.
[818] PREM 15/991, Minutes on meeting between the PM and the Shah at the Iranian Embassy, 23 June 1972.

British defence sales were strategically accompanied with training and maintenance support, enhancing their influence in Iran's military expansion. The shah's rapid military build-up created a gap in expertise, providing the MOD with an opportunity to embed itself in Iran's defence system, securing future growth. The UK Military Training Assistance Scheme (UKMTAS) exemplified this, with 300 Iranian military personnel on a wide range of training courses by June 1973, and before any ship would set sail for Iran, it would undergo a comprehensive training programme.[819] Despite limited capacity, Iran was given a 'very high priority,' receiving more training vacancies than any other ally.

The Defence Attaché's 1973 report on Iran highlighted significant concerns about the risks of manpower, commitment and responsibility involved in Britain's defence sales. The surge in oil revenues had removed financial restraints, but the Iranian Armed Forces lacked the capacity to absorb, operate and service new sophisticated equipment, 'leaving much to be desired.'[820] The report foresaw the growing need for foreign technical assistance, rendering the UK more deeply involved. Although such a growing commitment would bring benefits, it also posed considerable risks, placing more responsibility on Britain, and increasing the likelihood of being 'blamed by the Iranians for their own shortcomings.'[821] Despite this awareness, the report concluded that Britain must provide technical assistance to ensure its equipment remained usable and arms sales to Iran continued. Britain was ready to assume the risk.

The British arms trade had always been intertwined with Anglo-Iranian relations, especially in the oil sector. Similar to the shah threatening to cancel every single arms contract with Britain

[819] FCO 8/2060, Military Training in the UK and Military Training Assistance Schemes (UKMTAS), undated June 1973.
[820] FCO 8/2279, Service Attaches Tehran – Annual Report 1973, 4 March 1974.
[821] Ibid.

in response to the Hirst articles, the shah toyed with cancelling the Scorpion contract, citing 'dissatisfaction' with British military equipment, including the 'underpowering' of the Chieftain engine, non-functional Mark 8 guns on Vosper ships, and the 'unreliability' of British prices.[822] Shapour Reporter hinted this might be a ploy to make Britain more compliant in the oil negotiations.[823] Despite the MOD describing the criticisms as 'repetitive and exaggerated,' it would however, see that the shah remained a 'satisfied customer.' This flattery culminated in the shah's £100 million purchase of Britain's most advanced warship in November 1963, the Through-Deck Command Cruiser. The MOD hailed the order as 'sensational,' securing employment for Vickers, Rolls Royce and many subcontractors.[824] By the end of 1973, the shah had placed over £500 million in defence orders with Britain, the equivalent to over £5.2 billion today.

The oil-arms nexus, which saw Iranian petrodollars recycled with British defence orders, developed through three key phases before its formal inception in July 1976, with the first explicit oil-for-arms deal. Initially, the germinal phase, as explored in the previous chapter, involved the convergence of oil and arms in the Chieftain tank sales to Iran. With sterling precariously dependent on the steady flow of oil, HMG adapted its Middle East policy, to accept payment through the explicit increased liftings of oil.[825] This marked the first tacit acceptance of bartering armaments for oil. The embryonic stage saw the Bilateral Agreement for Fixed Oil Pricing, where certain British commodities would be linked to guaranteed oil supplies at fixed prices, establishing a pattern of bartering certain commodities for oil. The foetal phase intertwined arms and oil further in late 1975 when the shah proposed an oil-for-arms barter deal after cancelling the Tracked Rapier order worth £186 million due to BP's

[822] FCO 8/2063, Tehran to FCO, 9 April 1973.
[823] Ibid.
[824] Chapman Pincher, '£100 million Oil Defender,' *Daily Express*, November 10, 1973.
[825] FO 248/1694, Tehran to FCO, 12 August 1970.

lower oil liftings.[826] Despite initial HMG reluctance, these phases laid the groundwork for what would be considered the model template of the oil-arms nexus, epitomised in 1976 by the BAC Rapier Deal, valued at £300 million, where HMG formally accepted oil as payment.[827]

By mid-1973, the shah's growing power, fuelled by escalating oil revenues, dramatically shifted the balance of power in Anglo-Iranian relations. Britain's increasing reliance on Iranian oil, amid its domestic economic challenges and a looming energy crisis, underscored its vulnerability to the shah's whims. The new oil agreement symbolised not just economic gains for Iran but a significant shift in power, reducing British influence and bolstering the shah's control. In April 1973, *Foreign Affairs* published a foreboding article titled, 'The Oil Crisis: This Time the Wolf is Here,' prophesying that oil demand would soon surpass supply, causing severe financial imbalances, with the risk that oil could be wielded as a political weapon.[828] As the first shots of the Yom Kippur War rang out, an oil shock loomed on the horizon – one so profound that it threatened to upend the very foundations of Western democracy, heralding a period of unprecedented economic and geopolitical upheaval.

5.5 The Oil Crisis: 'Tighten Your Belts' - October 1973 – December 1973

Leonid Brezhnev had warned the American President. In June 1973, overlooking the Pacific, Richard Nixon hosted the Soviet leader for a summit at his estate in San Clemente, California. On the last evening, after retiring, a troubled Brezhnev demanded an unscheduled meeting. Awoken by the Secret Service, a wary Nixon received Brezhnev in his ocean-view study. Brezhnev, in front of the lit fire, confided in Nixon for three hours in 'rough and emotional' terms that the Middle East was on the brink of explosion.[829] He had intelligence on Anwar el-

[826] FCO 8/2513, FCO to Iran 'Iranian Oil Revenues,' 17 December 1975.
[827] Rodney Wilson, "Oil for Arms Barter with West," *The Times*, October 4, 1974.
[828] James E. Akins, 'The Oil Crisis: This Time the Wolf is Here," *Foreign Affairs*, April 1, 1973.
[829] Yergin, *The Prize*, 579.

Sadat and Hafez al-Assad's plans, knowing their actions would jeopardise the fragile Soviet American détente. Brezhnev urged Nixon to pursue a new diplomatic initiative. Nixon and Kissinger, misjudging the plea as a Soviet manoeuvre, ignored the warning. Their oversight paved the way for the Yom Kippur War and the subsequent oil crisis, triggering an embargo and causing a global oil shock so profound that in Henry Kissinger's words, it 'altered the world irrevocably.'[830]

The Yom Kippur War - 'Bidding For Our Life'

Shortly after 2pm on October 6, 1973, 222 Egyptian jets thundered toward the eastern banks of the Suez Canal to bomb Israeli command posts. Simultaneously, 3,000 field guns unleashed a barrage across the Sinai, while Syrian jets attacked Israel's northern front. This marked the beginning of one of the most destructive and consequential Arab-Israeli wars. Beyond superpower-supplied armaments, a potent new weapon emerged from the Middle East: oil. The Arab OPEC members intended to strangle consumer governments, and shah intended to profit from it. Oil had become the life blood of the world's industrial economies, and the shah was now at its heart.

The international financial system and consumer countries were unprepared for the oil crisis. Demand for oil was exceeding even the wildest predictions, with market prices surpassing posted prices just the previous month. Sensing their advantageous bargaining position, OPEC summoned the oil companies for a meeting on October 8, to discuss 'substantial increases' in prices to counter the rampant inflation that was eating into their profits.[831] As delegates arrived in Vienna, the atmosphere was charged. Arab delegates, buoyed by apparent Arab military

[830] Ibid., 570.
[831] Sampson, *The Seven Sisters*, 255

successes, circulated triumphant newspaper articles. Observing the oil men's nervousness and defensiveness, OPEC's President Jamshid Amouzegar, noted that they were 'a little panicky' and 'losing their strength,' he realised that OPEC was now in a position of unrivalled power.[832]

Negotiations raged as OPEC demanded a $3 increase, countered by the oil companies' untenable offer of $0.45.[833] The oil companies, out of their depth, proposed a two-week recess to consult the consuming governments, as such an increase would have a monumental economic and political effect on the industrialised countries. However, only eight days later, the oil companies heard on the radio that OPEC decided to raise the price of oil by $2 per barrel.[834] The announcement was shocking: not only because it represented a 70% increase, as opposed to the proposed 15% by the oil companies, but that it was decided unilaterally without consultation to the companies. Sheikh Yamani declared, 'We are masters of our own commodity.'[835] The oil companies had categorically lost their power over the price of oil.

The following day, events took a more ominous turn. The Arab oil states imposed a 5% cut in oil exports from the September levels, with further 5% cuts each month until Israel withdrew from the territories occupied in 1967. A White House spokesperson dismissed the threat, stating the US would not take the embargo seriously until 'at least 1 million barrels of oil per day' were cut.'[836] Saudi Arabia responded by doubling its cut to 10%, and by October 20, imposed a full embargo on oil exports to the US. This escalation caused immediate economic havoc: a $1 billion cost for the UK, $5 billion for the European Economic Community (EEC), and $3

[832] Ibid., 263.
[833] Yergin, *The Prize*, 583.
[834] Bamberg, *British Petroleum and Global Oil,* 477.
[835] Andrew Scott Cooper, *Oil Kings: How the US, Iran, and Saudi Arabia Changed the Balance of Power in the Middle East* (New York: Simon & Schuster, 2011), 123.
[836] Ibid.

billion for the US.[837] The staggered cutbacks and targeted embargo maximised uncertainty, tension and rivalry among consumer countries. In the UK, the Chancellor described the situation as, 'the gravest since the end of the war.'[838]

The embargo heralded a new era for global oil, with the world now at the mercy of sovereign states rather than corporate cartels. Oil companies, confronted by a united OPEC and fractured consumer governments, found themselves serving as a 'temporary world government' tasked with redistributing the world's oil supply for several months to 'equalise the misery.'[839] Petrol stations worldwide saw motorists waiting in hours-long queues, lining up on designated days according to their licence plates, only to encounter signs saying, 'no petrol today.' In Europe, authorities banned Sunday driving, introduced lower speed limits, and imposed restrictions on heating and lighting. On Oxford Street, shoppers navigated darkened stores by gas lamps.

In Britain, the oil shock collided with the miner's strike, prompting Heath's government to unveil energy rationing. By December, the oil crisis deepened, with a staggering loss of 5 million barrels per day from the market, fuelling rampant inflation and a burgeoning global recession. Analysts warned of extreme financial dislocation impacting industrial democracies, where economic growth had been the social glue in the post-war years. The psychological impact on Western Europeans was profound, evoking memories of post-war deprivation. As the year ended, fear and uncertainty were pervasive. Oil companies and consumer governments frantically sought additional oil supplies. However, panic buying only intensified market pressure. An independent buyer reflected, 'We weren't bidding just for oil; we were bidding for our life.'[840]

[837] Skeet, *OPEC*, 90.
[838] Bamberg, *British Petroleum and Global Oil,* 480.
[839] Ibid.
[840] Yergin, *The Prize*, 597.

In the wake of the price hike and prior to the embargo, Ambassador Ramsbotham urgently sought an audience with the shah on October 17. Reading the Prime Minister's letter, he appealed to the Anglo-Iranian special relationship, stressing the severe economic repercussions, including spiralling inflation on oil-consuming countries.[841] The shah was unperturbed, calling the price rise not only 'right and fair,' but 'the best way' to handle these problems, asserting it was moderate compared to initial demands. Keen to bolster his oil wealth, he remarked that it would save a 'great deal of trouble' if actual market dynamics determined oil prices. The shah did not acquiesce to the Ambassador's views about OPEC's unilateral decision setting a troublesome precedent. He agreed that 'things have changed,' but candidly told the Ambassador it was 'simpler and fairer' this way. The shah justified OPEC's actions by criticising the oil companies for making OPEC wait four days, stating 'this was not correct.'[842] The Ambassador found the shah's nonchalant response disturbing.

Five days later, after failing to sway the shah, Prime Minister Heath invited BP's Chairman, Sir Eric Drake, and Shell's Frank McFadzean to dinner at his country-home of Chequers. Nestled at the foot of the Chiltern Hills, the meeting was 'not a cordial party.'[843] Heath demanded preferential treatment for Britain, citing its 51% stake in BP and 40% in Shell. He insisted on maintaining 100% of normal oil requirements. Both Chairmen resisted, arguing their untenable position. Drake stated that BP could not 'forget about everyone else.'[844] The Prime Minister countered by invoking Churchill's memory, remarking he had bought shares to avoid this very fate. McFadzean pointed out that the crisis was a 'failure of governments,' not the companies and highlighting its legal and moral obligations, McFadzean noted that Shell

[841] FCO 8/2073, Tehran to FCO, 17 October 1973.
[842] Ibid.
[843] Bamberg, *British Petroleum and Global Oil,* 481.
[844] Ibid.

was 60% Dutch-owned and only 40% British.[845] He stressed that even if he agreed with Heath, which he 'most decidedly did not,' it would not be possible to override Dutch interests.[846]

According to Daniel Yergin, Drake refused to yield to Heath, fearing it would 'destroy his company.'[847] As General Manager of the AIOC in 1951, he had defied Mossadegh under threat of death and had no intention of participating in further nationalisations. Aware that his premiership hinged on this issue, Heath intensified his pressure. Drake countered, 'Are you asking me to do this as a shareholder or as a government?' If it was the latter, he wanted it in writing. Heath, losing his temper retorted, 'You know perfectly well that I cannot put it in writing!' Drake stood firm, 'Then I won't do it.' Despite this, he did comply. James Bamberg found a secret note in BP's archives addressed to Drake about the 'private maintenance by BP of its normal UK programme, which you instructed us to achieve without publicity.'[848] Drake forwarded the note to HMG, emphatically requesting that 'the bit about BP's under the counter supplies to Britain,' remain strictly confidential, known only to the Prime Minister, as BP would face 'awful trouble' if these details were exposed. However, even BP's covert deal could not shield the UK from the shah's ambitions.

In a bid to gauge the mood before the OPEC meeting at the end of the month, NIOC held two secret auctions in mid-December 1973, where Iranian crude fetched $17.34 per barrel, more than three times the October posted price. Iranian government officials were 'dumbfounded.'[849] The shah was 'a little surprised' he later confessed.[850] Feverish bidding on the spot markets

[845] Yergin, *The Prize*, 605.
[846] Ibid.
[847] Ibid.
[848] The minister's name is withheld by Bamberg. (Bamberg, *British Petroleum and Global Oil,* 483)
[849] Cooper, *Oil Kings*, 138.
[850] Bernard Weinraub, "Shah of Iran urges Arabs to End their Oil Embargo," *New York Times,* December 21, 1973.

pushed prices to $23 per barrel in Nigeria. Saudi Arabia feared that skyrocketing prices would trigger a worldwide depression and strip the embargo of its political character, reducing it to a perceived façade for a money grab. Iran however, stood as the most outspoken and aggressive country. The market finally corrected what the shah saw as an historical injustice of artificially suppressed oil prices, giving him the means to finance his grand ambitions. The auction results would guide his hand during the upcoming negotiations, made even stronger by the Arab states' announcement to further slash daily oil output.[851]

Two newspaper interviews in December 1973 reveal the shah's mindset. In Oriana Fallaci's interview for the Italian *New Republic*, published on December 1, the shah exudes confidence and authority, declaring himself, 'a real specialist' in the oil market.[852] When Fallaci asked if prices would continue to rise, he excitedly replied, 'Of course it is going to rise! And how! You can spread the bad news!'[853] His certainty and eagerness to control the narrative reveal an unfamiliar sense of dominance and self-assuredness. 'I must tell you the price of oil must rise. There is no other solution,' he concluded. Although the interview occurred before the war, the stormy exchange exposes a degree of hubris that would see the shah disrupt the economic equilibrium by the year's end.

The day before Gulf oil ministers arrived in Tehran for the watershed conference, the shah granted an interview to *New York Times'* Bernard Weinraub, where he heralded the end of the oil companies' 'tremendous profits' – 'those days are shattered' he concluded.[854] The current

[851] In his memoirs, the shah claims that Iran had sold oil at a price of $35 per barrel on the spot market. However, there is a lack of corroborating evidence to substantiate this claim. (Mohammad Reza Pahlavi, *Answer to History* (New York: Stein and Day, 1980), 97).
[852] Oriana Fallaci, "The Shah of Iran: An Interview with Mohammad Reza Pahlavi" *New Republic,* December 1, 1973.
[853] Ibid.
[854] Weinraub, "Shah of Iran urges Arabs to End their Oil Embargo"

situation was the result of their 'fixing of low prices' – 'now they will have to pay the price' he admonished. His confidence lent a self-assuredness that translated into a new position for the monarch – the moralist of world oil. He asserted it was a 'sin' to use oil to heat houses or light electrical bulbs; oil should be saved for 'noble uses' like petrochemicals.[855] On discussing what he intended to do with this newfound wealth, he said quietly, 'What I want for Iran is very simple, very clear, very ambitious, and very possible.'[856] It was to be ahead of the greatest nations of the world within twenty years. The shah's ambitions now had no financial limits. His crusade for higher prices meant that by 1976 Iran's production capacity would go from 5.8 million to 9 million barrels per day, fuelling his modernisation drive.[857]

The December 1973 Oil Crisis: 'We Have Reached Our Political zenith'

The shah's campaign for higher prices strained Anglo-Iranian relations, highlighting the limits of HMG's policy of deference and the disastrous consequences of a misunderstanding. Ambassador Ramsbotham, seeking to 'stop further exaggerated price hikes' and stabilise the price system, petitioned the shah for support in averting disastrous effects on Western economies before the December OPEC Conference. Although Ramsbotham hoped to avoid discussions such as a $15 per barrel price – suggested three months earlier in Vienna – the shah disclosed that an even higher price of $22 per barrel was now being mentioned.[858] They strategised together, with the shah expressing concern about appeasing the Arabs to avoid accusations of abandoning OPEC's cause. In response, the Ambassador proposed that the shah pre-emptively secure the support from Nigeria and Venezuela, which would make it harder for the Arabs to oppose any decisions. The shah agreed it was a 'good idea' and promised to make the effort. The meeting concluded with Ramsbotham expressing his hope that any price rise

[855] Ibid.
[856] Ibid.
[857] Cooper, *Oil Kings*, 139.
[858] FCO 55/1114, Ramsbotham to FCO 'Oil Pricing Policy,' 20 December 1973.

would remain below $7, emphasising the severe implications such a rise would have for the UK's balance of payments.[859]

Ambassador Ramsbotham was urgently awoken at 2 a.m. on the day of the OPEC Conference, December 23, 1973. A dire warning arrived: the shah was abandoning the moderate line. Intelligence sourced from McFadzean of Shell indicated the shah would push for $10 per barrel.[860] Ramsbotham, with no time to lose, called US Ambassador Helms, who had already sent a note urging moderation, and then reached out to Alam. The Minister of Court insisted the figure was well below $10 per barrel and assured Ramsbotham that the shah was working tirelessly to persuade OPEC ministers to accept his ideas, which were as 'moderate and helpful as could be expected in present circumstances.' Alam promised to relay the message before the conference.

Bamberg describes the shah's press conference as a 'skilful performance,' marking a watershed moment that Henry Kissinger later referred to as one of the 'most pivotal events' of the twentieth century.[861] The day before, the shah opened the OPEC meeting reminding the delegates that they were 'establishing the prices ourselves,' free from Western governments or oil companies' interference.[862] He urged the delegates to avoid raising the price of oil to a level that would harm the industrial nations, whose capital was crucial for their development. However, the following day, the shah's announcement from Niavaran Palace shocked the world. He declared the new price of oil at $11.65 per barrel, more than doubling it from $5.11. This secured a profit margin of almost $7 per barrel. He concluded the press conference with a note of hubris, stating that the industrial world must realise the era of their 'terrific progress

[859] Ibid.
[860] FCO 55/1114, FCO to Tehran, 22 December 1973.
[861] Bamberg, *British Petroleum and Global Oil,* 484.
[862] Cooper, *Oil Kings*, 146.

and even more terrific income based on cheap oil is finished.'[863] Aware of the 'burden' this increase would impose, the shah justified it as 'reasonable' and suggested that the OECD engage with the IMF to manage international liquidity.[864] He advised them to work harder, 'not just for a few hours a day and strike for no reason,' and recommended their governments reassess excessive tax regimes if the price was deemed too high. His lofty pronouncements culminated in a Christmas Day message, advising the industrialised world that they would need to get accustomed to 'tightening their belts.'[865]

Alam began his diary entry on December 27, with the words, 'We have reached our political zenith.'[866] The shah's OPEC announcement sent reverberations worldwide. Within twelve months, the price of oil had skyrocketed by 470%, propelling OPEC's economic wealth up by $11 billion, marking the largest single transfer of wealth in history.[867] Iran's oil income quadrupled to $21.4 billion, with a projected total petroleum income of $98 billion over the next five years.[868] With a GNP set to grow by 50% annually, the shah catapulted Iran into the ranks of the wealthiest states on earth. Saudi Arabia, advocating for a more moderate $6 per barrel, feared this would plunge the world into a deep depression, affecting even OPEC.[869] The coup de grâce drained national treasuries overnight. The US oil bill surged from $3.9 billion to $24 billion annually, and Spain's $500 million trade surplus transformed into a $3.1 billion deficit.[870] *The Economist* concluded that the shah, 'aware of the strains he was imposing,' was driving prices to an intolerable level.[871]

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[863] Ibid.
[864] FCO 55/1114, Tehran to FCO, 24 December 1973.
[865] Ibid.
[866] Alam, *The Shah and I*, 349.
[867] Cooper, *Oil Kings*, 146.
[868] Alam, *The Shah and I*, 273; and Cooper, *Oil Kings*, 146-147.
[869] FCO 55/1114, "Oil situation in Iran"
[870] Cooper, *Oil Kings*, 147.
[871] "The Shah Goes to the Brink" *The Economist,* December 29, 1973.

After the conference, the British and American Ambassadors soon realised their grave mistake: the earlier mention of $7 referred not to the price per barrel of oil, but to the shah's 'take' from each barrel sold.[872] The miscalculation would cost the UK over £1 billion in additional balance of payments.[873] Ambassador Ramsbotham insisted that the shah had deliberately misled them, omitting that the 'new yardstick' would measure the government's 'take' rather than the 'market price,' presenting 'a deceptively low public figure.'[874]

The Iranian narrative, however, diverged sharply. The shah was 'livid' upon receiving the British Ambassador's message via Alam before the conference. 'Remind the idiot that [they] agreed my proposals were perfectly fair!' he fumed.[875] The shah claimed he had personally informed the Ambassador of their expectation to receive '$8 income from every barrel sold…now reduced to $7.' Enraged, the shah demanded Alam summon the Ambassador and 'give him a dressing down.' Alam complied and gave Ramsbotham a 'very tough ride.' He described the Ambassador as 'dreadfully embarrassed, apologising over and over again' for his misunderstanding of the shah's position.[876] Alam, never having seen him in 'such a pitiful state,' felt a pang of sympathy. Despite the apparent misunderstanding, Ramsbotham concluded in his Christmas Eve dispatch that the 'Iranians have mesmerised the world,' fostering the illusion that their price increases were 'moderate,' compared to the $17 auction prices. He acknowledged that his and Ambassador Helms' actions were 'too late' – the Gulf producers had doubled their 'take' in just over two months – it was far from moderate.

[872] FCO 55/1114, Ramsbotham to FCO, 24 December 1973.
[873] Ibid.
[874] Ibid.
[875] Alam, *The Shah and I*, 348.
[876] Ibid.

The December 1973 OPEC conference marked a watershed moment for HMG's relations with the shah. Despite Iran's lucrative market, the shah's politicking, ignoring HMG's pleas for support amid economic turmoil, revealed evermore that the shah was just a 'gamble' for the UK. The UK had lost all control over the shah regarding oil matters, relegating its influence on arms deals. He proved an unreliable ally, driven by grand ambitions for his country on a short timescale. As the FCO analysed the December episode, dispatches centred on whether the shah was a 'bull or a bear' during the OPEC negotiations.[877] Answering this question would clarify the shah's true alliances. A revealing moment came from his interview with *Der Spiegel* on January 5, 1974, where he was asked whether some Arab leaders were reluctant to fix a take of $7. The shah insisted it was only Saudi Arabia.[878] When the interviewer, citing alternative sources, pressed him to elaborate, the shah 'did not respond' and 'confined himself to a smile.'[879] This silence spoke volumes to the FCO, identifying the shah as a 'bull' in the market, and a raging one at that.[880] The FCO's interest was also piqued by the 'greater precision' of the timescale for the achievement of the 'Great Civilisation,' with the shah stating that 'in ten years' time we shall be what you are today: you, the French, or the British.'[881] The FCO saw that the shah's ambitions placed British national interests precariously on the precipice.

Four days after the pivotal conference, Ambassador Ramsbotham met a 'defensive' shah for his farewell audience. The Ambassador unequivocally conveyed HMG's 'concern and disappointment' at the steep price hike.[882] He pressed the shah on who was driving the price increase, mentioning that the Saudis had advocated for a more moderate rise. The shah responded 'contemptuously' that while this had been the case, Iraq wanted a higher price.

[877] FCO 8/2280, FCO notes on the Shah's interview with *Der Spiegel*, 7 January 1974.
[878] 'Weltmacht Öl' *Der Spiegel,* January 6, 1974.
[879] FCO 8/2280, FCO notes on the Shah's interview with *Der Spiegel*, 7 January 1974.
[880] Ibid.
[881] 'Weltmacht Öl' *Der Spiegel*
[882] FCO 55/1114, Tehran to FCO – Ambassador's Farewell Audience, 27 December 1973.

Ramsbotham countered with irrefutable logic, asking plainly why the shah had not allied with Saudi Arabia and isolated Iraq. The shah replied, 'This would not have been possible. There had to be a consensus,' but spoke with 'little conviction.' It was clear, the shah was no longer a reliable ally for Britain. Before the conference, the FCO had also secured intelligence that the 'Iranians are being less than straightforward with us,' as the shah was vying for OPEC leadership.[883] However, they had not anticipated the extent to which the shah was willing to compromise British interests. HMG noted that even a rise to $7 would severely damage the UK's balance of payments, placing a dangerous strain on the economy amidst industrial problems.[884] The Chancellor warned that a price of $7 per barrel was alarming and would 'cut through' democratic and capitalist systems. The rise to $11.65 was unimaginable.

The December 23, 1973, Tehran OPEC Conference also marked a crucial moment in Iranian–Saudi relations, which would culminate dramatically three years later. The conference ignited an open competition between the two states, with oil as the battleground. The British Embassy in Jeddah reported that King Faisal was livid with Sheikh Yamani, taking him 'severely to task on his return' and questioning his loyalties.[885] The Saudi King was furious that his Oil Minister had agreed to such steep increases, castigating him as 'the worst menace to come out of the East since Genghis Khan.' Faisal believed the hike was too large and dangerous to their position, as oil was central to the Kingdom's existence. Given their reserves, double that of Iran's, the Saudis had a crucial stake in the long-term stability of the oil market. The shah's OPEC manoeuvre represented a significant loss of Saudi control over OPEC, and thus their future. However, Yamani was a long-term strategist, 'always playing chess' and known as the

[883] FCO 55/1114, Secretary of State meeting with the Iranian Minister of Economy Dr Ansary and Dr Fallah, 17 December 1973.
[884] Ibid.
[885] FCO 55/1114, Jeddah to FCO, 29 December 1973.

'master of patience' and the 'unblinking stare.'[886] Kissinger described him as a shrewd 'priggish young don playing at oil policy.'[887] Yamani confided that oil politics always demanded calculated risks, which he 'always calculates well' and only takes when he has minimised them to almost zero.[888] Yamani promised to do all he could to persuade the shah to call another OPEC meeting to spread the increase over several years.

Iran basked in its newfound wealth. The government take leaped from $1.85 per barrel to $7, causing oil revenues to soar by 65% to $4.6 billion by 1974.[889] The shah's tone exuded a 'new confidence' – that of a leader whose country's financial resources had quadrupled in just over two months. He revelled in the attention as the leader of the oil-producing nations, asserting his claim to higher income as more countries opened embassies in Tehran and private firms flocked to share in Iran's prosperity. Meanwhile, the industrialised world staggered under the colossal blow. The UK economy contracted for the first time since the end of the war: its GDP declined by 3.9% and it experienced a negative growth rate of 2.49% - down from 6.76% the year prior.[890] The country plunged into a deep recession, with the Bank of England forced to bail out several lenders. Heath declared a state of emergency and introduced a three-day workweek to combat the energy crisis, as blackouts spread across the nation. Inflation soared into double-digits, peaking at over 24%.[891] Global growth rates fell by nearly 5%, taking three years to recover to normal levels, with global inflation tripling to 11.1%.[892] As the world reeled from the shah's oil price hike, the Pahlavi monarch, brimming with certitude, criticised

[886] Yergin, *The Prize*, 622.
[887] Ibid.
[888] Ibid., 622-623.
[889] Razavi and Vakil, *The political environment of Economic Planning in Iran*, 63.
[890] "UK GDP 1960 – 2024," Accessed August 24, 2024, https://www.macrotrends.net/global-metrics/countries/GBR/united-kingdom/gdp-gross-domestic-product.
[891] Ibid.
[892] Pascal Ditte and Dr Peter Roell, 'Past Oil Price Shocks: Political Background and Economic Impact,' *ETH Zurich,* 2006. Accessed August 24, 2024, https://www.files.ethz.ch/isn/20499/rev%20Oil_Price_ShocksI.pdf

Western societies for wasting such a 'noble product,' concluding they would now have to 'rethink all those privileges.'[893]

In the wake of this global upheaval, President Nixon sent a message to the shah expressing his great concern about the destabilising impact of higher oil prices and the 'catastrophic problems' they could pose to the international monetary system. The shah was angered by Nixon's audacity; he was bewildered that the American President would 'dictate' to him where his interest lay and threaten their special relationship in the process. The shah confided to Alam that he would 'accept no advice from friend or foe.'[894] Pondering his response, the shah dictated his reply to Alam, who derived as much joy from it as Nixon's letter had angered him.[895] The shah ignored Nixon's request. His response was simple: the oil companies had ample time to reach an agreement, but they wasted it. The higher oil price, the shah claimed, would be the best guarantee for the secure flow of oil.

Conclusion

The tidal wave of Iranian oil revenue corresponded to a surge of UK military arms purchases by the shah. By 1972, UK exports to Iran had increased by 49% compared to the previous year, and HMG was determined to 'cash in,' ensuring that the shah's growing petrodollars were continuously funnelled into the British arms industry. Moreover, by 1973, HMG relied on the shah's favour to offset the oil price shock through arms sales to Iran. The power dynamic had shifted in the shah's favour, altering the nature of Anglo-Iranian relations. However, the consequences of the December 1973 OPEC Tehran Conference would prove fatal for the Pahlavi monarch, encouraging a collusion between Saudi Arabia and the US that would come

[893] Razavi and Vakil, *The political environment of Economic Planning in Iran*, 64.
[894] Alam, *The Shah and I*, 277.
[895] Ibid.

to a head in December 1976, in their bid to bring the shah under control. The quadrupling of oil revenues by December 1973 inflicted a profound financial shock on the Iranian system. The eco-political fallout was destabilising, accelerating inflation and pushing Iran into a 'hyper boom' by 1974, with the economy spiralling out of control by 1975. The shah's hubris on the international stage led to isolation, exacerbating the political turmoil at home. The 1973 Oil Crisis was a turning point for HMG's relations with the shah. His strategic manoeuvring to increase oil prices, peaking in the December 1973 OPEC Conference, cemented HMG's perception of him as an unreliable and mercurial ally, who refused to offer support to Britain in her time of need. The shah revealed himself as an untrustworthy partner, one who could be abandoned when the time came, and the gamble ended.

CHAPTER 6

The Iranian Hyper-Boom and the Birth of the Oil-Arms Nexus, 1974 –1979

6.1 The Beginning of the End: Iran's Economic Boom and its Consequences

On Tuesday, January 16, 1979, an icy wind sliced through the grounds of Mehrabad Airport as the shah stood draped in a dark overcoat with the Quran that never left him pressed against his chest. The once bustling airport had fallen into an eerie stillness, with planes grounded by the strikes that had crippled the nation over the past year. This time, no departure ceremony marked the occasion, no diplomatic corps gathered, and no national anthem played in his honour. At the foot of the Boeing 727 jetliner - the 'Shah's Falcon' – that he would pilot on his final departure from his homeland, the Pahlavis walked beneath the Quran, kissing it before boarding, 'with tears in their eyes.'[896] Turning to Prime Minister Bakhtiar, he imparted a solemn charge: 'You now have all the power and authority. I leave the country in your hands and with God.'[897] At 1:24pm, the jetliner's wheels slowly lifted off the ground. Gazing out of the cockpit's window, the shah's eyes filled with tears as he took in the final, haunting image of his *Iran Zamin* – a sea of frightened and tearful faces.[898] The *shahanshah*, now an exiled man, carried with him the sorrow of a nation he believed with British complicity, had turned its back on him. After all, as the saying went, if you lifted Ayatollah Khomeini's beard, you would find, 'MADE IN ENGLAND' inscribed on his chin.[899] However, the situation six years prior, was markedly different.

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[896] Andrew Scott Cooper, *The Fall of Heaven: the Pahlavis and the Final Days of Imperial Iran* (London: Picador, 2018), 489.
[897] Mohammad Reza Pahlavi, *Answer to History* (New York: Stein and Day, 1980), 173.
[898] Ibid.
[899] Anthony Parsons, *The Pride and the Fall: Iran 1974 – 1979* (London: Jonathan Cape Ltd.,1984), x.

1974: The Year of Superlatives & The Shah's Absolute Authority

British Ambassador Ramsbotham struggled to summarise 1974 without resorting to superlatives. The quadrupling of oil prices, which boosted revenues from $4.6 billion to $20 billion for 1974, and promised $80 billion over the next three years, triggered an 'unprecedented acceleration' in every aspect of the Iranian state.[900] The wealth now available was 'beyond the dreams' of the shah and significantly hastened his drive to transform Iran into a fully industrialised, powerful, regional military power within the next ten to fifteen years.[901] Iran's economy was booming – commercial imports doubled from $6 billion to $13 billion in 1974, with expectations of rising to $18 billion by 1975.[902] The balance of payments surplus soared from $650 million at the start of the year to $6.3 billion within six months.[903] The petroleum sector's influence deepened its roots into the Iranian economy, contributing 64% of total government revenues and 81% of foreign exchange receipts.[904] Investment surged, and the economic boom saw per capita GNP rise from $200 to $2,000.[905] Every sector of the economy, except agriculture, grew: industrial electricity use increased by 48%, and the number of new companies rose by 46%.[906] Iran's industrial growth rate, already among the highest in the world, climbed even further in 1974. Ramsbotham was in awe of the shah's economic success. In a letter to the Foreign Minister, he noted that he had inadvertently become 'a student of the modern enlightened despot,' watching the shah 'fulfil his historic destiny' of restoring ancient Persian pride and independence.[907]

[900] FCO 8/2497, Annual Review 1974, 9 January 1975.
[901] Ibid.
[902] FCO 8/2511, Tehran to FCO, 30 December 1974.
[903] Ibid.
[904] Ibid.
[905] Nikki R. Keddie and Yann Richard, *Modern Iran: Roots and Results of Revolution* (New Haven: Yale University Press, 2003), 158.
[906] Robert Graham, *The Illusion of Power* (Oxford: Routledge, 2011), 83.
[907] FCO 8/2262, Ramsbotham to Douglas-Home, 14 January 1974.

Amidst the economic boom, the shah was determined to propel the country forward through what former Iranian economic planners described as 'big push' economics, ignoring infrastructural and human constraints.[908] The chief economist boasted, 'We have no real limit on money.' The constraint, however, was inflation. The 287% increase in oil revenue and the shah's 'big push' strategy overheated the economy. Too much money chased too few goods, creating bottlenecks and shortages, and by mid-1974, inflation was spiralling out of control.[909] The money flooding the economy caused disastrous inflation rates between 15% to 22%, being ingested 'like cheap cocaine.'[910] *The New York Times* described a financial hysteria gripping Iran, noting that despite import duties on cars soaring to 500%, dealers struggled to meet the demands for Mercedes Benzes and Jaguars.[911] The stark contrast between excess and societal dissonance was pronounced. In Mashhad, a blonde woman in an opulent convertible distributed a fistful of dollar bills, amounting to thousands, to passersby she considered poor.[912] Meanwhile, the shah's own palace guardsmen, emblematic of his regime, were unable to feed their families due to a severe bread shortage. Iran simply could not absorb the large financial inflow, a reality starkly evidenced in Ramsar on the shores of the Caspian Sea, when the Fifth Development Plan was formally presented to the shah at the beginning of August 1974.

At the Ramsar meeting, the government's Plan and Budget Organisation (PBO) was tasked with redefining the plan in light of Iran's new petrodollar fortune. The shah demanded a bigger and better plan, and the revised version left no room for financial cushioning. It presented inflows and outflows both equalling exactly 8,289.2 billion rials.[913] The shah never saved; he

[908] Hossein Razavi and Vakil Firouz, *The Political Environment of Economic Planning in Iran, 1971-1983 from Monarchy to Islamic Republic* (London: Routledge, 2021), 66.
[909] Ibid., 63.
[910] Cooper, *Oil Kings*, 182.
[911] Lewis M. Simons, "Shah's Dreams are Outpacing Iran's Economic Boom," *Washington Post*, May 27, 1974.
[912] Ibid.
[913] Razavi and Vakil, *The Political Environment of Economic Planning in Iran*, 73.

always spent – a huge risk given that 80.5% of revenue was derived from oil that was vulnerable to price drops.[914] Budget planners simulated numerous scenarios predicting the disastrous consequences of big spending on inflation, employment, housing, and infrastructure. The shah dismissed these warnings asserting, 'I not only make the decisions, I do the thinking.'[915] He was dismissive of those who questioned Iran's manpower and infrastructure constraints. The shah retorted that if manpower was short, it would be imported; if ports could not handle the flow of goods, a crash programme would be introduced; if inflation increased, an innovative solution would be found.[916] The shah was intent on reaching the gates of the Great Civilisation in twelve years, making Ramsar synonymous with the deluge that followed. Economists Hossein Razavi and Firouz Vakil contend that few realised that by the end of the Ramsar meeting they had conspired in the creation of a hyper-boom.[917]

The shah's 'big push' economics meant that instead of the cash infusion being ingested in stages, it was swallowed all at once. In his spending fever, the shah unveiled a multi-million-dollar project to rebuild Persepolis' seven fluted columns and a $3 billion plan to bulldoze Tehran City centre, replacing it with a plaza larger than Moscow's Red Square.[918] This new plan would be surrounded by six hotels, 40,000 parking spaces and a new Pahlavi National Library to house 5 million books.[919] The Iranian economy was overdosing. The nearly 140% annual increase in government expenditure was a blueprint for inflation.[920]

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[914] Saudi Arabia faced a similar dilemma but rather than channelling all its oil revenue back into the economy – risking debilitating inflation and domestic dislocation - they strategically invested abroad in real estate, foreign industry and bank deposits for fast liquidity. Iran, by contrast, addressed foreign investment at the Ramsar meeting in a perfunctory manner, earmarking only 11.2% of anticipated reserves for investments abroad. The PBO's recommendation to establish an investment advisory service to manage this portfolio of assets was ultimately ignored.
[915] Cooper, *Oil Kings*, 185.
[916] Razavi and Vakil, *The Political Environment of Economic Planning in Iran*, 74.
[917] Ibid., 75.
[918] Eric Pace, 'Teheran Planning One of the World's Largest Plazas,' *New York Times*, September 1, 1975
[919] Dee Wedemeyer, 'Iran's Grand Library,' *New York Times,* March 7, 1976.
[920] Razavi and Vakil, *The Political Environment of Economic Planning in Iran*, 80.

By early 1975, the economy was spiralling out of control. As *Financial Times* journalist Robert Graham noted, 'Less and less was being achieved at a greater and greater cost.'[921] The shah refused to acknowledge that only restricting public sector expenditure would halt inflation. Concurrently, a dose of realism was being injected with a reduced demand for oil causing manpower shortages, infrastructure bottlenecks, dollar depreciation and soaring inflation of over 20%.[922] For the first time in two decades, Iran was seriously affected by the fluctuations of the world economy. Ambassador Parsons described the year as one of reappraisal and 'contracting expectations,' as the 'sky's the limit' atmosphere of 1974 eroded. The combined effect was a negative growth rate of 0.33% and an anticipated $2 billion deficit.[923] The financial situation was the main topic of conversation across all Iran.[924] In a bid to counter the declining economic situation, the shah ordered closer control of government spending, public sector pruning and no new foreign aid commitments.[925] He also initiated a 'dramatic if arbitrary' anti-profiteering campaign to reduce waste, blaming small traders for price rises. SAVAK was sent into the bazaars to arrest so-called profiteers and hoarders, resulting in 250,000 fines and 8,000 shopkeepers receiving prison sentences.[926] The economic impact was negligible, and the relentless pursuit of the Great Civilisation continued.[927]

The year 1976 marked the unravelling of the hyper-boom. From 1973 to 1976, the shah relentlessly pursued his unachievable targets. The gap between supply and demand widened, policies meant to combat inflation instead triggered a rapid price increase, alienating various

[921] Ibid., 87.
[922] FCO 8/2497, Annual Review 1974, 9 January 1975 and FCO 8/2511, Tehran to British Ministries, 'Economic situation in Iran,' 6 June 1975.
[923] "Iran Economic Growth 1960 – 2024," Accessed on, August 24, 2024. https://www.macrotrends.net/global-metrics/countries/IRN/iran/economic-growth-rate; and Parsons, *The Pride and the Fall*, 11.
[924] FCO 8/2511, Tehran to British Ministries, 'Economic situation in Iran,' 6 June 1975.
[925] FCO 8/2497, Annual Review 1974, 9 January 1975.
[926] Michael Axworthy, *Revolutionary Iran: A History of the Islamic Republic* (London: Penguin, 2013), 247.
[927] FCO 8/2981, Iran: Annual Review for 1976, 1 January 1977.

societal groups and disrupting the socioeconomic equilibrium.[928] Ambassador Parsons described the year as one with a 'sombre economic mood' as low oil liftings and high inflation persisted.[929] The shah, however, remained adamant that the boom was not over. Astounded by Western scepticism, he challenged his *Newsweek* interviewer on March 1, 1976, insisting that Iran 'will have a 17% growth rate this year. Is this bad? … This year we will have 0% inflation. Is this what bothers critics?'[930] Despite his confidence, the inflation rate that year remained at 11.3% The shah's pronouncements, marked by hubris since the 1973 OPEC Conference, reflected his unwavering belief in Iran's economic trajectory.

The socio-political consequences of the hyper-boom were disastrous for Iranian society. Razavi and Vakil argue that the poor management of oil revenues progressively alienated various social groups, contributing to the disintegration of the social fabric and the eventual overthrow of the monarchy.[931] High expectations for an immediate improvement in living standards and the promise of the Great Civilisation within their lifetime were raised, but the reality was a widening disparity between the rich and poor, which only grew exponentially during the shah's reign. By April 1974, Alam was shocked to learn that only 1% of Iranian villages had access to clean, piped water and only 25% of villages had electricity – a 'shameful and ludicrous' figure given Iran's £2 billion worth of outstanding arms transactions with the UK.[932] Even the shah's closest confidante found the development gap disturbing. By 1976, grandiose civilian projects were underway, such as large steel mills and nuclear power stations, yet basic infrastructure was 'entirely ignored.' Resources were misallocated, with vast amounts squandered on military projects at the expense of adequate housing and food supplies.[933]

[928] Razavi and Vakil, *The Political Environment of Economic Planning in Iran*, 90.
[929] FCO 8/2981, Iran: Annual Review for 1976, 1 January 1977.
[930] Milton R. Benjamin and Barry Came, "The Shah's Growing Pains," *Newsweek,* March 1, 1976.
[931] Ibid.
[932] Alam, *The Shah and I*, 365.
[933] Ibid., 457.

The British Ambassador observed a 'palpable political malaise' permeating all sectors of Iranian society.[934] Between 1974 to 1977, outbreaks of violence increased, with guerrilla groups operating more efficiently and a growing resentment towards corruption, nepotism and the suppression of freedom.[935] The religious classes harboured deepening resentment towards the shah, not only for diminishing their power but also for steering Iranian society away from Islam.[936] The shah's 'big push' economics was breeding discontent and frustration among the newly educated middle-class, with any unrest met by SAVAK's 'brutal suppression'.[937] The shah could not comprehend how these 'malcontents' could be so ungrateful after all he had done for the country.[938] However, the primary beneficiaries of Iran's march towards the Great Civilisation were the armed forces and the newly-monied upper-middle classes, leaving everyone else behind.

In hindsight, Ambassador Parsons observed that for the shah, the political and economic malaise did not constitute a threat to the regime.[939] Iran was simply undergoing a rapid transformation from a traditional Middle Eastern society, into a modern, developed state. Nonetheless, the shah's announcement on March 2, 1975, to abolish the multi-party-political system and create a single party of National Resurgence (*Rastakhiz*), was antithetical to this. The move took 'everybody by surprise' - the shah was the executive leader regardless of the political structure.[940] The British Ambassador viewed it as merely the 'formalisation of the reality,' but many Iranians 'regarded it as a joke,' which fuelled further violent student protests. By 1975, an academic year had been 'virtually lost,' as *The Economist* noted, with 'every

[934] Parsons, *The Pride and the Fall*, 12-13.
[935] Ibid.
[936] Ibid., 13.
[937] FCO 8/2262, Ramsbotham to Douglas-Home, 14 January 1974.
[938] Ibid.
[939] Parsons, *The Pride and the Fall*, 15.
[940] FCO 8/2496, Tehran to FCO, 13 March 1975.

university in the country either on strike or shut down because of student protests against the arrest of political prisoners.'[941] The British Embassy wished to advise the shah to adopt more democratic practices, ease up on the students and curb SAVAK, but it could not risk 'a whole colony of fleas in our ear,' at a time when Britain was heavily reliant on its Iranian arms deals.[942]

By late 1976, the internal situation had deteriorated to the point where the FCO began questioning their Ambassador's conclusion that Iran was 'atypical' and that factors leading to revolution elsewhere, would not have the same effect in Iran.[943] A perceptive FCO civil servant countered the Ambassador's observation, suggesting that given the internal pressure, the shah's personality and the large military build-up, a revolution seemed likely.[944] Consequently, according to this civil servant, the need to reassess HMG's 'arms supplies and oil barter arrangements' became imminent. However, no such reassessment was undertaken until 1978.[945]

Political Relations - 'The Shah's Oil – A Hubris I Fear May Invite A Matching Nemesis'

In the wake of surging oil prices, Nelson Rockefeller, ever attuned to expanding business opportunities, flew to St Moritz to meet his old friend, the shah. Rockefeller had always regarded the shah as 'exceptionally able … with a strong grasp of international affairs,' but after their two-hour audience, he confided his doubts to Kissinger.[946] He detected a disturbing

[941] "One Shah, One Party," *The Economist*, March 14, 1975.
[942] Parsons, *The Pride and the Fall*, 18.
[943] FCO 8/2981, Iran: Annual Review for 1976, 1 January 1977.
[944] FCO 8/2981, RM James to RJ Alston, 28 January 1977.
[945] Commercial contingency planning only commenced in 1978, where an interdepartmental group of officials produced a report titled, 'Iran – Economic and Political implications.' This report was published on November 10, 1978, and addressed: Iran's political future, the financial and monetary implications of the crisis, the UK's commercial interests at risk in Iran and the crisis' implications for Iran's economy and oil industry. (FCO 8/3195, Iran – Economic and Political implications, 10 November 1978.)
[946] Cooper, *Oil Kings*, 184.

arrogance underlying the shah's pronouncements, which 'lacked plausibility' and displayed 'an alarming isolation from political and economic reality.' As Rockefeller listened to the shah's grand vision of reclaiming the domain of the Medes and the Persians, one word came to mind: 'hubris.' This disconcerting arrogance appeared 'unconcerned' with the havoc high oil prices were wreaking on the global economy.

In a review which prompted the FCO to question whether their Ambassador had 'gone native,' Ramsbotham described the shah as 'remarkably astute' in exploiting superpower rivalry and 'brilliant' in outmanoeuvring the oil companies.[947] However, the high prices pushed financial markets to the brink of panic, exacerbating a global food crisis and sending inflation skyrocketing across the world, topping 207% in Chile. The industrialised world believed they were heading towards disaster, with Kissinger deeming the oil situation, 'unmanageable.'[948] Deficits were climbing, inflation was soaring, high unemployment was taking root, and left-wing populism was spreading across Europe. Unspent billions of dollars sat idly in Western bank accounts, a ticking time bomb threatening serious contraction and dislocation in the world economy. The World Bank estimated that if current levels persisted, Saudi Arabia, Libya, Kuwait, Qatar and Abu Dhabi, with a combined population of only 11.5 million, would accumulate total monetary reserves of $453 billion, potentially reaching $1.2 trillion by 1985.[949] Channelling these funds into productive investments was beyond the capacity of any private banking system. The economic chaos discredited the post-war political order, but the shah refused to yield to foreign pressure on oil prices. In his view, an injustice had been remedied; the old prices reflected political weakness, and not economic reality.[950] Zealous

[947] FCO 8/2262, Ramsbotham to Douglas-Home, 14 January 1974.
[948] Cooper, *Oil Kings*, 188.
[949] Anthony Sampson, The *Seven Sisters: The Great Oil Companies & the World They Shaped* (London: Hodder & Stoughton Ltd., 1976), 311; Cooper, *Oil Kings*, 188.
[950] FCO 8/2281, Parsons to FCO – 'The Shah's New Oil Power,' 20 February 1974.

about Iran's sovereignty and its need to become a regional military power, he asserted to the American Ambassador that he was not 'a toy in the American's hands.' If anything, he felt stronger now and questioned why he would 'be content to be somebody else's catspaw?'[951]

Anglo-Iranian relations had never been so one-sided. The 1973 oil price hike had immediate effects, as Ramsbotham noted a 'mounting self-confidence and a displeasing arrogance,' in the shah.[952] The Ambassador reflected that the shah 'talks of "my oil," a hubris which I fear may invite a matching nemesis.' Five years earlier, HMG was still perceived as a power in the Gulf, and now it relied on the shah. This dependency was glaringly evident when the Chancellor announced in June 1974 that the Iranian government had agreed to provide the UK with a much-needed loan of £1.2 billion.[953] As Anthony Parsons prepared to present his credentials to the shah, the FCO briefed him on the importance of 'maintaining the closest relations on energy/oil matters with HIM.'[954] Discreetly situated behind Harrods at 62 Rutland Gate, Sir Shahpur Reporter provided his insights on how the new Labour government should approach the shah. In a detailed four-page letter, he advised Parsons that the most crucial task was to reassure him that a Labour government 'did not adversely affect Anglo-Iranian relations.'[955] HMG needed to demonstrate the primacy of Iran in its relations, its capacity to handle future defence contracts, and that Britain 'is very much a going concern.' Reporter concluded the letter by emphasising that to the shah, 'all is Britain.'[956]

[951] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Free Press, 2009), 620.
[952] FCO 8/2262, Ramsbotham to Douglas-Home, 14 January 1974.
[953] FCO 8/2507, 'Mr Iain Sproat's Parliamentary Question' drafted by PK Williams (Middle East Department), 12 March 1975.
[954] FCO 8/2268, FCO to Tehran, 18 March 1974.
[955] FCO 8/2268, Sir Shahpur Reporter to Parsons (handwritten note), 19 March 1974.
[956] Ibid.

Sandwiched between the Ambassadors of Singapore and North Korea, Parsons delivered his Letter of Credence in an elaborate ceremony he found 'awe-inspiring.'[957] The shah hailed Anglo-Iranian relations as being at an 'unprecedented high level of friendship,' founded on shared objectives, however, Parson's tenure would come to be dominated by the primacy of commercial relations. Iran had become Britain's most important defence customer, with exports having increased by 44% over the previous year. As the most rapidly developing market in the Middle East, Iran promised 'colossal business opportunities,' with Britain considered 'a wise friend and serious partner,' poised to profit immensely.[958] Moreover, the recycling of the surge of Iranian petrodollars was crucial to safeguarding the British economy from a deep recession.[959]

The FCO's Middle East Department concluded that 1975 would be 'crucial' for HMG's commercial effort in Iran, where the opportunities 'will have to be seized and developed – competitors are not to benefit.'[960] HMG was not alone in its strategy to recycle petrodollars through arms sales, forming a nexus between oil and arms. Daniel Yergin argues that transactions in armaments became a significant business for Western industrial nations, as their heavy dependence on the Middle East made securing access to oil a strategic priority.[961] Weapons sales were aggressively pursued to enhance security and influence. Andrew Scott Cooper further contends that in Washington, recycling OPEC oil money to stabilise the financial system became US government policy to protect the markets and banking sector.[962]

[957] FCO 8/2268, Tehran to FCO, 25 March 1973.
[958] FCO 8/2268, Parsons to FCO, 31 October 1974.
[959] FCO 8/2497, Annual Review 1974, 9 January 1975.
[960] Ibid.
[961] Yergin, *The Prize*, 616.
[962] Cooper, *Oil Kings*, 174.

Ambassador Parsons quickly discerned that the shah 'relished the change in circumstances.'[963] The shah delighted in lecturing the industrial nations on 'how to run [their] lives' and predicted 'a beggarly future' for them if they did not work harder.[964] He congratulated the UK on joining the European Economic Community (EEC), expressing confidence that 'Britain would, in the near future, resume its rightful position as the most influential power in Western Europe.'[965] A civil servant heavily underlined the shah's words, highlighting the Iranian perception of the UK's diminished status. In various interviews in early 1974, the shah voiced scepticism about the future of Western democracies, and in his hubris, asserted that Iran was 'far more advanced' than the industrialised nations and had 'nothing to learn from [them].'[966] He envisioned a new model of 'mature cooperation' between the technologically advanced West and oil-rich Iran, aiming to establish Iran as an 'independent political and economic power'; a simple trading relationship partner would not suffice.[967] Parsons detected a 'blinkered self-righteousness' in much of the shah's rhetoric, underscoring the profound hubris that marked his vision for Iran's role on the global stage.[968]

HMG's relationship with the shah grew increasingly intricate due to Britain's economic crisis, which peaked in December 1976 with the application for a $3.9 billion IMF loan, the largest ever requested at the time. A policy of deference to the shah was rendered even more important, as the Ambassador warned that the shah expected a lot from Britain, and 'frustrated expectations can breed disproportionate resentment.'[969] He observed 'a love/hate relationship' rooted in a belief in an inherent Persian superiority, frustrated by Western dependence.[970] The

[963] FCO 8/2281, Parsons to FCO – 'The Shah's New Oil Power,' 20 February 1974.
[964] Ibid.
[965] FCO 8/2510, Tehran to FCO, 11 June 1975.
[966] FCO 8/2262, Digest of Quotes from the Shah's Interviews, 18 March 1974.
[967] FCO 8/2281, Parsons to FCO – 'The Shah's New Oil Power,' 20 February 1974.
[968] Ibid.
[969] FCO 8/2262, Ramsbotham to Douglas-Home, 14 January 1974.
[970] Ibid.

economic situation in Iran by late 1975 should have given pause to HMG, but it did not. The shah candidly told the Ambassador that there were 'no petrodollars in Iran these days.'[971] However, the British Embassy advised there was 'no need for overreaction' to the changed economic circumstances, even advocating for this 'preferable realism' over the 'euphoria of 1974.'[972] Ambassador Parsons maintained that relations with HMG were 'excellent,' with British exporters fully focused on the Iranian market, with UK exports expected to reach half a billion dollars by the decade's end. By 1976, despite clear economic and political warning signs indicating a threat to the Pahlavi regime, the British Embassy insisted that Iran was 'developing fast' and was 'politically stable,' asserting it would continue to be one of Britain's largest global markets.[973] The sole focus of the British Embassy had become driving commercial deals, at the expense of nuanced political analysis.

The Emperor of Oil and the Country 'Most Vulnerable to his Blackmail'

Wet from the Swiss ski-slopes in February 1975, and still clad in his red-white-and-blue ski jacket, the shah struck journalist Anthony Sampson as less a megalomaniac, and more a man dazed by his own sudden success.[974] The St Moritz hotel lobby buzzed with bankers and finance ministers, all eager to strike deals from the shah and capitalise on the oil price surge, which the shah still insisted was too low. Confiding in Sampson, the shah vowed to push for higher prices, 'for the West's own sake.' He saw himself as performing a necessary task, to

[971] FCO 8/2510, Tehran to FCO, 10 March 1975.
[972] FCO 8/2497, Annual Review 1975, 15 December 1975.
[973] Despite occasional scepticism expressed by the FCO on the shah's position, the general attitude in the British Embassy in Tehran and the FCO was that the shah was too powerful to fail. However, the relationship was complex, and intelligence failures are not always necessarily down to a dearth of intelligence. They can result from the challenge of reconciling the intelligence with the reality it seeks to explain, leading to a cognitive dissonance. The British Embassy was debating on the regime's longevity as early as 1972, and by 1977, FCO dispatches were questioning, 'Is the emperor fully clothed?' However, in HMG's post-mortem of its relationship with the shah, they conceded that in their pursuit for political and commercial objectives, they had 'induced a false sense of the regime's stability.' (FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972; FCO 8/3377, 'Iran: Post Mortem,' by RQ Braithwaite (Planning Staff), p. 2, 19 February 1979; Owens, *Time to Declare*, 386).
[974] Sampson, *The Seven Sisters*, 304.

stop the West entering a 'false euphoria of cheap oil.'[975] The shah was puzzled by American murmurs of a possible invasion of the oil fields emanating out of Washington. The Pahlavi monarch failed to grasp that while the October 1973 price rise was absorbable by the global economy, the December increase was not, as Skeet argued it lacked justification on any economic or theoretical grounds.[976]

Between 1974 and 1976, HMG worked tirelessly to further negotiations and stabilise the oil prices. Three months after the Arab oil embargo ended in March 1974, the market showed signs of settling, indicating that if left undisturbed, prices would start to drop. However instead, they were being artificially maintained by the shah who needed increased oil revenue to finance his Great Civilisation in which he had committed billions of dollars to the purchase of arms from the UK and the US. *The Times* magazine even likened him to a modern-day Cyrus, titling him the 'Emperor of Oil.'[977] In an attempt to stabilise the prices, the shah proposed a 'single price' policy in the summer of 1974, setting oil at $9.50 per barrel and indexing it to commodities. The FCO found this unacceptable, such indexation would have a sharp inflationary effect, set precedence for other commodities and effectively set a floor without establishing a ceiling. Despite these concerns, HMG was not in a position to 'rebuff' him.[978] The policy advice was to 'cultivate' the shah, as he held the advantage. The shah threatened that if Sheikh Yamani lowered the price, he was prepared to ally with Kuwait, Abu Dhabi, Algeria and Venezuela to

[975] Ibid., 305.
[976] Ian Skeet argues the price increase in October 1973 (from $3.01 to $5.12), although massive in historical terms, was 'probably absorbable' by the world economy, as it could be claimed to be a correction to a price that had been held down by competitive forces. However, the December increase (from $5.12 to $11.65) could not be justified on any grounds, as it was not the result of market demand, but of supply manipulation, which did not derive from any economic rationale, but instead, from the shah's 'New Concept'. The 'New Concept' theory justified the price increase as the cost for alternative energy resources to be economical. Skeet concludes that in practice this theory was 'bogus,' since alternatives already existed. (Skeet, *OPEC*, 103-104)
[977] "Emperor Of Oil" *Times*, November 4, 1974, cover.
[978] FCO 8/2280, Minutes from BP/EXXON Meeting with the Shah, undated August 1974.

reduce, and if necessary, to halt oil production in order to sustain prices, with the intention of 'ousting' Saudi Arabia from OPEC.[979]

Advancing HMG's national interests grew increasingly challenging as the balance of power shifted. Three events symbolised this transformation. First, in a January 1974 telephone conversation, Lord Balniel, Minister of State for Foreign and Commonwealth Affairs, found the Iranian Ambassador expressing willingness to 'assist HMG to whatever extent' in supporting the UK's emergence as the leading country in Europe.[980] The UK economy was in a dire state, but such a phone conversation would have been inconceivable a decade earlier. It underscored the dramatic reversal in power dynamics where Britain historically exerted considerable influence over Iran, especially through financial means like loans.[981] Secondly, in an historical irony, the Iranian government was displeased by the Labour government's plans to nationalise the North Sea oil resources, in which NIOC held a joint concession. NIOC demanded full compensation if nationalisation occurred. A civil servant reading this memo marked the margin with an exclamation point, underscoring the dramatic and ironic nature of the situation. Thirdly, attempting to capitalise on its favourable relations with the shah, HMG inquired whether Iran had any spare oil for the struggling Kenya. The shah 'laughingly' responded that he had none but offered to relinquish some of the 5 million tonnes covered by his recent private agreement with the UK. These seemingly nuanced incidents collectively

[979] Notably, this very strategy would later be employed by Saudi Arabia in December 1976 to outmanoeuvre the shah. (FCO 8/2280, Minutes from BP/EXXON Meeting with the Shah, undated August 1974.)
[980] FCO 8/2268, Minutes from Minister of State for Foreign and Commonwealth Affairs' meeting with the Iranian Ambassador, 25 January 1974.
[981] In the early twentieth century, the Foreign Office regarded loans as a powerful political tool for exerting control, actively encouraging the Qajars to borrow from the UK. As one British minister noted in 1903, "The more we get her into our debt, the greater will be our hold and our political influence over her government. Loans mean political authority at the Persian court." (David McLean, *Britain and her Buffer State: The Collapse of the Persian Empire, 1890-1914* (London: Royal Historical Society, 1979), 13).

reveal a profound and emblematic shift in geopolitical power dynamics, highlighting Iran's ascendancy and Britain's waning influence.

HMG's relations with the shah were further strained as he dismissed the correlation between oil prices and inflation. In August 1974, the shah argued that oil prices had 'remained roughly the same' since June, yet global inflation persisted.[982] The FCO found itself delicately positioned, having to educate the shah on economic matters, particularly that significant price rises take time to impact economies. For instance, the UK's average cost of crude oil imports had surged from £21.30 per tonne in January, to £35.30 in July.[983] The impact on the UK economy was severe and HMG appealed to the shah to 'use his influence' in the OPEC 1974 discussions to prevent further increases. By September 1974, OPEC had decided to increase the oil price by $0.33 per barrel, adding $4 billion to the world's oil bill and £100 million to the UK's balance of payments.[984] Oil prices had quintupled since October 1973, causing the UK economy to buckle under the pressure, while the shah felt his relations with HMG were in 'excellent shape.'

The shah obstructed efforts to reduce oil prices, and by July 1974, Secretary of the Treasury William Simon told Nixon, 'the shah has us. No one will confront him.'[985] By the end of 1974, the shah confidently declared to the Japanese newspaper *Asahi Shimbun* that the 'price of oil is not high at all.'[986] He expressed no hesitation about raising crude oil prices if inflation persisted. The shah imagined himself operating in an eco-political vacuum, but in reality, the Iranian economy was more interlinked and dependent on the global economy than ever before.

[982] FCO 8/2280, FCO to Tehran, 23 August 1974.
[983] Ibid.
[984] FCO 8/2280, FCO to Tehran, 23 September 1974.
[985] Cooper, *Oil Kings*, 179.
[986] FCO 8/2280, Notes on Q&A between the Shah and Asahi Shimbum Newspaper, 2 December 1974.

As his confidence grew, so did his boldness, exemplified by his threat to retaliate against Western nations and increase oil prices if they attempted an upward revaluation of gold holdings, fully aware this could collapse the entire monetary system.[987]

The Burmah Oil Company crisis not only exposed HMG's distrust of the shah but also highlighted the persistent suspicions within Anglo-Iranian relations. As the second-largest British integrated company after BP, Burmah Oil boasted a turnover of £500 million in 1973 and importantly, a 21% stake in BP's equity.[988] By late 1974, Burmah Oil teetered on the brink of liquidation, a collapse that threatened to destabilise confidence in sterling and delay North Sea oil production. When Burmah Oil approached the shah for intervention, he eagerly offered equity, a move that would have granted him effective ownership in BP, the very company that had long symbolised Iran's oppression. 'A controlling Iranian interest,' however 'was out of the question' for the FCO.[989] The FCO engaged in diplomatic gymnastics, crafted a 'carefully designed' strategy to preserve commercial relations with the shah. It was crucial to convey to the shah that they knew 'nothing, repeat nothing' about the approach and to avoid 'affronting' him, while they 'urgently examined the question.' Despite these efforts, as Parsons observed, the shah remained 'suspicious' of the true nature of Anglo-Iranian relations and 'forgets nothing.'[990] The shah's willingness to intervene financially, while HMG carefully manoeuvred to sustain its favourable relations with the shah, underscored Iran's newfound economic power post-1973 oil crisis. This bold move by the shah, daring to acquire equity in an oil company that controlled a fifth of one of the infamous Seven Sisters, signalled a seismic shift – the shah

[987] "Shah of Iran says Oil Producers will Retaliate if Gold is Revalued by West," *The Times,* December 20, 1974.
[988] FCO 8/2514, FCO Memo on Burmah Oil Co., 30 December 1974.
[989] FCO 8/2514, FCO to Tehran, 9 January 1975.
[990] FCO 8/2507, Tehran to FCO, 12 February 1975.

dared to not only upend the pieces on the chessboard, but to play by an entirely new set of rules.

The precarious triangle between HMG, the shah and the oil consortium reignited in 1976 when Iranian oil production plummeted by 1.6 million barrels per day, resulting in a $6 billion revenue loss that year.[991] 'The bastards won't accept the level of offtake they originally agreed to,' the shah fumed to Alam, blaming their refusal on 'some cock and bull story about a glut on the international markets.'[992] The stability of the oil-arms nexus was jeopardised, prompting the shah to retaliate by threatening to reduce arms deals with HMG in 'direct proportion to any fall in oil sales.'[993] HMG saw this as a 'rather obvious attempt to twist [its] arm,' but maintained it was against policy to meddle in BP's commercial decisions.[994] However, they discretely discussed Iran's grievances with BP, explaining to the shah that global demand had dipped, leading to reduced liftings, with Saudi Arabia's down by 17.9% compared to Iran's 11.4% since 1974.[995] Dissatisfied with HMG's response, the shah declared that Iran could no longer make the second tranche payment of the $1.2 billion loan to HMG, nor consider the third.

HMG recognised the perilous terrain it was navigating, understanding it could 'not afford to treat [the shah's threat] as anything other than serious, given the importance of the commercial deals.'[996] During a strategic meeting between Whitehall departments, they concluded that what truly mattered was 'not the reality of the problem,' but 'how the Iranians see it.' The issue of

[991] Alam, *The Shah and I*, 457.
[992] Ibid., 463.
[993] Ibid., 464.
[994] FCO 8/2751, Minutes on phone call between Secretary of State for Trade and Secretary of State for Energy, undated December 1975.
[995] FCO 8/2751, FCO to Tehran, 30 December 1975; FCO 8/2513, FCO to Tehran – 'Iranian Oil Revenues,' 17 December 1975.
[996] FCO 8/2751, Minutes of Meeting between Departments of Trade, Energy, Defence and Treasury – 'Anglo-Iranian Relations,' 13 January 1976.

oil revenue was critical and sensitive, tied directly to the shah's prestige. Any erosion of this oil revenue directly challenged the shah's prestige and his domestic ambitions for the Great Civilisation. The departments acknowledged they could not 'overemphasise the considerable dangers' to the UK's commercial deals if the shah perceived HMG as 'ganging up' on him.[997]

Relations further deteriorated due to the British press, which the shah believed aimed to cast Iran in a negative light. The shah was incensed by the BBC's suggestion that Iran was bankrupt. Alam highlighted to Lord Chalfont of the BBC that a $2 billion shortfall in a $45 billion budget was 'a mere hiccup' compared 'to the dire plight of the British economy.'[998] Despite Lord Chalfont's pledge to amend the portrayal in an article for *The Times*, a BBC Persian programme incited chaos by accusing the shah of running a police state and urging that Iran should be denied access to Western military technology. Parsons, bewildered by the BBC programme, struggled to deny any British government bias while Alam warned that continued anti-Iranian sentiments in the British media would lead to Iran ceasing its purchases of UK weapons.[999] Alam was impressed by Parson's bold declaration that if such issues arose again, he would personally 'shut down' the Persian language broadcasts or bring them under stricter control.

Iranian threats to HMG escalated as the shah exploited the UK's economic fragility. The FCO believed the shah viewed the UK as 'the weakest economically' and thus, 'the most vulnerable to blackmail.'[1000] HMG's commercial and financial interests became greatly intertwined with the shah's ambitions for higher oil liftings. The Iranian government threatened to release 'all **the** facts' regarding the promised Iranian loan to HMG, a thinly veiled threat of a publicity war. Three days later, the shah warned of cancelling arms contracts unless the Consortium

[997] Ibid.
[998] Alam, *The Shah and I*, 471.
[999] Ibid., 490.
[1000] FCO 8/2751, FCO to Tehran, 14 January 1976.

increased offtake, holding the UK as 'responsible' for over half of the Consortium.[1001] The FCO acknowledged that in 'tackling us on substantial military contacts, the Iranians have hit us where it hurts most.'[1002] The severe economic crisis that gripped the UK in 1976 cannot be overstated. The nation wrestled with rampant inflation, a plummeting pound, and the humiliation of seeking the largest IMF bailout to stabilise its finances. The contracts were 'sorely needed.'[1003] An FCO memo debated their response, concluding they should buy time with the shah and 'avoid any oil arms deals like the plague.' Yet, circumstances dictated otherwise.

6.2 The Doha OPEC 1976 Conference, the Yamani Gambit & its Consequences

When Gerald Ford took the reins from Nixon in the turbulent aftermath of the Watergate scandal, he stood before Congress with a resolute declaration: 'Inflation is our public enemy number one.'[1004] Ford had just three months to tame inflation, and the key was the shah. In Detroit 1974, Ford set the stage for confrontation with the shah. Using 'doomsday language,' he branded the shah a danger for 'artificially rigging' and 'distorting the world commodity markets' by keeping oil prices high.[1005] Ford refused to rule out the use of force to stop the oil price surge. The shah was livid, retorting, 'No one can dictate to us, no one can wave a finger at us because we will wave a finger back.'[1006] Privately, he called Ford 'an utter booby' who 'does nothing but repeat whatever cretinous nonsense he's fed by Simon.'[1007] Alam remarked that Kissinger was the real power behind the throne. However, Andrew Scott Cooper's

[1001] The shah believed HMG had a significant influence – stemming from its 51% shareholding in BP, and its 40% ownership of Shell. (FCO 8/2751, Houshang Ansari (Minister of Economic Affairs and Finance) to Tehran Embassy, 11 January 1976.)
[1002] FCO 8/2513, Tehran to FCO, 18 December 1975.
[1003] Ibid.
[1004] Cooper, *Oil Kings*, 199.
[1005] Dennis Farney, "Ford Warns of Possible Retaliation if Oil Nations Threaten Economy," *Wall Street Journal,* September 24, 1974.
[1006] Cooper, *Oil Kings*, 20.
[1007] Alam, *The Shah and I,* 389.

research, drawing from the Brent Scowcroft files, points to another power – William Simon. Simon's disdain for Kissinger, the shah, and high inflation, led him into a tacit alliance with Sheikh Yamani that would 'help sink the shah.' [1008]

Cooper describes that when Kissinger learned that Simon had called the shah 'a nut,' he was incensed. Simon insisted that his words had been 'taken out of context.'[1009] Kissinger retorted, 'Just exactly how do you call the King of Kings 'a nut' out of context?' Simon's attacks on the shah, however, were calculated. It laid the groundwork for a strategic alliance with Sheikh Yamani, aimed at breaking the shah's grip on oil prices and driving them down – a manoeuvre Cooper described as a 'counter coup' in the oil market.[1010] Kissinger acknowledged that Washington had forfeited its remaining strategic leverage over the shah, yet interestingly contended that challenging the shah over oil prices might 'break him.'[1011] Simon found a potent ally in Sheikh Yamani, who was 'nauseated' by the 'talk of eternal friendship' between Iran and the US, which jeopardised long-term Saudi interests.[1012] Despite this, Iran remained the cornerstone of American and British Middle East policy, ensuring an uninterrupted oil flow while simultaneously posing a threat to Western prosperity and stability.

[1008] The intensely personal relationship between Sheikh Yamani and William Simon, which deliberately bypassed official channels, played a pivotal role in shaping the shah's future. This connection, which excluded the State Department, became a significant factor as Simon and Yamani manoeuvred independently of Kissinger, whose strained relationship with Simon exacerbated tensions. While Kissinger remained committed to the shah as the cornerstone of America's Middle Eastern strategy, Simon, 'mesmerised' by Yamani, saw the shah as an impediment to resolving the energy crisis. (For more detail, see Chapter 6, 'Cruel Summer', Cooper, *Oil Kings*)

[1009] Cooper, *Oil Kings*, 176.

[1010] Andrew Scott Cooper refers to this as the 'deal that sunk the shah.' He argues in *Oil Kings* that a secretive oil price manipulation led by Saudi Arabia, with the covert backing of the US, played a critical role in undermining the shah's regime. In 1976, Saudi Arabia countered the planned oil price increase by OPEC with a two-tiered pricing system and flooding the market with cheaper oil. This move drastically reduced Iran's oil revenues at a time when the shah was heavily dependent on oil income to sustain his ambitious economic and military programmes. Cooper also explores the pivotal role of individual players, including the critical relationship between Saudi Oil Minister, Sheikh Yamani and US Treasury Secretary, William Simon, in facilitating the strategic US-Saudi oil policy that undercut the shah. Cooper contends that the US, concerned about global economic stability and frustrated with the shah's refusal to moderate oil prices, tacitly support Saudi Arabia's actions, effectively setting the stage for the shah's eventual downfall.

[1011] Cooper, *Oil Kings*, 201.

[1012] Yergin, *The Prize*, 620.

The oil war reached a climax in December 1976, as an impending OPEC conference threatened another oil price hike, jeopardising the fragile economic recovery. HMG had exhausted its leverage to persuade the shah to hold the line on prices. President Ford, on behalf of the industrialised nations, implored the shah through letters and conversations to exercise his 'constructive leadership' and prevent an oil price increase.[1013] OPEC members pushed vigorously for a price increase. The shah acknowledged that the balance of payments situation, 'especially in the UK, remained critical' but argued it could not justify his 'committing suicide' for their 'failure to put their house in order.'[1014] He pledged to be 'moderate' and offer a 10% increase, but Ford insisted there could be 'no increase.' The shah, cognizant of Iran's overheating economy, retorted, 'That is not possible.'

The OPEC conference that ended in the early hours of the morning of December 17, 1976, sounded the death knell for the shah's oil strategy. Reporters kept vigil in the corridors of the Gulf Hotel in Doha, eagerly watching for 'any sign of white-robed movement.'[1015] A frenzied attempt to interview Sheikh Yamani led to so many reporters crammed into the lift that it jammed between floors. The muffled banging and an Italian reporter's desperate plea for help, claiming 'they were dying of suffocation,' eventually led to the doors being pried open.[1016] In a pre-dawn meeting, OPEC ministers from all member countries, except Saudi Arabia and the UAE, decided to move forward with their own price structure, disregarding Saudi Arabia's stance. They agreed to raise crude oil prices by 15% in two stages: from $11.51 to $12.70 per barrel on January 1, 1977, and to $13.30 on July 1, 1977. However, they awoke to shocking news that Saudi Arabia and the UAE would increase their prices only by 5%. Sheikh Yamani

[1013] Alam, *The Shah and I*, 520.
[1014] Ibid.
[1015] "OPEC: the Inside Story of the Inside Story," *The Economist,* December 25, 1976.
[1016] Ibid.

then played his trump card: Saudi Arabia would flood the market with oil, raising the price for its heavy crude, Iran's main export, by a mere 3%. This strategic move against the shah widened the differentials and undercut Iran's profits.[1017] Sheikh Yamani's gambit was tantamount to rebellion that threatened to dislocate the economies of the OPEC members, with the shah having the most to lose.

The Economist described this as Sheikh Yamani's 'Christmas Box.'[1018] With a single calculated move, Sheikh Yamani left OPEC members facing two stark choices: accept decreased oil revenues or succumb to classic game theory, where individual members might break ranks and cut prices in order to maintain market share. Sheikh Yamani, ever the 'consummate strategist,' banked on this fear to realign the OPEC majority.[1019] Iranian media quickly branded him a puppet and a 'saboteur who knifed OPEC from behind.'[1020] Iran, heavily reliant on its oil revenues and burdened with its heavy, less desirable crude, stood to suffer the most. Saudi Arabia's Aramco was ordered to boost production from 8.5 million barrels a day to 10 million. Sheikh Yamani and the Americans called the shah's bluff, threatening to erase billions from Iran's balance sheets, jeopardising the crucial funds for the shah's Fifth Development Plan. By January 1977, Iranian oil exports were set to plummet by 30%, and the shah was preparing to intimidate and blacklist customers exploiting Iran's weakened position.[1021] As the new year dawned, the shah realised his bluff had been called by the 'traitor' Yamani.

Sheikh Yamani's masterstroke at the 1976 OPEC conference precipitated the unravelling of the Iranian economy. By spring 1977, the economy exhibited unmistakable signs of structural

[1017] Ian Seymour, *OPEC: Instrument of Change* (London: Macmillan Press, 1986), 166.
[1018] "Sheikh Yamani's 'Christmas Box," *The Economist,* December 25, 1976.
[1019] Yergin, *The Prize*, 623.
[1020] Cooper, *Oil Kings*, 360.
[1021] Alam, *The Shah and I*, 535.

collapse, with severe electricity, water, gas and basic foodstuff shortages.[1022] Rolling power blackouts in Tehran stretched up to half-a-day and with no exchange controls in place, over $1 billion in private capital was transferred abroad; the economy deteriorated and political instability escalated.[1023] By summer 1977, Iran's industrial production had plunged by 50%, while inflation soared to 40%, and oil production dropped by nearly half-a-million barrels per day.[1024] The country's growth rate dwindled to 7%, with a budget deficit looming on the horizon.[1025] Alam, now bedridden, was certain that the country was veering dangerously off course. In a final letter to shah, he warned that 'if the crisis were allowed to fester, revolution would be unavoidable.'[1026] Eight days later, Alam passed away.

With the Iranian economy on the brink, the shah managed to prompt the Saudi leadership in May 1977 to adjust their production policy by renouncing Iran's planned 5% oil price increase in July. By December 1977, at the OPEC Conference in Caracas, the shah found himself cornered, ultimately agreeing to support a price freeze. He justified this shift as a willingness to show 'sympathy and comprehension' for the impact that any price rise would have on the global economy. OPEC agreed to freeze prices for 1978, leaving the shah with no choice but to settle. 'He was a beaten man, and he knew it.'[1027] The oil-arms nexus with HMG became the shah's lifeline, his strategy to cling onto his leadership and pursue the Great Civilisation. The British Embassy in Tehran and Whitehall, already entangled with expanding commercial deals, fixated on oil-for-arms barter contracts. The British policy of deference morphed into 'support for the shah, warts and all.'[1028] HMG viewed Iran purely as market potential, transforming the

[1022] Ibid. 536-537.
[1023] Parsons, *The Pride and the Fall*, 44.
[1024] Cooper, *Oil Kings*, 382.
[1025] FCO 8/3191, Iran: Annual Review for 1977, 4 January 1978.
[1026] Abbas Milani, *Eminent Persians: The Men and Women Who Made Modern Iran, 1941 – 1979* (Syracuse: Syracuse University Press, 2008) 44-45.
[1027] Cooper, *Oil Kings*, 382.
[1028] Owen, *Time to Declare*, 394.

Tehran Embassy into an investment conduit for the UK, a role the shah deemed 'mercenary.'[1029]

6.3 The Oil-Arms Nexus (1974-1979)

Motives in British Foreign Policy and the Arms Trade

British foreign policy and the arms trade have long been characterised by ambiguity and opacity. The Scott Inquiry, launched in 1992, whose objective was to uncover the truth about restricted British dual-use arms sales to Iraq, found a concerning lack of accountability in government defence sales, and major breaches of its guidelines.[1030] Sir Richard Scott, then a Lord Justice of Appeal, aimed to identify the 'underlying patterns' by 'first establishing what is going on: who does what in the pursuit of which interests and with what kind of consequences.'[1031] The four-year investigation, the most exhaustive study produced then to date, revealed 'an excessively secret government machine, riddled with incompetence, slippery with the truth and willing to mislead Parliament.'[1032] Understanding British arms sales required more than acknowledging the political desires to maintain the defence manufacturing base or viewing it as a mere commercial affair. The arms trade must be examined within the domestic political milieu, the broader economic system, and geopolitical relations.

The oil-arms nexus builds on three propositions from Davina Miller's *Export or Die: Britain's Defence Trade with Iran and Iraq*. First, British arms exports stem from a desire to export what is produced rather than the structure of the defence manufacturing base.[1033] While it was argued

[1029] FCO 26/1942, Diplomatic Report No. 157/78, 12 April 1978.
[1030] The Scott Inquiry investigated the role of HMG in the export of dual-use goods to Iraq in the 1980s. At its centre was the British aerospace company Matrix Churchill that had been bought by the Iraqi government and was exporting dual-use defence equipment to Saddam Hussein. The products later found in Iraq were, according to the IAEA, among the highest quality in the world, and HMG had granted export permissions.
[1031] Davina Miller, *Export or Die: Britain's Defence Trade with Iran and Iraq* (London: Cassell, 1996), 1.
[1032] "The Scott Report: The Devil in the Detail," *The Economist*, February 24, 1996.
[1033] Miller, *Export or Die*, 3.

that for the US and the Soviet Union, arms exports held economic value, for the UK, it was seen as a necessity for preserving strategically important production lines.[1034] New data, however, suggests otherwise, showing that the exigencies of the British manufacturing industry reflected a 'disposition to sell.'[1035] To boost arms exports, the UK pursued numerous tactics: facilitating offset deals, underwriting arms sales, offering disproportionate credit for military exports over civil exports, and the provision of extensive government assistance through the MOD's Defence Sales Organisation (DSO).[1036] High government collaboration between the DTI, FCO and MOD, alongside active promotion by Ambassadors and commercial attaches, greatly supported the negotiation and administration of defence deals with Iran. Miller argues that the motive was economic rather than strategic, rooted in Britain's mercantilist tradition. However, the oil-arms nexus between HMG and the shah demonstrates it was a convergence of both economic and strategic necessity.

Secondly, Britain was motivated by overlapping reasons of foreign policy - the need to maintain influence over the shah and the economic necessity of trade - in exporting arms to Iran. In the 1950s, HMG's arms policy prioritised political and strategic considerations, before addressing economic needs.[1037] However, by the 1960s, HMG shifted towards the commercialisation of arms exports and by the 1970s, economic benefits took precedence over political concerns.[1038] Despite this shift, arms exports remained a foreign policy tool, especially for secondary suppliers like Britain, to build and maintain relationships.[1039] The past heavily

[1034] Keith Krause, *Arms and the State: Patterns of Military Production and Trade* (Cambridge: Cambridge University Press, 1992), 138.
[1035] Martin H.A. Edmunds, "The Domestic and International Dimension of British Arms Sales" in ed. Cindy Cannizzo, *The Gun Merchants: Politics and Policies of the Major Arms Suppliers* (New York: Pergamon Press, 1980), 76.
[1036] Ronald Matthews, "Butter for Guns: The Growth of Under-The-Counter Trade" *The World Today* 48, no. 5 (1992): 87-92; Miller, *Export or Die,* 5.
[1037] Pierre, *The Global Politics of Arms Sales*, 144.
[1038] Michael Brzoska and Thomas Ohlson, *Arms Transfers to the Third World 1971-1985* (Oxford: Oxford University Press, 1987), 74.
[1039] Miller, *Export or Die,* 7.

influenced, not just the shah's foreign policy, but also HMG's, whose memory of empire was never far off: 'Nostalgia…has continually affected the formulation of modern British foreign policy.'[1040] Member of Parliament Alan Clark argued that military exports were expressions of foreign policy that exerted influence; they 'stitch you into the society' by establishing links with the armed forces, which in non-democratic countries, tend to be the most influential organisation.[1041]

Third, Miller argues that civil and military trade became so intertwined that the former relied heavily on the latter.[1042] Arms sales opened the general market to civil exports, but this also made it vulnerable. The shah's threat to halt civil imports and oil exports if the West stopped its arms exports exemplified this vulnerability. Britain's exports were central to its balance of payments, and by the 1970s, they constituted the highest consecutive percentage of the UK's GDP.[1043] The arms trade evolved into a powerful tool of British foreign policy towards the shah after Britain's withdrawal from the Persian Gulf and the shah's increasing influence through oil revenue. While it did not give HMG leverage over the shah, it provided some degree of influence. The oil-arms nexus illustrates the convergence of economic and strategic necessity within British foreign policy, and by 1976, with the emergence of direct oil barter deals, its growing desperation.

Understanding The Oil-Arms Nexus

In the aftermath of the 1973 Oil Crisis, the transmuting of oil into arms quickened, and by the end of 1974, Iran was setting the pace for other arms-buying countries through its exchange of

[1040] Christopher Hill, 'The Historical Background: Past and Present in British Foreign Policy' in Michael Smith, Steve Smith and Brian White (Eds), *British Foreign Policy: Tradition, Change and Transformation* (London: Unwin Hyman, 1988), 28.
[1041] Miller, *Export or Die,* 9.
[1042] Ibid., 15.
[1043] Matthew Ward, "UK Trade, 1948-2019: Statistics," *House of Commons,* December 10, 2020.

oil for weapons.[1044] The shah's aggressive military build-up set new records. By 1975, his arsenal boasted: 300 Chieftain tanks with a further 1,680 on order, 860 medium tanks, 250 Scorpion tanks, 3 Destroyers with 6 more on order, and 587 combat aircraft.[1045] By 1976, Iran's total defence expenditure skyrocketed to $10.5 billion, amounting to one-third of its total GNP, surpassing Britain's defence spending despite Britain's GNP being five times larger. When Sampson queried the shah about this extravagance, the monarch's reply was unequivocal: 'There is no difference between Iran and Britain.' He boasted, 'The strength we now have in the Persian Gulf is ten times, twenty times more than the British ever had.'[1046] The 1970s heralded an arms bonanza, entangling petrodollars with defence spending in a precarious embrace.

The oil-arms nexus refers to the intricate intertwining of strategic interests and economic dependencies between the British government and the shah of Iran. This period saw British efforts to stabilise its economy through defence sales that became deeply interlinked with Iranian oil revenues. It offered HMG the opportunity to regain influence over the shah, control that had dwindled drastically after their departure from the Persian Gulf in 1971. This nexus was not a formal policy but an emergent pattern where British arms exports to Iran were financed through the country's substantial oil income, and later, through direct oil barter deals, effectively recycling petrodollars back into the UK economy.[1047]

[1044] Sampson, *The Arms Bazaar*, 253-255.
[1045] Ibid., 256.
[1046] Ibid.
[1047] This oil-arms nexus was also shaped by its competition. The Americans were the major suppliers to Iran, and HMG the second, as it sought to preclude major purchases from France, Western Germany, Italy and Japan. Most of the arms contracts with the UK were related to the Iranian Army and the Iranian Navy, whilst the Iranian Air Force relied almost entirely on American built or designed equipment. (FCO 8/2274, Permanent Under-Secretary of State (MOD) to Lord Jellicoe (SG Warburg & Co. Ltd), 21 Mary 1974.)

The oil-arms nexus is crucial to understanding HMG's relationship with the shah as it reveals the shift in power dynamics, illustrates the altering nature of control over the shah and Iranian oil, and underscores the primacy of commercial arms transactions for national interests. Since Winston Churchill's acquisition of a 51% stake in the Anglo-Persian Oil Company, Iranian oil has been entwined into British economic and political interests and became essential for sterling and the UK's balance of payments by the 1950s. Studying this nexus unveils the complexities of British influence in Iran, the critical role of oil revenue, and how it fostered a policy of deference to the shah, preventing HMG from expressing its concerns about the regime's stability.

The oil-arms nexus, which funnelled Iranian petrodollars into British defence orders, evolved through four key phases before its inception in July 1976. As explored in the previous chapters, the germinal phase in 1971, saw the convergence of oil and arms with the Chieftain tank sales to Iran, marking the first implicit bartering of armaments for oil. HMG adapted its Middle East policy to accept payment through explicit increased oil liftings.[1048] The embryonic stage (early 1970s to late 1975), the Bilateral Agreement for Fixed Oil Pricing emerged, linking commodities to guaranteed oil supplies at fixed prices, establishing a pattern of bartering goods for oil. The foetal phase (late 1975 to mid-1976), featured the shah's proposal for an outright oil-for-arms barter deal after cancelling the £186 million Tracked Rapier order due to BP's lower oil liftings, laying the groundwork for the nexus. The oil-arms nexus was birthed with the £300 million BAC Rapier Deal in 1976, where HMG accepted oil as payment, marking the genesis of the nexus.

[1048] FO 248/1694, Tehran to FCO, 12 August 1970.

The oil-arms nexus reached its zenith in the 1970s for four reasons. Firstly, the British government, economically vulnerable and reliant on Iranian oil amid Arab political boycotts, sought economic stability through a relentless commercial arms drive. Secondly, HMG viewed Iran solely in terms of market potential, and the Embassy became a vehicle for investment in the UK, so much so that the shah found it 'mercenary'.[1049] The roles of diplomat, intelligence officer and arms salesman blurred under the banner of export promotion.[1050] Thirdly, British influence over the shah declined markedly after the 1971 Tehran Agreement and was significantly diminished by December 1973. Meanwhile, the shah's economic and political power surged, with Iran's oil revenue increasing by 1,680% between 1971 and 1975. The oil-arms nexus reimagined this influence, recycling petrodollars as the shah purchased British arms, and became heavily reliant on British technical assistance, operations, and upkeep. This nexus prolonged a relationship that would have naturally ended with the British departure from the Persian Gulf. Fourthly, by the 1970s, as Foreign Secretary David Owen described, British policy towards the shah involved 'constant flattery' and 'support for the shah, warts and all, while occasionally offering treatment for the warts.'[1051] Treatment, however, was not as lucrative as support, and dermatology was not a specialty of the British government. As the balance of power shifted in shah's favour, HMG sought to regain control by recycling petrodollars via British arms sales, even resorting to high-risk arms-oil barter deals by the mid-1970s. Owen highlighted the economic urgency: 'We desperately needed to be able to offset the oil price shock by selling' arms to Iran, thus sealing the oil-arms nexus.[1052]

[1049] FCO 26/1942, Diplomatic Report No. 157/78, 12 April 1978.
[1050] Edward Posnett, "Treating His Imperial Majesty's Warts: British Policy towards Iran 1977-79," *Iranian Studies* 45, no. 1 (2012): 137.
[1051] Owen, *Time to Declare*, 394-395.
[1052] Ibid., 390

Sampson, in *The Arms Bazaar*, argues that during the 1970s Iranian oil was transmuting into British and American arms, with the flow of weapons into Iran continuing unabated as the increased oil prices coincided with Britain's severe economic crisis, making arms one of its few growing exports.[1053] Yergin, in *The Prize,* alludes to a similar idea, asserting that the 1973 Oil Crisis exposed a dangerous dependence on Middle Eastern oil, prompting Western nations to pursue weapons aggressively as a means to enhance security and influence.[1054] Cooper's *Oil Kings* highlights a similar idea of the growing bond between Iran's economic growth and US arms sales, with Washington 'anxious to recycle OPEC oil money' to bolster its own balance sheet.[1055] Gilby and Posnett, meanwhile, explore HMG's relationship with the shah through the arms trade, with Gilby focusing on bribery and Posnett on the strength of the shah's leverage and its consequences.[1056] The oil-arms nexus combines and builds upon these ideas, to illustrate the centrality and impact of these intertwined economic and geopolitical strategies on HMG's relations with the shah.

Arming the Shah and 'Avoiding Oil Arms Deals Like The Plague'

In 1974, the Ministry of Defence (MOD) concluded that Iran was its 'most important customer' for defence equipment.[1057] Central to the effort to arm the shah was HMG's Defence Sales Organisation (DSO) and the semi-official government agency Millbank Technical Services (MTS), which employed the shah's 'special envoy,' Sir Shapour Reporter. These departments were busy coordinating sales, extending letters of credits and visiting the shah to present the latest weaponry. Maintaining the MOD's reputation and that of British firms at the highest

[1053] Sampson, *The Arms Bazaar,* 253 and 294.
[1054] Yergin, *The Prize*, 616.
[1055] Cooper, *Oil Kings*, 141 and 174.
[1056] Nicholas Gilby, *Deception in High Places: A History of Bribery in Britain's Arms Trade* (London: Pluto Press, 2014)*;* Posnett, 'Treating his Majesty's Warts.'
[1057] FCO 8/2274, Permanent Under-Secretary of State (MOD) to Lord Jellicoe (SG Warburg & Co. Ltd), 21 Mary 1974.

standards, was paramount. Their efforts to arm the shah paid off when in November 1974, the shah purchased 1,500 improved Chieftain tanks and 175 armoured vehicles.[1058] This order, valued at over £1 billion, was secured against strong competition. The MOD believed the shah's decision was 'personal,' and based on Britain's 'high political standing in his eyes.'[1059] The intertwining of Britain's esteemed reputation with the shah's personal preferences illustrated the depth and complexity of their special relationship.

As sales to the shah climbed in 1974, with the monarch eager to purchase the light aircraft carrier - the Through-Deck Cruiser, and the fighters jets - Maritime Harriers, the FCO debated the stability of the Iranian regime and whether they could be sure that 'the shah would remain in control.'[1060] They questioned whether the shah's objectives for Iran's military to render it a regional leader and among the 'five big nations of the world,' were realistic and whether the equipment met these needs. However, these worries were quickly cast aside due to the belief that the shah was 'very emotional' and would 'react violently' if it appeared HMG was not prepared to sell Iran the equipment.[1061] HMG could not afford to diminish its influence or balance of payments by challenging the shah's objectives of independence. Building up the Iranian military was central to the shah's vision of Iran as self-reliant in case of attack.[1062] A strong military served as a regional deterrence, but the FCO also suspected it was part of the shah's prestige. The FCO had their doubts, noting the Arabs did not like the shah's 'arrogant' and 'patronising' attitude and assumption of regional leadership, fearing his escalating arms purchases and territorial expansion.[1063] However, HMG's foreign policy focused solely on

[1058] FCO 8/2274, Minister of State for Defence to the Prime Minister (MO 26/9/15), 6 November 1974.
[1059] FCO 8/2274, Tehran to FCO, 12 August 1974.
[1060] FCO 8/2273, Minutes from Minister of State's Office – 'Sale to Iran of the Through Deck, Cruiser and Maritime Harrier,' 10 April 1974.
[1061] Ibid.
[1062] FCO 8/2278, Ramsbotham to Douglas-Home – 'Iranian Armed Forces,' 10 January 1974.
[1063] Ibid.

advancing its arms exports, with Embassy despatches dominated by the best steps to advance Britain's interests in Iran. Parsons noted the doubling of expenditure to $68 billion to be spent within three and a half years, offering 'virtually unprecedented opportunities' to advance British material interests if its 'cards were played right.' HMG's objective was to 'emerge as one of the leaders of the ferocious pack of competitors.'[1064]

By December 1975, the oil-arms nexus had entered its foetal stage, growing considerably and embedding itself in the Anglo-Iranian narrative. Its birth appeared imminent when the shah, 'seriously concerned' about the 'conscious policy' of lowered Consortium oil liftings, raised the topic again.[1065] He demanded HMG to pressure the oil companies, threatening to cancel the £186 Tracked Rapier deal if his demands went unmet – a 'rather obvious attempt to twist our arm.'[1066] The shah, fully aware of his leverage, shamelessly linked oil liftings and arms purchases, using the latter to achieve the former. The Rapier deal was cancelled. However, when General Toufanian visited Ambassador Parsons, he offered HMG the opportunity to revive the deal at the full value if BP made additional oil purchases from Iran beyond the committed offtake. Parsons, aware the deal was 'sorely needed,' but that it would be 'unwise' to respond to any suggestion of any 'sort of barter deal,' asked Toufanian directly if it was a straight barter deal.[1067] Toufanian said it was not; then proceeded to outline the steps of, effectively, an oil-arms barter deal.

In Parson's despatch to the FCO the following day, he advised HMG to 'firmly reject' the barter deal, warning that otherwise, they would enter an 'endless haggle with the Iranians over

[1064] FCO 8/2268, Parsons to FCO, 31 October 1974.
[1065] FCO 8/2513, Tehran to FCO, 17 December 1975.
[1066] FCO 8/2751, Minutes on phone call between Secretary of State for Trade and Secretary of State for Energy, undated December 1975.
[1067] FCO 8/2513, Tehran to FCO, 18 December 1975; FCO 8/2751, Minutes on phone call between Secretary of State for Trade and Secretary of State for Energy, undated December 1975.

their overpriced oil, for what they consider, our overpriced equipment.'[1068] He predicted it would make for an 'unhappy experience' and an 'unorthodox bilateral indexation' that would 'completely undercut the Consortium's already weak negotiating position.'[1069] HMG faced a tough dilemma, noting that the Iranians 'have hit us where it hurts'; the cancellation left BAC with an immediate outstanding payable of £5 million for development costs, and up to £100 million worth of obligation on behalf of the Iranians, as BAC had entered the contract without an irrevocable guarantee. The FCO advised to play for time and to 'avoid oil arms deals like the plague.'[1070] To accept them would be tantamount to 'opening a can of worms' that could get 'very messy,' as they foresaw 'all kinds of rows.'[1071] However, the strategic imperative clashed with the economic one, as the UK could not afford cancellations of any arms deals, especially with its approach to the IMF for a bailout. The FCO, unaware that the shah's bluff had been called, did not foresee his scorched earth policy and his preparation to 'cancel most of the import arrangements' with the West, refusing to 'meekly give in to them.'[1072]

6.4 The Birth of the Oil-Arms Nexus – 1976

The year 1976 was the undoing of the economic boom, and in the shah's words, 'there were no petrodollars in Iran.'[1073] By July 1976, the Iranian Ministry of War's instruction was to only sign contracts on an oil barter basis.[1074] The shah then made his 'first serious and formal attempt' to engage HMG in 'an arms for oil barter deal,' something HMG had been adamant

[1068] FCO 8/2751, Washington to FCO, 10 January 1976.
[1069] FCO 8/2513, Tehran to FCO – 'Iranian Oil Revenues and Defence Sales,' 18 December 1975.
[1070] FCO 8/2513, Tehran to FCO, 18 December 1975.
[1071] Oil-for-arms barter deals carried many risks. They could lead to problems on indexation, i.e. determining the value and prices of assets. They could also get complicated quickly as parties aim to mitigate price volatility whilst trying to ensure long-term fairness and reduce currency exchange risk. Furthermore, sudden market changes or changes in inflation can lead to a contract no longer being favourable to one side.
[1072] Alam, *The Shah and I*, 463.
[1073] Razavi and Vakil, *The Political Environment of Economic Planning in Iran*, 90; FCO 8/2510, "Discussions between Sir Anthony Parsons, UK Ambassador, and Shah of Iran," 1975.
[1074] FCO 8/2753, FCO to Tehran, 9 July 1976.

to ‘avoid like the plague,’ only months before.[1075] However, the global trend of converting oil to arms was accelerating, and by mid-1976, five major American defence suppliers were actively negotiating oil barter deals.[1076] With the shah announcing ‘drastic cuts’ on all defence contracts, Britain’s arms trade industry found itself in a precarious position, especially given its lack of leverage. All existing contracts faced cancellation unless oil barter deals were accepted. Highly significant deals for the UK, including the Yarrow Shipbuilders deal worth £50 million (equivalent to £330 million today), and the Esfahan Military Industrial Complex worth £700 million (equivalent to £4.6 billion today), were at risk.[1077] The repercussions for Britain’s industry, employment, and balance-of-payment were so severe that although HMG did ‘not like barter deals any more than anyone else… [it had] no option but to settle for an oil deal.’[1078]

In August 1976, the oil-arms nexus between the shah and the UK was formalised with the BAC Tracked Rapier Deal.[1079] The shah agreed to purchase £300 million worth of Tracked Rapier (equivalent to £2 billion today), in exchange for oil, with Shell managing the marketing arrangements.[1080] This deal set a precedent, merging economic and strategic necessity in the official formation of an oil-arms nexus. The BAC-Shell deal became the model template, and soon after, Vickers negotiated its contract for an oil-for-arms barter deal for 175 Armoured Recovery Vehicles, worth £60 million (equivalent to £400 million today), with the government agent MTS as the main contractor and an independent oil company.[1081] The Vickers deal

[1075] FCO 8/2513, Tehran to FCO, 18 December 1975
[1076] FCO 8/2753, Tehran to FCO, 18 July 1976.
[1077] DEFE 68/132, Tehran to FCO, 14 September 1974; and FCO 8/2753, Memo Energy Department, 14 July 1976.
[1078] FCO 8/2754, RM Bullock (Department of Industry) to ME Hedley-Miller (HM Treasury), 18 August 1976.
[1079] This was the deal that was previously cancelled by the shah in order to ‘twist’ HMG’s arm into accepting an oil-for-arms barter deal.
[1080] FCO 8/2753, Tehran to FCO, 13 July 1976.
[1081] DEFE 68/132, Tehran to FCO, 14 September 1974.

underscored HMG's diminishing leverage, as the British company had undertaken substantial commitments without any formal contract. Cancellation would have resulted in 75% of Newcastle's plant being made redundant and a direct liability of £5 million (equivalent to £33 million today).[1082] The Department of Industry recognised its 'very weak position' and 'certainly did not wish to frustrate' any future oil-for-arms barter deals.[1083] Like most phenomena, the oil-arms nexus gained a momentum of its own.

The FCO noted that the 'question of oil for arms' presented HMG with a 'great difficulty,' due to its 'general predisposition' against barter and preference for a liberal trade and payments system that would serve its best interests.[1084] The UK could not absorb the additional oil, nor did it trade in crude or control the market. However, given its stake in the Iranian market, its low leverage, and the progress of other bilateral barter deals, the FCO concluded it needed to negotiate barter deals 'as quickly as possible.' They were certain if they 'turned down the shah flat,' the Americans, Germans and French would 'pick up the pieces.'[1085] The FCO saw 'no manifest advantages to the UK' with the oil-for-arms barter deals, claiming they were 'inherently more risky' than conventional deals, but they had very little choice given the financial needs and the importance of maintaining good relations.[1086] By August 1976, HMG's policy had changed - they would discretely negotiate barter deals, 'would not stand in the way of the BAC/Shell Deal,' and would try to buy time for payment regarding Esfahan's Military Industrial Complex (MIC).[1087]

[1082] FCO 8/2754, RM Bullock (Department of Industry) to ME Hedley-Miller (HM Treasury), 18 August 1976.
[1083] Ibid.
[1084] FCO 8/2753, FCO to Tehran and Washington, 16 July 1976.
[1085] FCO 8/2753, Tehran to FCO, 18 July 1976.
[1086] FCO 8/2754, Memo on Oil Barter Proposals/Defence Business with Iran, correspondence between R Fordham (Treasury) and DTI, 25 August 1976.
[1087] FCO 8/2753, Tehran to FCO, 18 July 1976

The FCO grew 'disturbed' upon discovering that funding for the MIC in Esfahan was in jeopardy, particularly after they had 'leant over backwards to help the Iranians in the new individual cases involving barter.'[1088] The shah had only authorised £190 million for the MIC, while costs had ballooned to £700 million by 1976.[1089] Recognising the project's significance to British industry, the FCO quickly accepted 'in principle an oil barter arrangement' for this arms project, which had been initiated in 1971 after the purchase of Chieftain tanks. The MIC aimed to bolster the shah's technological base, pushing towards self-sufficiency and supporting the Chieftain fleet. In the negotiations for the MIC's oil barter, the government's MTS served as HMG's 'front man.'[1090]

As oil-for-arms barter deals became more deeply entrenched in HMG's foreign relations with Iran, solidifying the oil-arms nexus, HMG increasingly sought to distance itself from its own actions. The MOD attempted this by renaming the barter deals as 'parallel defence oil deals,' insisting that 'it is not the policy of HMG to get directly involved in the negotiations.'[1091] However, the British government was indeed involved - MTS was a quasi-official government agency, and despite being a limited company, it operated as a subsidiary of the Crown Agents.[1092] MTS, later exposed for laundering arms deals and engaging in bribery, was known to be willing 'to do the dirty work.'[1093] Despite this, a joint memorandum from the Treasury, FCO, MOD and Department of Energy (DOE), asserted that the government was 'not directly involved' in the Yarrow and BAC cases, though it acknowledged involvement in the MIC case,

[1088] FCO 8/2754, FCO to Tehran, 23 August 1976.
[1089] DEFE 68/132, MTS to Royal Ordnance Factories – 'Military Industrial Complex, Esfahan' by MJ Cotton (Chief Executive), 8 October 1976.

[1090] Ibid.
[1091] DEFE 68/132, Memo MOD – 'Parallel Defence/Oil Deals with Iran,' 6 October 1976.
[1092] David Leigh and Rob Evans, "Millbank Technical Services - BAE Files," *The Guardian,* June 9, 2007.
[1093] Ibid.

where £320 million worth of oil would be transferred as payment.[1094] The government contended that these transactions were 'not barter in the strict sense,' but rather, 'more like offset arrangements.'[1095] However, HMG was indeed implicated through its Crown Agent's subsidiary, MTS, which it recognised as the 'government's front man.'[1096] Furthermore, no amount of linguistic manoeuvring could obscure the fact that when an arrangement exhibits all the characteristics of a barter deal, it is, in essence, a barter deal.[1097] The MOD's efforts to distance itself from the oil-for-arms barter deals by rebranding them as 'parallel defence oil deals,' proved inadequate.

Oil-for-arms bartering was not unique to HMG and the shah; the US was heavily engaged in similar negotiations, and by 1974, Poland had agreed to supply Libya with tanks and industrial equipment in exchange for oil, while Saudi Arabia traded oil with France for weapons.[1098] However, the bartering between HMG and the shah was far more complex than the straightforward transactions seen in other states. It unfolded within a distinctive economic and political context, evolving into strategic foreign policy and reflecting a deeper pattern of behaviour by HMG. Lawrence Freedman observed that by 1978, few policy areas so clearly demonstrated the shifting focus of British foreign policy as arms sales.[1099] He also argued that armaments had become a critical currency in international politics, offering not only trade advantages but also enhanced political influence over client states.[1100]

[1094] FCO 8/2754, Joint Memorandum 'Iran: Parallel Deals' by Treasury, FCO, MOD and Dep of Energy, 27 August 1976.
[1095] Ibid.
[1096] DEFE 68/132, MTS to Royal Ordnance Factories – 'Military Industrial Complex, Esfahan' by MJ Cotton (Chief Executive), 8 October 1976.
[1097] Defined as the trading of goods or services between parties without using money.
[1098] Cooper, *Oil Kings*, 160.
[1099] Lawrence Freedman, "British Foreign Policy to 1985. IV: Britain and the Arms Trade," *International Affairs* 54, no. 3 (1978): 377.
[1100] Ibid.

The oil-arms nexus between HMG and the shah underscored a long-standing pattern of behaviour, whereby HMG sought to regain influence over the shah – a control that had significantly eroded following their withdrawal from the Persian Gulf and the 1973 Oil Crisis. Between 1973 and 1978, HMG signed £1.8 billion worth of arms contracts with the shah (equivalent to £10 billion today).[1101] Iran became Britain's most lucrative arms market, accounting for over 30% of the UK's total defence sales.[1102] Nonetheless, it did so against the background of profound economic and social instability in Iran. The British Embassy's annual review for Iran of 1977, dismissed the economic turmoil as 'far from unhealthy,' and waved-off political protests as posing 'no threat to the shah's regime.'[1103] Instead, the review focused on the expansion of the export promotion machinery, highlighting the launch of their trade magazine, 'Britain Today,' and the establishment of the British-Iran Chamber of Commerce (BICC). As Iran reeled under social unrest, HMG set itself a new target – to push trade beyond $2 billion and bring electrification to the Tehran-Tabriz Railway and atomic energy to Iran.[1104] The oil-arms nexus redefined British influence over the shah, intricately weaving strategic and economic interests through the recycling of petrodollars.

The logic of the oil–arms nexus also extended into the sphere of technological and nuclear cooperation. As Ali Ansari has shown in *The Curious Case of the Nuclear Company of Britain and Iran,* the mid-1970s witnessed the evolution of Anglo–Iranian collaboration beyond conventional oil and arms exchanges, into nuclear and industrial ventures that reflected the Shah's ambition to position Iran as a modern, technologically advanced state.[1105] The proposed

[1101] FCO 8/3185, I. Lucas to F. Judd, 13 September 1978.
[1102] Ibid.
[1103] FCO 8/3191, Iran: Annual Review for 1977, 4 January 1978.
[1104] FCO 8/2985, 'Positive Paper on Iran' by HJ. Spence, 10 February 1977.
[1105] Ali M. Ansari, "The Curious Case of the Nuclear Company of Britain and Iran," *Iran: Journal of the British Institute of Persian Studies* 55, no. 1 (2017): 73–86.

joint Anglo-Iranian nuclear company would marry Iranian capital to British expertise – an arrangement designed to bind the two economies while transferring key technologies and reviving Britain's ailing nuclear industry.[1106] Nuclear cooperation thus represented a new iteration of the same dynamic that underpinned the oil–arms nexus—commercial expediency entwined with strategic calculation—reflecting Britain's post-imperial reliance on technology and trade as instruments of foreign policy. British papers recorded both enthusiasm and anxiety—personal rapport and "trust" between Akbar Etemad and Sir Walter Marshall on the one hand, and Whitehall concerns over capacity and proliferation on the other. Yet, as Ansari notes, this partnership also exposed the narrative of mistrust in the relationship: economic interdependence masked political ambivalence, revealing a relationship sustained less by shared values than by mutual utility.[1107]

Strained Partnerships: HMG, the Shah and 'Sir One Percent'

The oil-arms nexus harboured a darker underbelly beneath the fierce competition for the shah's petrodollars – corruption. By 1977, a corruption and bribery trial at the Old Bailey centred on the government's arms sales unit, threatened to jeopardise all arms contracts with Iran, embarrass the shah, and irreparably damage Anglo-Iranian relations. In the cutthroat race to secure defence contracts, the British government's DSO covertly funnelled payments through Sir Shapoor Reporter, who deftly manoeuvred as both the shah's middleman and a British intelligence agent. Reporter, and by extension the shah, found themselves entangled in a corruption case against the DSO employee Colonel Lieutenant David Randel, accused of bribery in securing a £4 million contract for a Racal subsidiary in Iran. The shah, outraged by the suggestion that he had accepted money from Reporter, reacted with fury.[1108] British

[1106] Ibid., 78-79.
[1107] Ibid., 83-84.
[1108] Gilby, *Deception in High Places,* 65.

officials, gripped by panic, scrambled to uncover the truth and even attempted, unsuccessfully, to have the case dismissed, willing to compromise the rule of law to protect their commercial deals with the shah.[1109]

Sir Shapoor Reporter, who skilfully balanced his dual roles as the shah's middleman and a British intelligence agent, was born in Tehran in 1921. He was the son of Ardeshir Reporter, an Indian Parsi and British intelligence officer pivotal in establishing the Pahlavi dynasty and securing British support for Reza Khan against the Qajar dynasty. Educated at Westminster and King's College, Shapoor's unusual surname derived from an ancestor, who was a journalist in India. His diverse career began in 1943, when he launched Persian-language programmes for Radio Delhi. By 1947, he returned to Tehran as the secretary to the first Indian Ambassador, and during the oil nationalisation crisis, he served as an assistant to the US Ambassador Loy W. Henderson. Reporter played 'a key role' in the 1953 coup that reinstated Mohammad Reza Pahlavi, an act for which he was offered US citizenship and a position at the State Department.[1110] Subsequently, he became a liaison officer for the shah, attending the shah's annual meetings with the resident MI6 station chief, and was discreetly referred to as an 'economic consultant to major British interests.'[1111] By 1969, Reporter was awarded the Order of the British Empire, and four years later, he was knighted. His deep ties to the Pahlavi establishment, rooted in a childhood friendship with the shah, made him a powerful political and financial broker. Despite his prestigious roles, his position as an intermediary was not without controversy, and by 1976, Reporter had earned the moniker, 'Sir One Percent.'[1112]

[1109] FCO 8/2867, D. Randel to P. Webb, 9 May 1977.
[1110] David Leigh and Rob Evans, "The BAE Files: Shapoor Reporter," *The Guardian,* June 9, 2007.
[1111] Ibid.
[1112] Chapman Pincher, "This Incredible Man who can Make Millions out of a Single Deal," *Daily Express,* November 10, 1977.

Reporter was regarded as the 'gatekeeper' for all commercial transactions in Iran.[1113] His influence was so significant that companies like BAC, Vosper-Thorneycroft, British Leyland, Shell, BP, and Warburg kept his services on retainer.[1114] Additionally, he was employed as a consultant by MTS, the semi-official body the DSO used to channel arms sales to Iran. Reporter's 'very considerable' ability to access the highest levels of the Iranian government and military made him invaluable.[1115] With his deep understanding of local culture and history, Reporter's responsibilities included setting up meetings in Tehran, attending negotiations, and following up on agreements.[1116] For these services, he was paid a 1% commission on every British arms deal, which increased to 1.5% in 1974, and to 3% by 1976.[1117] By September 1977, Reporter had earned £6.7 million, and had his role as intermediary not been exposed by the Old Bailey case, he was on track to receive £25 million (equivalent to £142 million today).[1118]

In a letter to Parsons, General Toufanian accused HMG of a 'bold derivation' from its commitments.[1119] Parsons responded that while Reporter's contract had now been cancelled, the Iranian government had granted permission in 1970 to appoint a consultant.[1120] Reporter had informed the Head of Defence Sales that all deals must include a 1% commission for the Pahlavi Foundation, described as 'a charitable fund at the disposal of the shah and used for various good works.'[1121] Although the prosecution during the Oil Bailey court case did not directly accuse the Iranians of bribery, the defence made 'great play' of the widespread bribery

[1113] DEFE 13/1176, D. Wright to L. Suffield, 25 November 1970.
[1114] DEFE 24/1690, A. Parsons to M. Weir, 20 November 1977.
[1115] Ibid.
[1116] Ibid.
[1117] DEFE 13/1176, J. Street to Minister of State and others, Draft Minutes, 24 October 1977.
[1118] DEFE 23/198, R. Ellis to PUS, 16 Match 1978; DEFE 24/1690, A. Parsons to M. Weir, 20 November 1977.
[1119] DEFE 23/217, Gen. H. Toufanian to A. Parsons, 6 March 1978.
[1120] DEFE 13/1176, Head of Defence Sales to Gen. H. Toufanian, Draft Letter, 4 April 1978.
[1121] These 'good works' included the endowment of the Chair of Persian Studies at St Antony's College and the donation of the New Library at the LSE. (DEFE 24/1690, A. Parsons to M. Weir, 14 November 1977.

allegations in the Middle East and Iran, particularly focusing on the arrangement with Reporter.[1122] Reporter insisted that the funds were always intended for the shah, asserting that any cessation of payments would be immediately known to the shah, jeopardising future relations with HMG. When Parsons threatened to disclose Reporter's claims to the shah, Reporter 'wriggled like mad.'[1123] The shah subsequently ordered that all connections with Reporter be severed and confided to Parsons that although there was a time 'many, many years ago' when Reporter had been close to him, that was 'long in the past,' and he found it 'amusing' that Reporter continued to 'masquerade as such.'[1124]

The court case threatened to severely undermine Anglo-Iranian relations by tarnishing the shah's reputation with allegations of bribery and corruption.[1125] Fortunately for HMG, the conviction of all three defendants in the Old Bailey case helped to safeguard their ties with the shah, as it was never definitively established whether Lieutenant Randel had transferred payments to the Iranians.[1126] Following the shah's directive, HMG severed all connections with Reporter, and MTS renegotiated his commission arrangements.[1127] To further repair relations, Defence Secretary Fred Mulley was sent to Tehran, where he engaged in 'flattery to levels exceeded only by Jimmy Carter.'[1128] The Embassy noted that constant flattery was a small price to pay for preserving a favourable relationship with the shah.[1129]

[1122] DEFE 23/217, AWH Barrett to AUS (Sales/Admin) – Background Note, 27 January 1978.
[1123] DEFE 23/198, 'Sir Shapoor Reporter' – Loose Minute by HDS, 1 March 1978.
[1124] DEFE 23/217, Parsons to Weir, 25 January 1978.
[1125] For a detailed account of the court case and its impact on Anglo-Iranian relations see Edward Posnett's "Treating His Imperial Majesty's Warts," 123-129.
[1126] DEFE 23/217, *Regina v Wellburn and others*, Sentences, 19 January 1978.
[1127] DEFE 23/198, J. Howe to AUS, 8 February 1978.
[1128] Owen, *Time to Declare*, 394-395.
[1129] Ibid.

6.5 Unforeseen Consequences of the Oil-Arms Nexus

By 1978, Iran had become the UK's largest export market in Asia, with trade soaring to £654.6 million – a 28% increase from 1976.[1130] Invisible earnings poured in by the hundreds of millions, as the UK maintained a favourable balance of trade with Iran. British industry had deeply entrenched itself within the Iranian economy, with lucrative contracts such as the Ahwaz Power Station valued at $37.3, road construction deals worth $100 million, and the Airbus project for Iran Air bringing in £45 million.[1131] The FCO concluded it was impossible to quantify the benefit to British jobs, warning that if Iran pulled out of these projects, the UK would 'lose heavily.'[1132]

By mid-year, FCO reports were already contemplating the fallout for British business if the shah were ousted, predicting a potential military, Islamic, or communist regime could take power.[1133] The FCO acknowledged its inability to safeguard against all these possibilities but sought to fortify British interest by urging British firms to be 'ready to accept payment in kind, i.e. oil barter instead of cash.'[1134] What HMG had once vowed to avoid 'like the plague,' had now become official policy. Nowhere was this shift more evident than in Project 40-30, which secured a £1.1 billion contract (equivalent to £5.8 billion today) for the delivery of 700 Chieftain tanks, a deal crucial to British defence sales. Losing this project would 'take a lot more with it,' potentially crippling the UK's ability to produce tanks on a scale needed for the British Army's future.[1135]

[1130] FCO 8/3195, Report 'Iran – Economic and Political Implications,' 10 November 1978.
[1131] Ibid.
[1132] Ibid.
[1133] Ibid.
[1134] Ibid.
[1135] FCO 8/3195, Tanks for Iran, Minute, undated.

The ripple effects would be severe, jeopardising other significant contracts like British Aerospace's Tracked Rapier, Yarrow's support ships, and the naval dockyard at Bandar Abbas – deals totalling over half-a-billion pounds. The solution was clear, with all British government departments in agreement: accept oil barter payment. The FCO concluded it had 'little choice' but to 'salvage what [it] could' through these counter purchases. It was an 'uncomfortable' stance, yet the oil-arms nexus had become an encouraged policy, prompting the MOD to dispatch a team to Tehran to negotiate further oil barter deals with the Iranians.[1136]

The oil-arms nexus between the British government and the shah was emblematic of a policy of 'deference' to the shah that prioritised access to Iran's lucrative market. Despite intense resistance, the British government eventually had 'no choice' but to accept oil barter payments. During the 1970s, the British Embassy in Tehran shifted its focus from politics to commerce and finance, aggressively promoting British exports and safeguarding economic interests. This shift was so pronounced that Parsons admitted they had 'concentrated too exclusively on commercial work' and 'neglected to scrutinise the Iranian political scene.'[1137] This oversight stemmed directly from a broader political milieu that viewed the shah – supported by an elaborate security apparatus, including SAVAK, and loyal armed forces – as too powerful to collapse. The overarching context was one of diplomatic accommodation and pragmatic support, prioritising the alliance despite the shah's evident flaws.

The unforeseen consequence of the oil-arms nexus was that HMG was 'wedded' to shah, leaving them unable to 'scramble out of bed' when the situation deteriorated.[1138] This stark reality only became apparent to the FCO four days after the shah's departure, as they conducted

[1136] Ibid.
[1137] Parsons, *The Pride and the Fall*, 133.
[1138] FCO 8/3377, D. Tatham to Muir, 15 February 1979.

their post-mortem analysis. British financial and political interests had embedded themselves so deeply in Iran that the short-term strategy of the oil-arms nexus ultimately proved counterproductive, undermining HMG's broader goals - geopolitical stability in the Gulf region, an uninterrupted flow of oil, and the sustainability of defence exports. The emphasis on immediate economic gains created a short-sighted singular focus, obscuring the long-term interests. The entwining of Iranian oil and British arms became a straitjacket; when the British Embassy foresaw a revolution brewing as early as 1972, they refrained from advising the shah, fearing it would damage commercial interests and give HMG a 'bloody nose.'[1139] The British government never truly enjoyed a 'favourable' status with the Iranians, as the 'spectre of British interference' over the centuries had been 'dormant, not dead.'[1140] Advising the shah was always fraught with difficulty, but the nexus of oil and arms, along with the interweaving of national and economic interests, further complicated the situation. As the Pahlavi state unravelled, it galvanised the collapse of Iran's last monarchy and the oil-arms nexus upon which the British economy had become so dependent.

Ali Ansari has argued that Britain's misreading of the Iranian Revolution stemmed less from a lack of information than from a "failure of imagination": officials remained wedded to a narrative of liberalisation that assumed the Shah's regime was evolving rather than collapsing.[1141] This interpretive inertia, rooted in decades of partnership and familiarity, blinded policymakers to the revolutionary potential of Iran's social unrest. While Ansari's

[1139] In June 1972, Ambassador Ramsbotham wrote a report titled, 'The Survival of the Persian Monarchy', in which he detailed the rising levels of discontent and the potential early stages of revolution. Ramsbotham warned that the longer the shah delayed in bringing about "genuine democracy…the greater the revolutionary steam he is holding down." (FCO 8/1882, 'The Survival of the Persian Monarchy' by Ambassador Ramsbotham, 8 June 1972); Parsons, *The Pride and the Fall*, 141.
[1140] Parsons, *The Pride and the Fall,* 18.
[1141] Ali Ansari, "'A Failure of Imagination? Britain, 'the Narrative of Liberalisation,' and the Fall of the Shah,'" in *Geographic Realities in the Middle East and North Africa: State, Oil and Agriculture*, ed. George Joffé and Richard Schofield (London: Routledge, 2021), 130–152.

analysis illuminates the cognitive dimension of British diplomacy, this thesis situates that failure within a broader material context. The same dependence on arms exports and energy cooperation that had defined Anglo–Iranian relations since the 1950s constrained Britain's conceptual horizons, making the preservation of the Shah's regime appear not only desirable but inevitable. The "failure of imagination," in this sense, was inseparable from a failure of structural autonomy.

6.6 'The Shah is a Broken Man' – from Shahanshah to Padeshah

By November 1978, the prevailing narrative was that the 'shah is a broken man.'[1142] During his audiences, the shah adopted 'a brooding, defeated air which led to long silences.' The government had failed to address the economic and development challenges arising from its hyper-boom, and the consequent anti-inflation policies wreaked havoc on the economy. The shah now faced a united opposition, articulating a coherent set of grievances, supported by disruptive strikes, and fuelled by a profound religious revival, where hundreds of thousands called for a return to the fundamentals of Shi'ism.[1143] The shah's grand promises of transforming Iran into the next France or Germany had crumbled, leaving behind creaking public services, inadequate communication infrastructure, overcrowded schools, scarce housing, economic recession, high unemployment, and a highly educated student body. These dynamics created a volatile political crucible.

[1142] PREM 16/1720, Tehran to FCO, 4 December 1978.

[1143] For an academic analysis of the lead up to the Iranian Revolution, see: Stephen Kinzer, *All the Shah's Men: An American Coup and the Roots of Middle East Terror* (2003); Andrew Scott Cooper, *The Fall of Heaven: The Pahlavis and the Final Days of Imperial Iran* (2016); Ali Ansari, *Modern Iran Since 1921: The Pahlavis and After* (2003); Abbas Milani, *The Shah* (2011); Abbas Amanat, *Iran: A Modern History* (2017) and *The Iranian Revolution: A Short History* (2023); Michael Axworthy, *Revolutionary Iran: A History of the Islamic Republic* (2013); Nikki R. Keddie and Yann Richard, *Modern Iran: Roots and Results of Revolution* (2003); Mohsen M. Milani, *The Making of Iran's Islamic Revolution: From Monarchy to Islamic Republic* (1994).

The shah's attempt at liberalisation failed to salvage his reign. The FCO concluded that the shah 'could not have chosen a worse moment to start to liberalise.'[1144] He had 'screwed down all the safety valves' in the preceding years to achieve his Great Civilisation, unaware of the 'weight of steam' building beneath it.[1145] Once the shah 'raised the lid,' the separate streams of opposition proved 'greater than any of us had imagined,' and by November 1978, the country was paralysed. The strikes gained dangerous momentum, escalating with political demands to end martial law and wielding more potent leverage as they spread to the oil fields. Striking pilots grounded Iran Air, and 30,000 oil-field workers walked off the job, shutting down Iran's critical petroleum industry and causing £5 million worth of exports to be lost per day.[1146] Oil production plummeted by over 4 million barrels a day, 'cutting the shah's throat,' and bleeding the regime dry - oil supplies were the 'regime's jugular vein.'[1147] On November 6, a contrite shah appeared on national television, announcing the appointment of a military government and acknowledging the legitimacy of the opposition. 'This revolution cannot but be supported by me, the *Padeshah* of Iran,' he declared.[1148] In his own eyes, he had fallen from the exalted *Shahanshah*, King of Kings, to the less revered, *Padeshah,* King.

A British Gamble that No Longer Paid Off & the 'Cold Calculation of National Interest'

On December 3, 1978, the British Embassy's dispatch to the FCO read, 'There are no more grounds for optimism.'[1149] Parsons was meeting the shah numerous times a week, who was 'anxiously seeking [HMG's] advice.'[1150] The shah asked him, 'What more can Britain do to help?'[1151] Parsons responded that there was nothing more HMG could do, they were already

[1144] FCO 8/3377, Iran - Valedictory Dispatch by Parsons, 18 January 1979.
[1145] Ibid.
[1146] FCO 8/3195, FCO to Secretary of State – 'The Disturbances in Iran,' 1 November 1978.
[1147] Steven Strasser, Loren Jenkins and Jeffrey Antevil, "Iran at the Brink," *Newsweek*, November 13, 1978.
[1148] Joseph Kraft, "Letter from Iran," *The New Yorker*, December 10, 1978.
[1149] PREM 16/1720, Tehran to FCO, 3 December 1978.
[1150] Parsons, *The Pride and the Fall*, 143.
[1151] PREM 16/1720, Tehran to FCO, 8 November 1978.

providing equipment and 'objective' advice.[1152] In the shah's *Answer to History,* he expressed doubts about the sincerity of this advice, suspecting a British plot to 'destroy' him.[1153] It was a 'long standing suspicion' he held that he 'never found reason to alter.'[1154] The shah constantly asked Parsons whether 'he had missed anything?'[1155] He was convinced that the unrest was not the work of 'spontaneous oppositionists,' but rather the result of 'sophisticated planning' by the 'British MI6 and the American CIA,' even suggesting it was beyond the capabilities of the Soviet KGB.[1156] He could understand the British motive, stating they had never forgiven him for nationalising the oil industry and the complications with the Consortium oil negotiations, concluding this was why HMG 'resumed their ancient subversion in Iran.'[1157] But how, he wondered, 'could the CIA suddenly turn on him?'[1158] Parsons reflected that the suspicions of HMG were 'dormant, not dead.'[1159]

In its post-mortem of HMG's relationship with the shah, the FCO conceded that in their pursuit for political and commercial objectives, they had 'induced a false sense of the regime's stability.'[1160] They had 'overestimated' the shah but concluded that 'our bread was buttered on the shah's side and we wanted to see it stay that way.'[1161] The 1981-82 internal review by the FCO titled *British Policy on Iran, 1974–78: The Lessons of the Islamic Revolution,* by Nicholas Browne, was commissioned to evaluate the assumptions underlying Britain's policy during the final years of the Shah's rule. The report concluded that British decision-making in this period had been increasingly influenced by economic priorities, particularly the maintenance of large-

[1152] Ibid.
[1153] Pahlavi, *Answer to History,* 22.
[1154] Ibid. 15
[1155] PREM 16/1720, Tehran to FCO, 8 November 1978.
[1156] William Sullivan, *Mission to Iran* (New York: Norton, 1981), 156.
[1157] William Shawcross, *The Shah's Last Ride: The Fate of an Ally* (New York: Simon and Schuster, 1989), 157.
[1158] Ibid.
[1159] Parsons, *The Pride and the Fall*, 18.
[1160] FCO 8/3377, 'Iran: Post Mortem,' by RQ Braithwaite (Planning Staff), p. 2, 19 February 1979.
[1161] Ibid.

scale arms and trade contracts with Iran.[1162] Browne observed that from the mid-1970s onwards economic necessity took priority over political reality, noting that officials came to view Iran primarily through the prism of commercial opportunity and financial interdependence, as well as not offending the shah.[1163] This, he argued, contributed to a pattern of selective analysis in which the regime's apparent stability and modernising reforms were taken as confirmation of continued progress, rather than symptoms of political strain. Moreover, the report identified a pattern within the Embassy of downplaying political instability and issuing contradictory assessments in its annual reviews, which often qualified or refuted earlier, more pessimistic analyses. Browne noted that this tendency stemmed from a concern that "the Embassy was concerned that British government and British business would lose interest in Iran if they broadcast the message that there was a risk to stability," leading to an institutional bias toward optimism.[1164] The result, he concluded, was that annual reviews were often too optimistic, reflecting a consistent reluctance to acknowledge the depth of the crisis.

The FCO's post-mortem on the downfall of the shah's regime highlighted three main shortcomings with wider relevance for dealing with "political risk countries." Too few resources had been devoted to political analysis and coordination between London and Tehran; policy had been clouded by wishful thinking about internal stability; and the neglect of opposition contacts, coupled with excessive deference to the Shah, had blinded officials to emerging dangers.[1165] The report concluded that Britain's interests would be better served by franker, longer-term relationships with autocratic allies. Browne's findings illustrate the extent

[1162] N.W. Browne*, British Policy on Iran 1974 – 1978,* NBP 020/28, FCO, 70. (Accessed via The National Archives Web Archive https://webarchive.nationalarchives.gov.uk/ukgwa/20110314182552mp_/http://centralcontent.fco.gov.uk/resources/en/pdf/pdf1/iran-document-british-policy-on-iran)
[1163] Ibid.
[1164] Ibid. 68.
[1165] Ibid. 77-79.

to which structural and perceptual dependencies—rooted in the oil and arms relationship—had narrowed the analytical horizons of British policy toward Iran in the 1970s. In retrospect, Browne's report represented not merely an administrative exercise but an implicit acknowledgment of the structural dependencies that had long underpinned Britain's engagement with Iran. Its identification of over-reliance on economic partnership and personal diplomacy directly prefigures the patterns traced in this thesis, where material interdependence constrained strategic autonomy and fostered interpretive complacency.

Ultimately, the protection of commercial defence deals was fundamental to the British economy during the 1970s, and as Parson's reflected, the shah had always been a 'gamble' and for 'many years it paid off,' until it did not.[1166] By January 16, 1979, the gamble had ended. The UK, with its long history of offering political asylum, denied refuge to the shah. 'There was no honour in my decision,' Owen later reflected, 'just the cold calculation of national interest.'[1167] He concluded, 'We had stuck to the shah for longer than was good.'[1168] The twilight had arrived, signalling the end of an epoch shaped by shifting national interests, oil politics, and the harsh realities of commercial strategy. The shah's exile and HMG's cold withdrawal of support marked not just the end of a reign, but the closing of a chapter where past loyalties were sacrificed on the altar of national interest.

[1166] Parsons, *The Pride and the Fall*, 140.
[1167] Owen, *Time to Declare*, 401.
[1168] Ibid.

Conclusion

Iran's hyper-boom rendered the oil-arms nexus necessary, both for the shah and for HMG. The shah, undeterred by infrastructural and human constraints, was relentless in his pursuit of the Great Civilisation. At the heart of his vision was a strong military, for it translated into sovereignty and self-reliance. The UK's vulnerable economic situation, underscored by its application for the largest IMF loan then to date, made recycling the shah's petrodollars crucial for stabilising sterling and retaining some sliver of influence over the shah. By 1974, the MOD deemed Iran its 'most important customer.' Despite efforts to avoid barter deals 'like the plague,' when the Iranian Ministry of War announced in July 1976 that contracts be signed only on an oil-barter basis, HMG complied within a month. By August 1976, the BAC Tracked Rapier deal, cancelled by the shah just seven months earlier, was reinstated as a barter deal – signalling the birth of the oil-arms nexus and the blueprint of the oil-arms barter deals to follow. However, as the Pahlavi monarchy crumbled, so too did the vast network UK-Iran arms deals. By February 1979, Iran had repudiated £9 billion worth of contracts - the equivalent to £43 billion today.[1169] Yet, the fall of the shah and the collapse of these arms deals did not mark the end of their influence; their legacy would cast a long shadow into the future.

[1169] Gilby, *Deception in High Places,* 70.

CONCLUSION

The relationship between the United Kingdom and Iran has long been a complicated one, defined by alternating periods of cooperation and mistrust. This thesis has examined the evolution of that rapport between Her Majesty's Government (HMG) and Mohammad Reza Shah from the resumption relations in January 1955, following the coup against Mohammad Mossadegh, to the collapse of the Pahlavi monarchy in January 1979. Its original contribution lies in analysing this period primarily through the lens of British policymaking, showing how the interdependence of oil, arms, and geopolitics came to shape and ultimately constrain Britain's approach to Iran.

This thesis offers mainly a British perspective, analysing HMG's relations with the shah explicitly through a British lens. While the original research design had envisaged incorporating Persian sources, the sensitive nature of the topic and my dual nationality meant that travel to Iran and access to Iranian archives were not feasible. Rather than viewing this as a limitation, the study reoriented its focus to turn this constraint into a historiographical strength. By revisiting the familiar corpus of British Foreign Office, Treasury, and Ministry of Defence records with particular attention to the interconnection between oil and arms, it provides a fresh reading of material that, though long available, has not previously been systematically examined in relation to the 1960s oil negotiations. This approach anchors the thesis firmly within the study of British policymaking, revealing how officials perceived, represented, and responded to the Shah, and how those perceptions themselves shaped the evolution of Anglo-Iranian relations.

The power dynamic between 1955 and 1979 was in a constant state of flux, reflecting a delicate interplay shaped by oil politics, shifting geopolitical pressures in the Cold War, and by the late

1960s, the demands of the arms trade. Throughout this period, British policymakers faced the dual imperative of safeguarding oil supplies essential to sterling and the balance of payments, while maintaining influence over arms transfers that underpinned Britain's defence economy. These imperatives frequently conflicted with the Shah's pursuit of sovereignty, self-reliance, and economic independence, compelling successive British governments to recalibrate their policies. By tracing these recalibrations, this study illuminates how British officials conceptualised, managed, and adapted to their diminishing leverage—revealing the structural forces that produced what this thesis defines as the "oil-arms nexus."

In the 1950s, two parallel trajectories emerged: the control of Iranian oil revenue as a financial necessity to underwrite sterling and safeguard the UK's balance of payments, and the effort to prevent Iran from aligning with the Soviet bloc by sustaining Western military support.[1170] As these trajectories evolved, their convergence became increasingly apparent. By the early 1970s, Britain's declining economic position and Iran's mounting oil wealth, driven by the shah's successful oil negotiations, transformed two previously distinct policy spheres into an interdependent framework, in which arms sales functioned as a means of recycling Iranian petrodollars. This convergence, analysed systematically across the twenty-five-year period from 1955 to 1979, offers a new interpretation of Anglo-Iranian relations and of Britain's post-imperial strategy for sustaining influence through commercial and economic instruments.

Arguably, the period from 1955 to 1960, often overlooked in favour of the more dramatic episodes of oil nationalisation, the 1953 coup, or the shah's White Revolution, were in fact pivotal in shaping the trajectory of Anglo-Iranian relations. For British policymakers, this was

[1170] HMG's 54% shareholding in the Iranian Consortium through British Petroleum (BP) and Shell was paramount to the British economy. No two firms gave more to Britain's balance of payments in the post-war era than these two firms.

a formative period in which the structures of post-nationalisation engagement were tested and recalibrated. It was during these years that the triangular relationship between HMG, the shah, and the Consortium took shape, with Britain acting as intermediary in increasingly fraught oil negotiations. The 1950s thus laid the institutional and psychological foundations for the patterns of dependency and negotiation that would later coalesce into the oil-arms nexus. Two events within this period had a profound impact on the evolution of these two trajectories of oil and arms. First, was the 1956 Suez Crisis that not only shattered Britain's illusion of dominance in the Middle East, especially over the region's oil flow, but also marked the death knell of British imperialism, leading to the 1959 mandate to wind down its empire. Moreover, it revealed to the shah that the Consortium was capable of lifting more oil than it had claimed, leading him to perceive both the Consortium and thus HMG, as the real arbiters of Iran's growth - something he could not accept. Revealingly, in the aftermath of the Suez debacle, the National Iranian Oil Company (NIOC) adopted a more assertive and independent stance in its negotiations and demands of the Consortium. Second, the shah's brief but deliberate overture to the Soviet Union in 1959 – through the proposed Non-Aggression Pact – was interpreted by HMG as a calculated act of coercive diplomacy, designed to extract greater Western aid. The episode convinced many in the Foreign Office that the shah was prepared to exploit Cold War rivalries to advance his economic agenda. As one official later reflected, HMG 'never trusted him again. Never.'[1171]

Between 1955 and 1960, oil and arms followed separate trajectories, as British dominance and Iranian resistance collided, with both sides testing the boundaries and establishing new rules of engagement. By the decade's end, the shah emerged in a far stronger position than when he had entered it, further bolstered by the establishment of the Organisation of Petroleum

[1171] Interview with Wright, as quoted in Abbas Milani, *The Shah* (New York: Palgrave Macmillan, 2011), 226.

Exporting Countries (OPEC) - ‘a cartel to face the cartel.’ OPEC would soon become a powerful weapon in his arsenal, allowing him to challenge HMG’s and the Consortium’s dominance over Iran’s resources.

The decade between 1961 to 1971 represented one of the most transformative periods in HMG’s relationship with the shah. This thesis makes an original contribution to the historiography by providing the first systematic analysis of the 1960s oil negotiations between HMG, the shah, and the Consortium, revealing how these protracted exchanges redefined British policy and laid the structural groundwork for the later oil-arms nexus. Drawing on Foreign Office, Treasury, and Ministry of Defence records long available to scholars but reassessed here through a new analytical lens, this study shows that these negotiations became the principal arena in which Britain sought—often unsuccessfully—to balance economic imperatives with diminishing political leverage.

As Iran’s oil revenues rose, the Shah’s confidence and negotiating power grew, compelling British officials to confront an increasingly assertive counterpart. Archival evidence shows that what British diplomats had initially regarded as “reasonable demands” evolved into a pattern of coercive bargaining that challenged HMG’s control over both oil production and the broader economic relationship. Explored within three phases, the first phase from 1961 to 1964, captures the shah as a ‘moderating force’ within a divided OPEC, supporting HMG in averting a crisis while still pressing for incremental gains. The second phase, from 1965 to 1968, marked a decisive escalation: the Shah’s threat to purchase advanced Soviet weaponry exposed the limits of British influence and, crucially, brought the previously separate trajectories of oil and arms policy into alignment. The third phase, from 1969 to 1971 marked the full consolidation of the Pahlavi petro-state, beginning with the Zurich Dolder Grand showdown in 1969 where

the shah demanded $1 billion under threat of nationalisation, and ending with the 1971 Tehran Agreement - the crowning jewel for OPEC, where the shah secured unprecedented gains. Oil became the central arena for the power play between the shah and HMG, revealing the former's strategic acumen and growing influence. Each successive standoff at the negotiation table throughout the 1960s and early 1970s not only elevated his stature but also marked the decline of British and Western dominance in the face of an empowered OPEC.

This pivotal period also witnessed Britain navigate severe economic challenges, culminating in the 1967 devaluation of sterling, which shook the international monetary system and sealed a historic transformation in Britain's foreign policy. By 1971, Britain had fully withdrawn from the Persian Gulf, and in the three years prior to it, its negotiations with the shah on the British-protected states of Bahrain, Sharjah (Abu Musa and Siri) and Ras al-Khaimah (the Tunbs), revealed just how substantially the balance of power had altered between the two states. The shah leveraged Britain's weakened position in negotiations to secure increased oil production and procure additional arms. Yet, despite these victories, he still seized the disputed islands on the eve of Britain's scheduled departure on December 1, 1971, dealing a sharp blow and leaving HMG acutely embarrassed. The balance of power had shifted. Britain, hamstrung by a severely weakened economic position, struggled to protect its oil interests in Iran in order to underwrite sterling. Meanwhile, the shah, ever the deft negotiator, skilfully played Western powers against the Soviet Union and navigated the changing regional geopolitical landscape, securing gains by the decade's end that would have been unimaginable at the beginning. By 1965, Iran's economic growth was such that it transformed from a low-priority military aid recipient to a significant military credit purchase partner - the trajectories of oil and arms began to converge, forming the foundation of the oil-arms nexus.

The end of 1973, with the Oil Crisis and the December Tehran OPEC Conference marked a watershed moment in Anglo-Iranian relations. The shah's disregard for HMG's pleas to stabilise oil prices during Britain's economic crisis underscored the dramatic shift in power: Britain no longer had any leverage over him in oil matters, with its influence relegated to arms deals. As the international monetary system faltered, economic growth plummeted, and inflation soared, the shah revelled in unprecedented wealth. In 1970, oil prices were $1.80 per barrel and by January 1974, they had skyrocketed to $11.65, with the cost of production at $0.12. Iran's oil income exploded but these levels were untenable and unsustainable for the industrialised world. For HMG it meant that it had to reimagine its strategic approach towards the shah, and as former Foreign Secretary David Owen observed, British policy became one of unquestioning deference to the shah - 'support for the shah, warts and all.'[1172]

The oil-arms nexus represents the convergence of the two trajectories of oil and arms. In short, it refers to the intricate intertwining of strategic interests and economic dependencies between the British government and the shah of Iran, where British efforts to stabilise its economy through defence sales became deeply interlinked with Iranian oil revenues. It offered HMG the opportunity to regain influence over the shah, control that had diminished after their departure from the Persian Gulf in 1971. This nexus was not a formal policy but an emergent pattern where British arms exports to Iran were financed through the country's substantial oil income, and later, through direct oil barter deals, effectively recycling petrodollars back into the UK economy. Oil and arms began to mix in the mid to late 1960s, when for example the shah leveraged the threat of Soviet arms purchases to secure increased oil liftings. Simultaneously, following the Stokes Report, Britain underwent a commercialisation drive, in order to safeguard its balance of payments, where the Ministry of Defence (MOD) was to 'become a

[1172] David Owen, *Time to Declare* (Harlow: Penguin Books Ltd 1992), 394-395.

genuine selling organisation' that embraced the commercial practice.[1173] By 1971, HMG had its own 'mini-Nixon Doctrine' with Iran and was significantly engaged in equipping Iran with a comprehensive military infrastructure, including Chieftain battle tanks and Rapier surface-to-air missiles. Inadvertently, two critical geopolitically sensitive commodities began to intertwine: Britain's arms trade and Iranian oil, representing an intersection that would have far-reaching implications.

The oil-arms nexus, that saw the convergence of the oil and arms trajectories, which funnelled Iranian petrodollars into British defence orders, evolved through four key phases. The germinal phase in 1971, saw the convergence of oil and arms with the Chieftain tank sales to Iran, marking the first implicit bartering of armaments for oil, where HMG adapted its policy to accept payment through explicit increased oil liftings. The embryonic stage (early 1970s to late 1975), saw the Bilateral Agreement for Fixed Oil Pricing emerge, linking defined commodities to guaranteed oil supplies at fixed prices, establishing a pattern of bartering goods for oil. The foetal phase (late 1975 to mid-1976), featured the shah's proposal for an outright oil-for-arms barter deal after cancelling the £186 million Tracked Rapier order due to BP's lower oil liftings, laying the groundwork for the nexus. The oil-arms nexus was birthed with the £300 million BAC Rapier Deal in 1976, where HMG accepted oil as payment, marking the genesis of the nexus.

The oil-arms nexus was of paramount importance to the British government, which faced both economic vulnerability and exposure to the Arab oil boycotts, while navigating a political landscape with severely diminished leverage. David Owen highlighted the economic urgency: 'We desperately needed to be able to offset the oil price shock by selling' arms to Iran, thus

[1173] FO 248/1626, Stokes Report – Export of Defence Equipment, 12 November 1965.

sealing the oil-arms nexus.[1174] British influence over the shah waned, especially after the 1971 Tehran Agreement, and was nearly non-existent by December 1973. Meanwhile, the shah's economic and political power surged in the hyper-boom, with Iran's oil revenue increasing by 1,680% between 1971 and 1975. The oil-arms nexus reimagined British influence - recycling petrodollars as the shah purchased British arms and became heavily reliant on its technical assistance, operations, and upkeep. During the 1970s, Iran was Britain's main arms customer, making up nearly 25% of all British arms exports.[1175] As Browne expressed in the FCO's post-mortem, 'Britain needed Iran more than Iran needed Britain.'[1176] Safeguarding the oil-arms nexus was paramount to HMG, which believed it was in no position to warn the shah on the growing threats to his regime that it had observed. Doing so would only risk 'a whole colony of fleas in our ear,' at a time when Britain was heavily reliant on its lucrative arms deals with Iran.[1177] The shah however saw it differently, as his regime began to crumble, with Iran's economy unravelling following the December 1976 OPEC Conference, he was convinced this was not down to his repressive social or political policies, but rather to a British plot to 'destroy' him.[1178]

The Anglo-Iranian relationship has long been plagued with suspicion and mistrust after decades of interference. The 'hidden hand' of *perfidious Albion* is not a metaphor relegated to the past, it is a reality of today, and even a political tool with rich historical trappings to be used by the Islamic Republic of Iran. As the United Kingdom and Iran navigate their political relationship, the echoes of the past resonate potently, with historical patterns continuing to influence the present. The crosscurrents of oil, arms and geopolitics, which once defined Anglo-Iranian

[1174] Owen, *Time to Declare*, 390
[1175] Gilby, *Deception in High Places*, 58.
[1176] Browne, *British Policy on Iran 1974 – 1978*, 44.
[1177] Anthony Parsons, *The Pride and the Fall: Iran 1974 – 1979* (London: Jonathan Cape, 1984), 18.
[1178] Mohammad Reza Pahlavi, *Answer to History* (New York: Stein and Day, 1980), 22.

relations, continue to exert their influence, ensnaring those caught within its powerful tides. The past is not confined to history – it pulsates through the present, casting shadows on today's geopolitical landscape, where the decisions of yesterday continue to play out in the dynamics of today.

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